

FRAUD AWARENESS

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FRAUD AWARENESS

Course Overview

What is Fraud?

Conditions for Fraud

Common Myths

Climate for Fraud

Examples of Fraud

Common Characteristics

Controlling Fraud

Indicators

If You Suspect a Fraud

Overview

- What is Fraud?
- Conditions in which fraud can occur.
- Common Myths
- Climate for Fraud
- Examples of Fraud
- Common Characteristics
- Controlling Fraud
- Indicators
- If you Suspect a Fraud

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What is Fraud?

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

- Misappropriation of money
 - stealing cash or cash receipts
 - through reimbursement of expenses/payment of charges
- Time and effort
- Quality of products
- Misuse of resources
 - Inventory
 - Equipment
 - Software
- Influence
 - expecting/receiving gifts or consideration
 - conflict of interest can become fraud

The appearance of fraud can also be damaging

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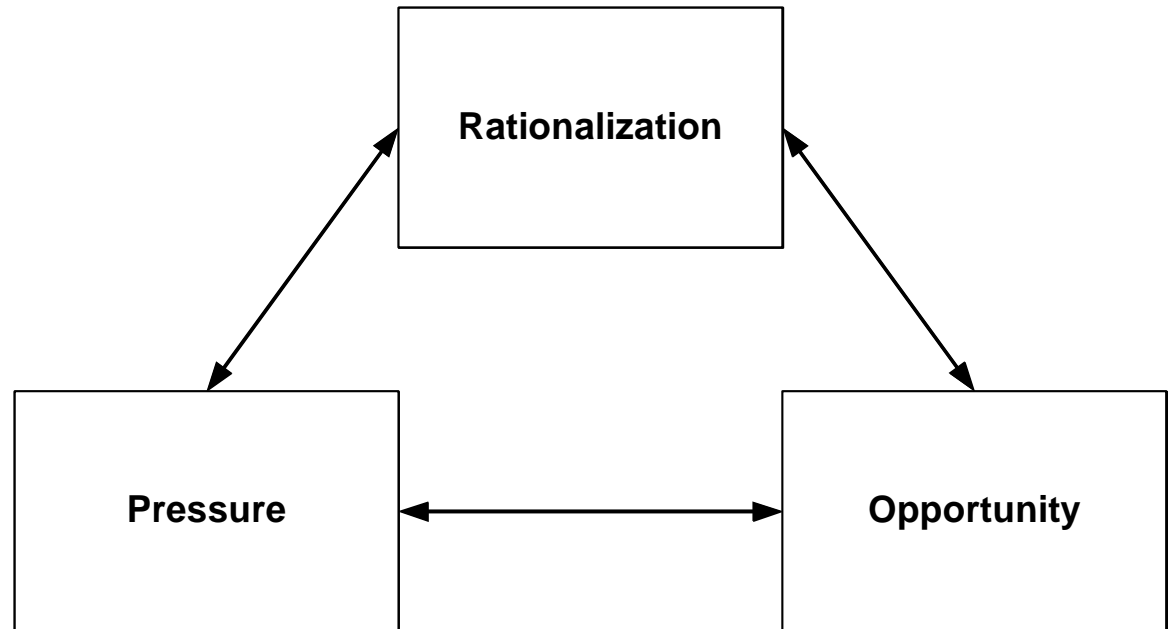
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Conditions for Fraud

- Existing policies are not followed
- Independent reconciliations are not performed
- Documentation is not produced or kept
- One person does all elements of a task (lack of supervision)
- Employee relationships with a vendor are close and long term
- Computer usage and applications are only loosely controlled
- Management or others can override procedures without documentation



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Common Myths

COMMON MYTHS

Audits will Detect all Frauds

All Staff Members are Trustworthy

ACTUALLY... THE TRUSTED EMPLOYEE HAS THE HIGHEST RISK

**They are given the *responsibility*
authority
independence that creates the opportunity for fraud**

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The Climate For Fraud

Pressures on individuals

- Personal habits
- Life events
- Attitude of entitlement
- Morale
- Uncertainty
- Competition

Other conditions making fraud possible

These are normal, but must be recognized as potential fraud conditions:

- Long-term employees
- Offsite employees
- Decentralized activities
- Sole source contracts
- Understaffing
- Independence of employees
- A large number of cash transactions
- Belief that all staff are honest

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Examples of Fraud

- Typing overtime at home, became fraudulent vendor
- Transfer of payroll checks
- Personal use of University products, supplies and equipment
- Stealing cash
- Procedure shortcut / making false claims

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Common Characteristics

1. Delegation of too much authority and/or responsibility to one individual
2. Not monitoring financial activities
3. Personal financial and/or family problems
4. Embezzlers had signature authority
5. Falsified vendors and independent contractors
6. Forged signatures

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Controlling Fraud

SYSTEM OF INTERNAL CONTROLS: Accounting and administrative practices established and maintained by management to provide reasonable assurance that organizational objectives are being met.

- Screen out those likely to commit fraud
- Reduce the opportunity for fraud
- Create an environment in which employees believe that dishonest acts will be detected
- Create an environment in which dishonest acts are not tolerated and are punished
- Awareness of the areas where fraud can occur

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Indicators

Economic Stress

family illness
divorce
financial losses

family unemployment
high debt
"pressures of the world"

Lifestyle

living beyond means
gambling

possible alcohol or drug problems

Work Habits

excessive overtime
excessive leave

no vacations
avoids or is too friendly to employees

Attitude

job dissatisfaction
feeling unappreciated
pride in beating the system

feeling underpaid
greed

Opportunity

close association with suppliers/customers
loose oversight to authorizations
lack of controls
non independent verification
too much trust/independence given to some employees

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What to do if you suspect fraud.

DO NOT confront the suspected perpetrator

DO NOT investigate the case yourself

Work within your management chain of command,

< Director

< Dean's Office

Contact the Controller's Office