

# **Fraud By Any Other Name...Is Still Fraud**

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**A Fraud Awareness Briefing Presented By**  
**Ethics, Risk and Compliance Services**  
**Chancellor's Office**

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# FRAUD AWARENESS

**Fraud by any other name...is still fraud**

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## *Agenda*

This briefing is designed to filter through the smoke and mirrors of occupational deception. By the end of this training, you will have learned:

- ❑ What Fraud is
  - ❑ How to identify Fraud
  - ❑ How to minimize Fraud
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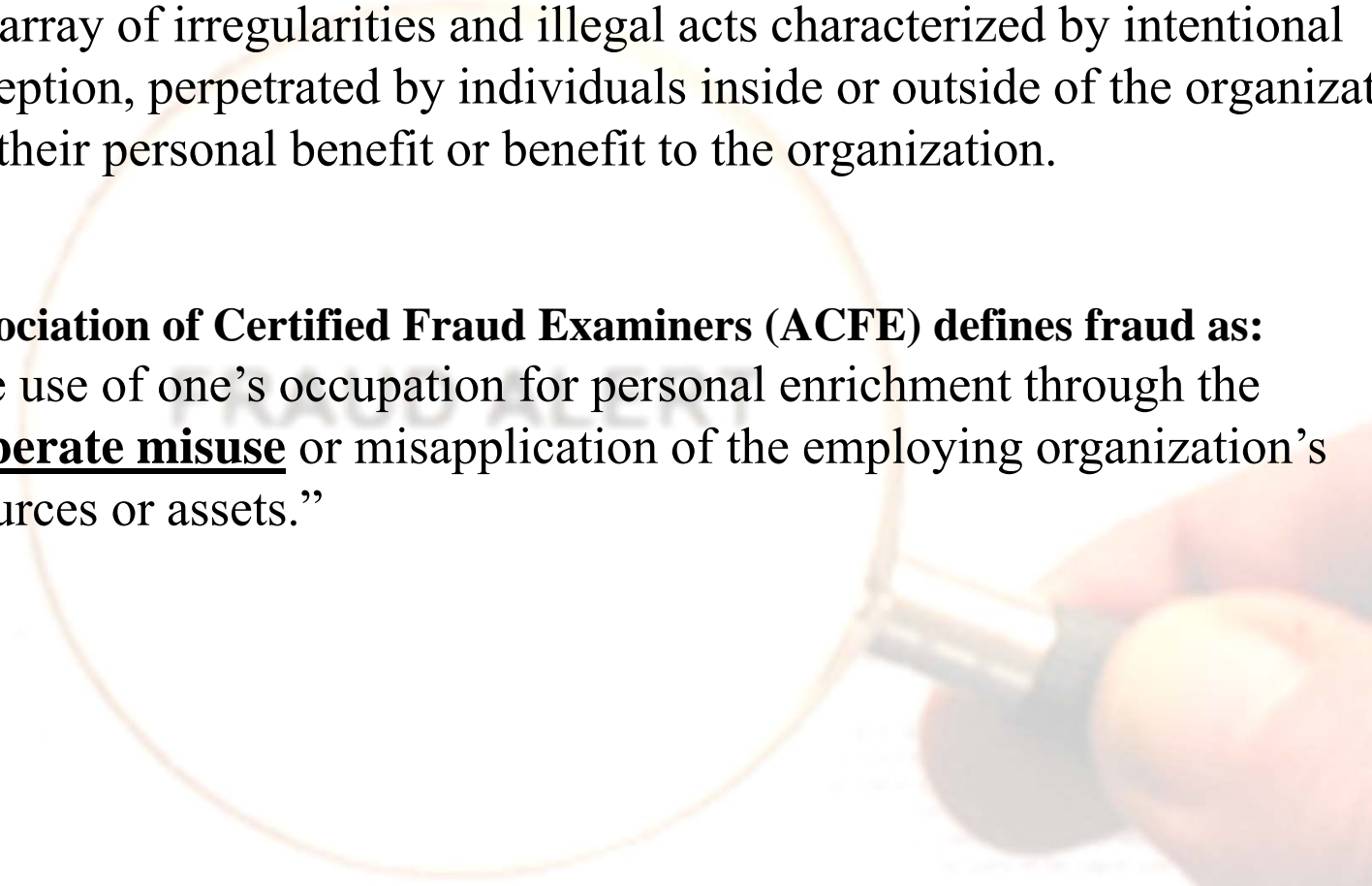


### *What is Fraud?*

An array of irregularities and illegal acts characterized by intentional deception, perpetrated by individuals inside or outside of the organization for their personal benefit or benefit to the organization.

**The Association of Certified Fraud Examiners (ACFE) defines fraud as:**

“The use of one’s occupation for personal enrichment through the **deliberate misuse** or misapplication of the employing organization’s resources or assets.”

A background image showing a hand holding a magnifying glass over a document, symbolizing investigation or scrutiny.

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### *Actions Constituting Fraud*

The terms defalcation, misappropriation, and other fiscal wrongdoings refer to, but are not limited to:

- ❑ Any dishonest or fraudulent act
  - ❑ Forgery or alteration of any document or account belonging to the Company
  - ❑ Forgery or alteration of a check, bank draft, or any other financial document
  - ❑ Misappropriation of funds, securities, supplies, or other assets
  - ❑ Impropriety in the handling or reporting of money or financial transactions
  - ❑ Profiteering as a result of insider knowledge of company activities
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## Opportunity

Generally provided through weaknesses in internal controls. Examples include:

- Weak internal controls
- Circumvention of internal controls
- The greater the position, the greater the trust and exposure to unprotected assets
- “Most Trusted Employee”

**FRAUD  
TRIANGLE**

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## **FRAUD TRIANGLE**

## Rationalization

The individual develops a reason for their fraudulent activities. Examples include:

- Sense of entitlement from feeling wronged
  - I need it more than the other person
  - I’m borrowing and will pay it back later
  - Everybody does it
  - The University is big enough that it won’t miss it
  - Nobody will get hurt
  - It is for the greater good
  - I’m not paid enough
  - I’m not gaining personally
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## FRAUD TRIANGLE

### Pressure

May be imposed due to:

- Personal financial problems
- Vices such as gambling, drugs, extensive debt, etc.
- Unrealistic deadlines and performance goals
- Personal prestige, goal achievement
- Morally superior, justified in making others victims
- Economic pressure resulting from price volatility, low profit margin, etc.
- Greed

### Rationalization

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## *Conditions that can Contribute to Fraud*

- ❑ Managers not caring about honesty
  - ❑ Inadequate Pay
  - ❑ Low Loyalty
  - ❑ Crisis Management
  - ❑ Rigid Rules
  - ❑ Repression of Differences
  - ❑ Poor Promotion Opportunities
  - ❑ Lack of Recognition
  - ❑ Unreasonable Budget Expectations
  - ❑ Short-Term Focus
  - ❑ Reactive vs. Proactive
  - ❑ Hostile Work Environment
  - ❑ Poor Training
  - ❑ Pressure to Perform
  - ❑ Inadequate staff/resources
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### *Red Flags (Organizational)*

- No communication of expectations
- Too much trust in key employees
- Lack of Proper Authorization Procedures
- Lack of Attention to Detail
- Changes in Organizational Structure

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### *Red Flags (Accountability and Control)*

- Lack of Separation of Duties
- Lack of Physical Security and/or Key Control
- Weak Links in Chain of Controls and Accountability
- Missing Independent Checks on Performance
- Relaxed Management Style
- Poor System Design
- Inadequate Training

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# **HOW OCCUPATIONAL FRAUD IS COMMITTED**

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## *How Occupational Fraud is commonly Committed*

- **Asset Misappropriation** – (\*91.5% of all cases)
  - ❑ Fraudulent invoicing
  - ❑ Payroll fraud
  - ❑ Skimming revenues
  
- **Corruption**
  - ❑ Accepting or paying a bribe
  - ❑ Engaging in a business transaction where there is an undisclosed conflict of interest
  
- **Fraudulent Statements**
  - ❑ Booking fictitious sales
  - ❑ Recording expenses in the wrong period

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\*The sum of percentages in this table exceeds 100% because several cases involved schemes that fell into more than one category.

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## Schemes Involving Cash Receipts and Cash On Hand

- Skimming –

Any scheme in which cash is stolen from an organization **before** it is recorded in the books or records

- Employee accepts payment from a customer but does not record the sale.

- Cash Larceny –

Any scheme in which cash is stolen from an organization **after** it has been recorded on the organization's books and records.

- Employee steals cash and checks from daily receipts before they can be deposited in the bank.

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## Non-Cash Misappropriations

### ■ Inventory

- ❑ Employee steals merchandise from warehouse or sales floor
- ❑ Employee diverts incoming shipments of inventory for personal use.

### ■ Information

- ❑ Employee accesses customer records for purposes of committing identity theft
- ❑ Employee provides company trade secrets to a competitor

### ■ Securities

- ❑ Employee fraudulently transfers stocks or bonds held by company or personal account.

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## Schemes involving Fraudulent Disbursements or Cash

### ■ Billing

- ❑ Employee creates a shell company and bills employer for nonexistent services
- ❑ Employee purchases personal items and submits invoice for payment

### ■ Expense Reimbursements

- ❑ Employee files fraudulent expense report claiming personal travel, nonexistent meals, etc.

### ■ Check Tampering

- ❑ Employee steals blank company checks, makes them out to himself or an accomplice
- ❑ Employee steals outgoing check to a vendor, deposits it into their own bank account.

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## Schemes involving Fraudulent Disbursements or Cash - continued

### ■ Payroll

- ❑ Employee claims overtime for unworked hours
- ❑ Employee adds ghost employee to the payroll

### ■ Wire Transfers

- ❑ Employee causes funds to be wired from company bank accounts to account controlled by employee or accomplice

### ■ Register Disbursements

- ❑ Employee fraudulently voids a sale on his cash register and steals the cash.



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## Financial Statement Fraudulent Schemes

### ■ *Concealed Liabilities*

- ❑ Organization omits significant expenses or liabilities on its financial statements
- ❑ Organization records revenue-based expenses as capital expenditures, falsely increasing both net and total assets in the current accounting period.

### ■ *Fictitious Revenues*

- ❑ Organization records the sale of inventory to a phantom customer
- ❑ Organization creates invoices showing sale of goods to existing customer, but goods are never delivered. Sales are reversed at beginning of next account period

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## Financial Statement Fraudulent Schemes continued

### ■ *Improper Asset Valuations*

- ❑ Organization fails to write off obsolete inventory
- ❑ Organization inflates its receivables by booking fictitious sales on account to nonexistent customers

### ■ *Improper Disclosures*

- ❑ Organization's financial statements fail to note potentially material liability arising from a corporate guarantee of personal loans taken out by an officer
- ❑ Organization's financial statements fail to note that one of its largest suppliers is owned by the corporation's president.

### ■ *Timing differences*

- ❑ Organization manipulates net income by recording sales that occur in December of Year 1, but not recording the corresponding expenses until January of Year 2.

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## Corruption Schemes

- **Conflicts of Interest**

- An employee owns an undisclosed interest in a supplier and negotiates a contract between his employer and the supplier, purchasing materials at an inflated price

- **Bribery**

- An employee processes inflated invoices from a vendor in return for a 10% kickback on the invoice price
- An employee accepts payment from a vendor in return for providing confidential information about competitors bids on a project.

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## Corruption Schemes

- **Illegal Gratuities**

- An official negotiates an agreement with a contractor and in appreciation the contractor provides the official with a gift such as a free vacation.

- **Extortion**

- An employee refuses to purchase goods or services from a vendor unless the vendor hires one of the employee's relatives.

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# **FRAUD INDICATORS**

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- Acting beyond the normal scope of duties
  - Award to other than the lowest qualified bidder
  - Bad reputation
  - Close socialization
  - Complaints about the job
  - Discrepancies of errors Employee SSN
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- ❑ Duplicate documentation
  - ❑ Failure to accept promotions
  - ❑ Failure to take vacations or time off
  - ❑ Favoritism with a particular supplier
  - ❑ Financial problems
  - ❑ High employee turnover
  - ❑ Unusual approval patterns
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Association of Fraud Examiners Conclusion on Detecting Fraud:

*“Relatively few occupational fraud and abuse offenses are discovered through routine audits. Most Fraud is uncovered as a result of tips and complaints from other employees.”*

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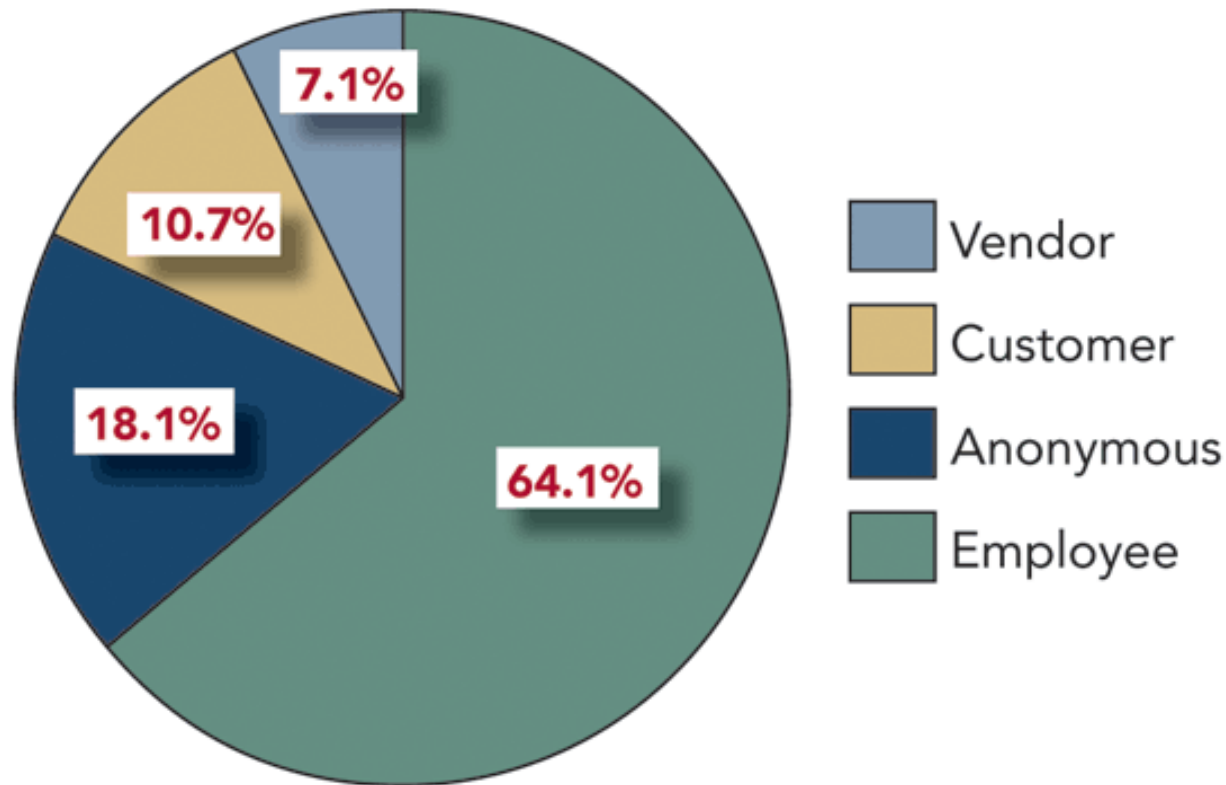
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## *Detecting Occupational Fraud*

- Based on percentage of tips regarding fraudulent activities – by source



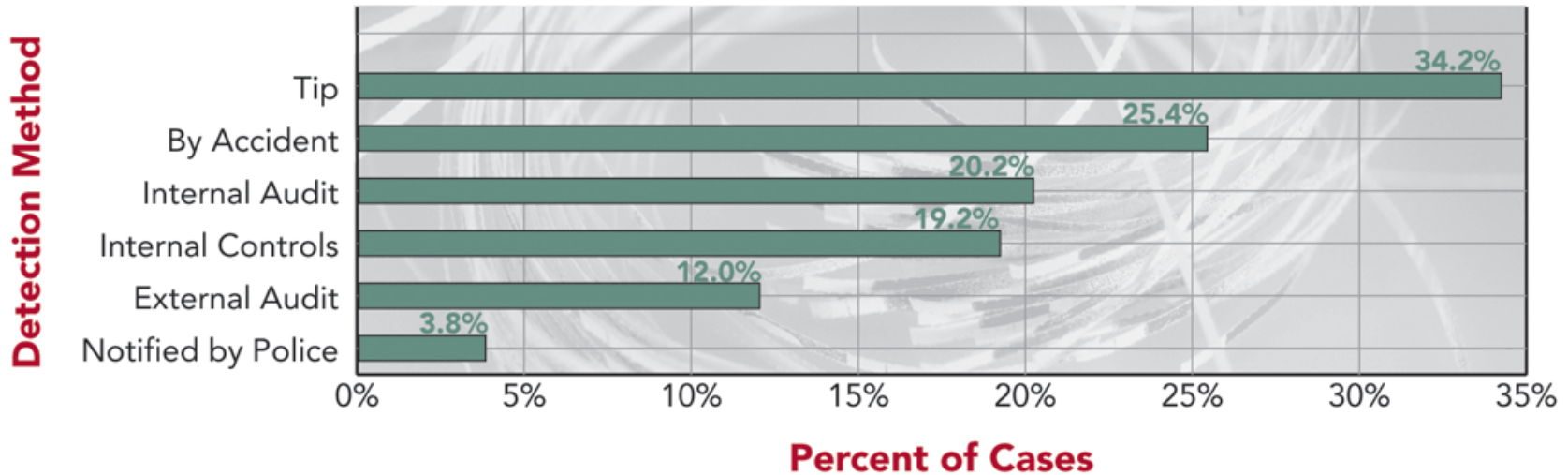
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## *Detecting Occupational Fraud*

### Initial Detection of Occupational Frauds<sup>10</sup>



<sup>10</sup>The sum of percentages in this chart exceeds 100% because in some cases respondents identified more than one detection method. The same is true for all charts in this Report showing how occupational frauds were detected.

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# How to deal with Fraud upon Detection

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### *What to do when confronted with a whistleblower allegation:*

- ✓ Recognize and be alert to informal communications of allegations (protected disclosures)
  - ✓ Notify one of the following, orally or in writing
    - ✓ Locally Designated Official
    - ✓ Appropriate campus administrator(s)
    - ✓ Campus Investigative Unit(s)
    - ✓ UC Whistleblower Hotline
  - ✓ Act promptly
  - ✓ Maintain confidentiality
  - ✓ Consult Whistleblower policies/information  
<http://ucwhistleblower.ucop.edu>
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### *Fraud Opportunity Checklist*

#### **Ask Yourself:**

- ✓ What are the weakest links in my department's internal controls?
  - ✓ What deviations from acceptable business practices are possible?
  - ✓ How can I get a check issued or get my hands on cash, property, or information?
  - ✓ What accounting documents are easiest to access and forge?
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### *How Can You Minimize Exposure to Fraud?*

- Know your employees
  - Include reference checking in the hiring process
  - Look for duplicate payments
  - Look for rounded amount invoices
  - Look for invoices just below approval amounts
  - Look for uncommon repeat vendors
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### *How Can You Minimize Exposure to Fraud?*

- Develop internal controls to protect the organization and the employee
  - Don't let an individual have complete control of a financial process
  - Restrict access to computer, facilities and data
  - Rotate job duties and cross-train
  - Review monthly statements; know where the money is going
  - Notice and pay attention to the red flags
  - Communicate with your staff about fraud awareness; advertise that fraud detection is a priority. *Distribute Whistleblower Policies*
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## *Reporting and Investigating Improper Activities - Responsibilities*

### Campus Investigative Units:

- **Audit and Advisory Services**
    - Investigates alleged financial misconduct and other misuse of University resources
  - **Human Resources**
    - Investigates alleged labor relations issues
  - **Sexual Harassment Complaint Resolution Office**
    - Investigates alleged sexual harassment/misconduct cases
  - **Academic Affairs/Office of Research**
    - Investigates alleged academic/scientific misconduct
  - **Campus Police**
    - Investigates alleged crimes against persons or property
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## UC Whistleblower Policy

- Locally Designated Official  
*Vice Chancellor Administrative Services (??)*
  - Investigations Workgroup  
*performs preliminary investigative procedures & assigns case to one of the campus investigative units*
  - UC Whistleblower Hotline  
*(1-800-403-4744)*
  - Whistleblower policies/information  
*<http://ucwhistleblower.ucop.edu>*
  - Protection from Retaliation
-

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*What **not** to do when confronted with a whistleblower allegation:*

- ✓ Dismiss the matter out of hand
  - ✓ Launch your own investigation
  - ✓ Confront the accused or otherwise tip them off
  - ✓ Disclose the matter to any unnecessary parties
  - ✓ Try to settle or resolve the matter yourself
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## Conclusion

- 🔍 Be Aware of Your Environment
  - 🔍 Take Steps to Minimize Fraud
  - 🔍 Be Aware of Red Flags to Detect Fraud
  - 🔍 Balance Risk and Controls
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