

Understanding Fraud in  
University Credit Card  
Programs Training

# Fraud Awareness Training

Developed By:

Allen Vann, Director of Internal Audit

Charlene Blevens, Interim Controller

for Florida International University

# Fraud Awareness Training

## Understanding Fraud

Internal Fraud Costs about \$4,500 for every worker

- Steal Money or Merchandise
- Kickbacks or Bribes from Suppliers
- Unreported Leave Time
- Cheat on Expense Reports
- Using Computers and Software without Permission

# How Prevalent is Fraud?

- The National White Collar Crime Center estimates annual losses from employee theft range from \$20 to \$90 billion annually
- U.S. Chamber of Commerce estimates that 75% of employees repeatedly steal, and one of every three business failures is the direct result of employee theft
- American Society of Employers estimates that 20% of every dollar earned by a U.S. company is lost to employee theft
- As a result of layoffs, Acts of Violence /Sabotage against organizations are increasing, as well as Theft of Intellectual Property (IP)

**“Honesty  
pays...but it  
doesn’t pay  
enough to  
suit some  
people!”**

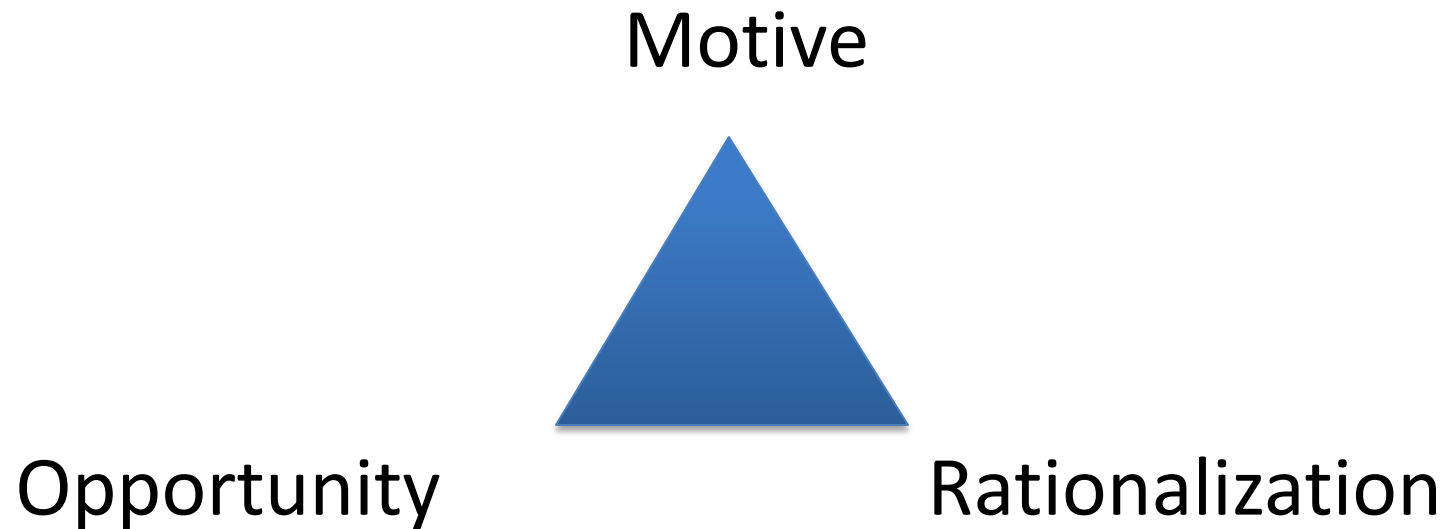


*Be good + you will be lonesome.  
Mark Twain*

# Fraud Awareness Training

## Understanding Fraud

Any Employee Given the Right Circumstances Will Commit Fraud



# Common Pressures “Motives” for Fraud

- Financial Pressures
- Medical Problems – Especially for a loved one
- Spouse loses a job
- Divorce
- Starting a New Business or Current Business is Struggling
- Criminal Conviction
- Civil Lawsuit
- Purchase of a new home, a second home, or a home remodel
- Need to Maintain a Certain Lifestyle
- Excessive Gambling
- Drug or Alcohol Addiction

# Common Pressures “Motives” for Fraud

### Employee Satisfaction

- Unreasonable performance goals
- Disgruntled employee
- Layoffs in department
- Additional Duties without additional pay



## Understanding Occupational Fraud

### Common Pressures “Rationalization”

- I was only borrowing temporarily
- This is not much money, the University won't miss it
- Everybody does it
- I'll stop once I get over this financial hump
- The University owes it to me

# Fraud Awareness Training

## Operating Environment Challenges “Opportunity”

- Large decentralized organizations
- Independent reporting structures among the multiple schools
- Budget cuts that affect the segregation of duties
- Long tenures contributing to abuse of trust
- Liberal control environment and resistance to controls
- Lack of written policies and procedures
- Nepotism
- Lack of financial acumen

Approvers should be alert to situations or transactions that could be indicative of fraud or abuse, and perform additional procedures as appropriate if indications of abuse exist.

## Understanding Occupational Fraud

### Credit Card Programs

#### **Benefits of Credit Card Programs**

- Reduces purchasing costs for small-dollar items
  - Typically a procurement card costs \$20 per transactions vs a PO which costs in excess of \$100
- Source of revenue
  - In 2008-09 fiscal year, the credit card program brought in \$95,000 from rebates

## Understanding Occupational Fraud

### **Risks of Credit Card Programs**

- By-Pass the Purchasing Control Processes & Approvals
- Reduced Level of Scrutiny
- Increased Risk of Collusion

## Understanding Occupational Fraud

### Role of the University

- Create a culture of honesty
- Dedicated and detailed policies and procedures
- A designated permanent administrator
- A detailed cardholder agreement requiring the signature of the cardholder and the cardholder's supervisor
- Established card limits to reduce excessive or inappropriate use issues.
- Requiring Face-to-face training before issuance
- Requiring original receipts
- Usage of level 3 data from our card-services provider for data mining and analysis.
- Recurring audit processes

# Fraud Awareness Training

## Fraud

### Changes Implemented by FIU

- Reduction in the number of employees with cards
- Implementation of more stringent controls by implementing separate Commodity and Travel Cards to gear controls toward the types of purchases
- Usage of the Purchasing System to capture & analyze data
- Implementation of Hot Line
- Implementation of a Fraud Policy

# Employees Responsibility

- Be familiar with the types of improprieties that might occur within their areas of responsibility
- Be alert for any indications of irregularity.
- Immediately notify his or her supervisor, the Office of the Internal Audit, the Office of the General Counsel, the University Compliance Office or the Division of Human Resources if you suspect fraud or abuse
- Report suspected fraud, waste, abuse or other improper behavior anonymously through the University's ethics and compliance hotline, EthicsPoint, or the State of Florida's Get Lean hotline.

# Ways to Report Fraud and Abuse

- EthicsPoint Hotline
  - ✓ Via the web [www.ethicspoint.com](http://www.ethicspoint.com)
  - ✓ Call 1-888-286-5154
  - ✓ Link on the University's Web site "home page"  
<http://www.fiu.edu>
- University Compliance Office Web site  
[http://compliance.fiu.edu/ethics\\_comp.htm](http://compliance.fiu.edu/ethics_comp.htm).
- State of Florida's Get Lean hotline
  - ✓ Call 1-800-GET LEAN.



## Role of the Department

- Subordinates should not approve purchases of their supervisors
- Employees should not approve their own purchases
- Ensure cardholders are held accountable for purchases
- Eliminate Excessive number of pro-cards under single approver
- Limit access of the card to the card holder
- Conduct Credit Back Ground Checks on New Employees
- Look for Red Flags signs of Fraud

## RED FLAGS

- 🇺🇸 **Weak Internal Controls**
  - 🇺🇸 Inadequate Segregation of Duties
  - 🇺🇸 Lack of Monitoring
  - 🇺🇸 Lack of Policies and Procedure
- 🇺🇸 Inadequate Supporting Documentation
- 🇺🇸 Copied, not Original Documentation
- 🇺🇸 Prior History of Questionable Practices
- 🇺🇸 Unusual Patterns of Disbursements
- 🇺🇸 Questionable Vendors
- 🇺🇸 Numerous Payments Just Under Threshold

## Role of Approvers

- Approvers should be alert to situations or transactions that could be indicative of fraud or abuse, and perform additional procedures as appropriate if indications of abuse exist.

### Role of the Departmental Approver

- Look for signs of fraud, such as purchases that are sent to a home rather than to the office.
- Look for split purchases
- Watch for restricted items
- Ensure purchases made on the cards are documented by receipts and explanations
- Reconcile statements monthly
- Report suspected fraud activity

# Fraud Awareness Training

## Restricted Items – Commodity Cards

- Personal Items of any kind
- Personal Office Decorations
- Alcohol
- Food (unless approved in advance)
- Holiday Cards
- All Hazardous Materials & Chemicals
- Kitchen Appliances (Microwaves, Refrigerators, etc.)
- Portable Air Cleaning Devices
- Restaurant Meals (Only if Authorized)
- Computers (cost > \$1,000)
- Flowers & Balloon Arrangements (for individual recognition)
- Repair of Equipment (if Off-Campus repairs where certification or cleaning & decontamination are required)
- Promotional Items (if not paid from student fees or grant funds)

## Understanding Occupational Fraud

### Behavioral Red Flags

- Living Beyond Means (38.6% of cases)  
Suddenly appears to be buying more material items – houses, cars, boats, clothes, jewelry, electronics, etc.
- Financial Difficulties (34.1% of cases)
- Wheeler-dealer attitude
- Control Issues, Unwillingness to share duties
- Divorce or Family Problems
- Unusually close association with vendor or customer
- Exhibits signs of dissatisfaction (decrease in productivity, change attire, irregular schedules)
- Frequent complaining about inequities or work issues

# Fraud Awareness Training

## Recent Thefts at Other Universities

- Altered Receipts & Claim Receipts were for Department
  - Information Technology Specialist - iPods, radar detector, video games,
  - Office Assistant 29 years – Camera, clothes, 110 DVD's
  - Senior Fiscal Assistant 11 years – electronics and camera equipment
  - Administrative Assistant 30 years – Diet Books
  - Engineering Associate Dean – Home entertainment system, LCD TV's, electronics
  
- Inadequate Documentation and Failure to Submit Receipts
  - College of Management Program Coordinator 4 years - Car Insurance, Cellular Phone Bills, Car Repair, College Tuition for family, Sam's Club Gift Cards, Diamond Ring, Catering for a Wedding Reception
  - Assistant Program Director on Grant – Gift Cards, electronics, alcoholic beverages, groceries, consumable goods
  
- Items found in audits
  - Purchases at Resorts and Casinos
  - Season tickets to football games, frozen drink machine, beer, lottery tickets, holographic lighted palm trees, waver runner, wide screen TV, wall over, dishwasher, air conditional units for TV, Gucci purse

# Fraud Discovery

- Most frauds are detected through voluntary confessions or tips
- Internal and external auditors discover about 20% of the frauds



# Fraud Deterrence

- Oversight
- Commitment
- Communication
- Monitoring

# What is the difference between Fraud & Abuse?

- **Fraud – constitutes an act or acts of willful deceit, trickery, intentional perversion of the truth to induce another to part with something of value or to surrender a legal right. Fraud is an illegal act.**
- **Abuse – behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant agreement. Nevertheless, it represents a corrupt practice.**

## Fraud or Abuse?

**All-Weather Leather  
Universal PDA  
Portfolio Case**

**\$99.95**



## Fraud or Abuse?

**Bose Headset**  
**Cost \$299**



# Fraud or Abuse?

## Renovated Bathroom

**\$12,060**



# Fraud or Abuse?

**Mounted Deer Head**  
**\$325**



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## Fraud or Abuse?

**Bomber Jacket**

**\$500**



## Fraud or Abuse?





## Fraud or Abuse?



# Fraud or Abuse?



# Fraud or Abuse?



## Fraud or Abuse?

<b>Itinerary</b>	<b>Airfare paid</b>	<b>Cost of coach trip</b>
London to Honolulu (one way–family of 4 transfer)	\$21,000	\$2,500
Miami to Amsterdam	4,500	600
Miami to San Jose	4,100	500
Miami to Boston	3,400	700
Miami to Washington, DC	3,300	250

# What is the Auditors Role in finding fraud?

1. In planning our audits we assess the risks of fraud occurring.
2. We evaluate the strengths and weaknesses of internal controls to determine the susceptibility of the program being audited to fraud.
3. We design tests and evaluate evidence gathered to determine whether fraud has occurred.

Ultimately, whether an act is, in fact, fraud is a determination to be made through the judicial or other adjudicative system and is beyond auditors' professional responsibility.

# Fraud Awareness Training

## Questions



*"Are these just guidelines, or  
are they actual new policies?"*