Fighting Fraud the 49er Way

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The Cost of Fraud

How much is the average cost of fraud?

5% of annual revenue

How much to the University?

$31.2 million
What does 5% look like?

5% of (average) Salary:
Nonexempt SHRA $1,756.40
Exempt SHRA $3,246.15

5% of Time: 104 hours/13 days per employee
Our Objectives

- Review definitions
- Describe the 3 types of fraud
- Discuss fraud prevention & detection
- Learn how you can help
HELLO
my name is

- Name
- Department
- What brought you to this class?
What is Fraud?
Deception carried out for the purpose of achieving personal gain while causing injury to another party
Our Focus

Occupational Fraud – using one’s job for personal enrichment by intentionally misusing or misapplying their employer’s resources or assets.

Also known as white collar crime
What are some examples of occupational fraud?
Fraud happens HERE

- Embezzlement of sorority funds ($80,000)
- Skimming from deposits ($25,000)
- Secondary employment/fraudulent timesheets
- Scheme with outside contractor to approve false invoices ($800,000)
- Purchase of personal items with University funds
3 Types of Fraud

- Asset Misappropriation
- Corruption
- Fraudulent Financial Reporting
Asset Misappropriation

Check Tampering
Financial Statement Fraud
Most Common Fraud Schemes

Figure 4: Occupational Frauds by Category—Frequency

- **Asset Misappropriation**
  - 2016: 83.5%
  - 2014: 85.4%
  - 2012: 86.7%

- **Corruption**
  - 2016: 35.4%
  - 2014: 36.8%
  - 2012: 33.4%

- **Financial Statement Fraud**
  - 2016: 9.6%
  - 2014: 9.0%
  - 2012: 7.6%

Source: Association of Certified Fraud Examiners – 2016 Report to the Nation
Fraud Facts

Note: The Association of Certified Fraud Examiners – 2016 Report to the Nation is the source of the charts and graphs in this section of the presentation.
Breakdown by Industry

**Figure 43: Industry of Victim Organizations**

- Banking and Financial Services: 16.3%
- Government and Public Administration: 10.5%
- Manufacturing: 8.3%
- Other: 7.0%
- Health Care: 6.6%
- Education: 6.0%
- Retail: 4.8%
- Construction: 3.9%
- Insurance: 3.9%
- Technology: 3.4%
- Oil and Gas: 3.4%
- Services (Other): 3.2%
- Transportation and Warehousing: 3.1%
- Telecommunications: 2.8%
- Services (Professional): 2.7%
- Religious, Charitable, or Social Services: 2.4%
- Agriculture, Forestry, Fishing, and Hunting: 2.0%
- Real Estate: 1.9%
- Utilities: 1.8%
- Arts, Entertainment, and Recreation: 1.7%
- Wholesale Trade: 1.6%
- Mining: 0.9%
- Communications and Publishing: 0.7%
# Schemes by Industry

**Figure 45: Frequency of Schemes Based on Industry**

<table>
<thead>
<tr>
<th>Industry/Scheme</th>
<th>Banking and Financial Services</th>
<th>Government and Public Administration</th>
<th>Manufacturing</th>
<th>Health Care</th>
<th>Education</th>
<th>Retail</th>
<th>Construction</th>
<th>Insurance</th>
<th>Oil and Gas</th>
<th>Technology</th>
<th>Services (Other)</th>
<th>Transportation and Warehousing</th>
<th>Telecommunications</th>
<th>Services (Professional)</th>
<th>Religious, Charitable, and Social Services</th>
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<tr>
<td>Cases</td>
<td>368</td>
<td>229</td>
<td>192</td>
<td>144</td>
<td>132</td>
<td>104</td>
<td>86</td>
<td>85</td>
<td>74</td>
<td>74</td>
<td>70</td>
<td>68</td>
<td>62</td>
<td>60</td>
<td>52</td>
</tr>
<tr>
<td>Billing</td>
<td>9.5%</td>
<td>25.3%</td>
<td>32.8%</td>
<td>31.3%</td>
<td>34.1%</td>
<td>15.4%</td>
<td>27.9%</td>
<td>17.6%</td>
<td>20.3%</td>
<td>29.7%</td>
<td>22.9%</td>
<td>22.1%</td>
<td>12.9%</td>
<td>26.7%</td>
<td>25.0%</td>
</tr>
<tr>
<td>Cash Larceny</td>
<td>11.1%</td>
<td>7.9%</td>
<td>5.2%</td>
<td>9.7%</td>
<td>13.6%</td>
<td>12.5%</td>
<td>8.1%</td>
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<td>4.1%</td>
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<td>9.6%</td>
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<tr>
<td>Cash on Hand</td>
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<td>8.3%</td>
<td>11.1%</td>
<td>17.4%</td>
<td>11.5%</td>
<td>7.0%</td>
<td>4.7%</td>
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<td>8.1%</td>
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<td>5.9%</td>
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<tr>
<td>Check Tampering</td>
<td>9.5%</td>
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<td>13.5%</td>
<td>14.8%</td>
<td>7.6%</td>
<td>9.6%</td>
<td>10.5%</td>
<td>17.6%</td>
<td>4.1%</td>
<td>5.4%</td>
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<td>10.3%</td>
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<td>25.0%</td>
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<td>Corruption</td>
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<td>10.4%</td>
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<td>31.8%</td>
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<td>Expense Reimbursements</td>
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<td>15.9%</td>
<td>8.7%</td>
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<td>Financial Statement Fraud</td>
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<td>18.9%</td>
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<td>Payroll</td>
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<td>8.1%</td>
<td>2.7%</td>
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<td>7.4%</td>
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<td>11.7%</td>
<td>13.5%</td>
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<td>Register Disbursements</td>
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<td>1.5%</td>
<td>8.7%</td>
<td>1.2%</td>
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<td>25.0%</td>
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<td>21.4%</td>
<td>11.8%</td>
<td>6.5%</td>
<td>18.3%</td>
<td>19.2%</td>
</tr>
</tbody>
</table>

Note: The table uses a color gradient to indicate risk levels, with orange and yellow indicating higher risk and green and blue indicating lower risk.
Who Commits Fraud (U.S.)

1,038 CASES

55.7% MALE
44.3% FEMALE

50.7% have a university degree or higher

43 MEDIAN AGE

TOP 3 DEPARTMENTS

16.1%
20.0%
11.4%

ACCOUNTING
EXECUTIVE/UPPER MANAGEMENT
OPERATIONS
Figure 80: Gender of Perpetrator Based on Region

- Southern Asia: Male 96.8%, Female 3.2%
- Middle East and North Africa: Male 90.3%, Female 9.7%
- Latin America and the Caribbean: Male 88.2%, Female 11.8%
- Sub-Saharan Africa: Male 82.3%, Female 17.7%
- Western Europe: Male 79.2%, Female 20.8%
- Eastern Europe and Western/Central Asia: Male 79.1%, Female 20.9%
- Asia-Pacific: Male 73.1%, Female 26.9%
- Canada: Male 64.6%, Female 35.4%
- United States: Male 55.7%, Female 44.3%
Tenure of Perpetrator

Figure 76: Tenure of Perpetrator—Frequency and Median Loss

- Less than 1 Year: 8.2%, Median Loss: $49,000
- 1–5 Years: 42.4%, Median Loss: $100,000
- 6–10 Years: 26.5%, Median Loss: $210,000
- More than 10 Years: 22.9%, Median Loss: $250,000

Median Loss vs. Percent of Cases
How & Why Fraud Occurs

Pressure
Motivation or incentive to commit fraud

I have to pay the medical bills.

I need it more than they do.

Rationalization
Justification of dishonest actions

Opportunity
Ability to carry out the fraud

No one ever counts the money in the safe.
This travel reimbursement looks weird. Wonder if I should say something?

What do I look for?

How do I know if it’s occupational fraud?

Internal Auditors
Red Flags

- Behaviors or characteristics often displayed by fraudsters
- Warning signs
- Most common red flag displayed by fraudsters: living beyond one’s means
Red Flags - Examples

- Cash is missing
- One person does everything
- Delayed deposits
- Customer complaints
- High Volume of voids, discounts, refunds
- Missing equipment or supplies
- Overpurchasing
- Attitude of entitlement
- High volume of overrides/change requests in Kronos
- Lack of supporting documentation
- Altered, generic, non-original receipts
Red Flags

Source: Association of Certified Fraud Examiners – 2016 Report to the Nation
How would you describe the profile of a fraudster?

There is no “generic fraud profile”
Embezzlement of sorority funds ($80,000)
Skimming from deposits ($25,000)
Secondary employment/fraudulent timesheets
Scheme with outside contractor to approve false invoices ($800,000)
Purchase of personal items with University funds
How is fraud uncovered?
Initial Detection of Occupational Fraud

Source: Association of Certified Fraud Examiners – 2016 Report to the Nation
Where do tips originate?

Source: Association of Certified Fraud Examiners – 2016 Report to the Nation
Control Weaknesses that Contribute to Fraud

Source: Association of Certified Fraud Examiners – 2016 Report to the Nation
Internal Controls to Consider

- Control Conscious Environment
- Segregation of Duties
- Authorizations, Approvals, & Verifications
- Control over Assets
- Monitoring
How can you help?
Duty to Report

• State Employees have a responsibility to report

• Standards of Conduct – UP 804

• Whistleblower protection – UP 803
Duty to Report

Options for Reporting Fraud:

1. Supervisor
2. Internal Audit
   (704) 687-5693
3. University’s third party anonymous hotline
   (844) 251-1873
4. Office of the State Auditor → Anonymous
   (800) 730-TIPS (8477)
The Internal Audit Department was established at UNC Charlotte in September 1973 in response to a recommendation by the North Carolina System in Efficiency Study Group to establish a comprehensive internal audit program.

https://internalaudit.uncc.edu/
EthicsPoint Hotline

UNC Charlotte’s mission of teaching, research and public service carries with it a duty to act in an ethically responsible manner and in accordance with applicable laws, regulations, policies and procedures. The Standards of Ethical Conduct – University Policy 804 serves as a guide for ethical, legal and professional behavior in all dealings both within and outside of the University.

UNC Charlotte is committed to fostering an environment where open, honest communications are the expectation, not the exception. We want you to feel comfortable approaching your supervisor with a concern, but recognize that there may be situations where this might be uncomfortable or inappropriate. In situations where you prefer to place an anonymous report in confidence, you are encouraged to use this hotline, hosted by a third party hotline provider, EthicsPoint, to report instances of potential non-compliance with laws, regulations, university policies, standards or other concerns, as well to ask for ethics and compliance guidance and to provide positive suggestions.

State law and University Policy 803 - Reporting and Investigation of Suspected Improper Activities and Whistleblower Protection prohibits interference with or retaliation against a member of the University community who reports suspected improper activities unless the person making the report knows or has reason to believe that the report is false or inaccurate.

See the EthicsPoint FAQs for more information.

To Make a Report

You may use either of the following two methods to submit a report:

- Select "Make a Report"

OR

- Dial toll-free, within the United States, Guam, Puerto Rico and Canada; 844-251-1873

After you complete your report you will be assigned a unique code called a "report key." Write down your report key and password and keep them in a safe place. After 5-6 business days, use your report key and password to check your report for feedback or questions.

EthicsPoint is NOT a 911 or Emergency Service: Do not use this site to report events presenting an immediate threat to life or property. Reports submitted through this service may not receive an immediate response. If you require emergency assistance, please contact Campus Police at 704-687-2200.
Impact of Hotlines

Source: Association of Certified Fraud Examiners – 2014 Report to the Nation
Office of the State Auditor

http://www.ncauditor.net
Recap

- Fraud vs. occupational fraud
- 3 types of fraud
- Fraud prevention & detection
- How to report
Questions?