

Fraud in Higher Education

It Can't Happen Here??

David Galloway
Exec. Director - Compliance and Audit
Brigham Young University

What I hate about BYU is they think they are perfect, never have any problems, everything always works for them, they can do no wrong!

So, what's your point?

Can we talk!?

BYU



- 33,000 Students
- 99% LDS
- 13,000 Student Employees
- 51% Male, 49% Female
- 1/3 of Students from Utah
- 1500 Faculty/1200 PT Faculty
- 2500 Admin/Staff
- #1 Yield
- #1/7 Accounting Program^{1/2}
- #10 Grads who go on to earn doctorates
- #11 Top Rated Grads by Recruiters
- #16¹/² MBA Program
- #32² Business School
- #42² Law School

¹Wall Street Journal
²U.S. News

Columbia Hit with \$4.5 Million Bank Fraud

Nun Is Arrested for Allegedly Stealing \$1.2-Million From Iona College

LaSalle University VP of Auxiliary Services Pleads Guilty in \$5 Million Case

Dean at the University of Louisville pleads guilty to fraud, agrees to pay more than \$2 million in cash and property as part of a restitution deal

Former BYU Employee Given Jail Time in \$200,000 Theft

Former BYU Employee Sentenced to 45 days in Jail; Must Pay Back Over \$16,000 in Restitution



Higher Education

Education — 90 Cases

Scheme	Number of Cases	Percent of Cases
Billing	38	42.2%
Corruption	22	24.4%
Skimming	19	21.1%
Expense Reimbursements	15	16.7%
Non-Cash	11	12.2%
Larceny	11	12.2%
Payroll	9	10.0%
Check Tampering	7	7.8%
Cash on Hand	7	7.8%
Financial Statement Fraud	1	1.1%
Register Disbursements	0	0.0%

5/9/2011 ACFE 2010 Global Fraud Study 8

- ### Examples of fraud at BYU:
- Stealing cash or property
 - Buying items for personal use
 - Inflated (or false) travel expense reports
 - Directing fictitious vendor payments
 - Passing bad checks
 - Requesting duplicate expense reimbursement
 - Substituting inferior products
 - Taking vendor kickbacks
 - Overstating over-time worked

Why Does Higher Ed Have Fraud?

- Distributed Control Environment
- Trust vs. Management
- Budget-driven vs. Profit-driven
- Ignorance of Process
- Lack of Accountability and Transparency

Need/Pressure

Opportunity

Rationalization

Transparency and Accountability


Controls...

- Protect assets
- **Protect people**

Avenues to Fraud

- Purchasing Card Fraud
- Theft of Equipment
- Travel Reimbursement Fraud
- Time/Payroll Fraud
- Student Club Cash Losses
- Conflicts of interest in research.
- Misuse of research funds.


Oops...a mistake!?



- Employee makes a personal purchase on-line.
- Inadvertently selects the institution's P-card as the method of payment.
- Notes the error and indicates in the explanation that it was a mistaken personal purchase and will be reimbursed.
- Fails to reimburse the institution.

The types of fraudulent schemes are legion. The perpetrators come from many levels of the university—from presidents, whose authority makes committing large fraud easy, to maintenance workers who might be tempted, as in a recent case, to switch the new tires on the college van with the old ones from his personal vehicle.

Schemes tend to start small and can increase as they succeed.



Deloitte - Helping to Prevent University Fraud

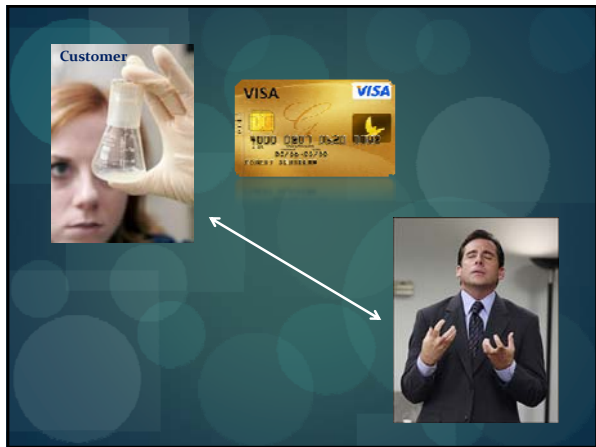
The plot thickens...

- Noticing that the approver never questions her P-Card purchases, an employee buys items for personal use.
- Employee provides fictitious explanation for purchase.
- If supporting detail is requested, employee “doctors” the invoice to reflect a valid business purpose.
- Employee sells goods through her internet store which gets great ratings for service and value.



Show me the money!







Examples cont...

- Manager “can’t be bothered with the mundane activities associated with approval of purchasing card activity,” so delegates it to the cardholder.
- Over four years, the cardholder purchases over \$150,000 in merchandise and sells it via e-Bay™.

Examples cont...

- Professor buys books, equipment, supplies needed for his class and for “course development.”
- Items include Nintendo Wii, video games, children’s books, how to books, etc.
- Items are gift-wrapped and given to professor’s children as Christmas gifts.

Two Sets of Eyes



Transparency and Accountability

- Reasonableness and Business Purpose should be evident to all.
- Managers must understand their business and ensure effective controls are designed into their processes and are being followed.
- Establish “trust but verify” culture of accountability.
- We have to believe that it CAN happen here.



Accountability 101

“Some favorite expressions of small children: ‘It’s not my fault. . . They made me do it. . . I forgot.’ Some favorite expressions of adults: ‘It’s not my job. . . No one told me. . . It couldn’t be helped.’ True freedom begins and ends with personal accountability.”
- Dan Zadra




Management puts resources at risk to achieve objectives.



Objectives

Management is Action

- Right fuel
- Stoke the coals
- Check the temperature
- Keep the flue clear
- Adjust the draft



Management Must Manage!

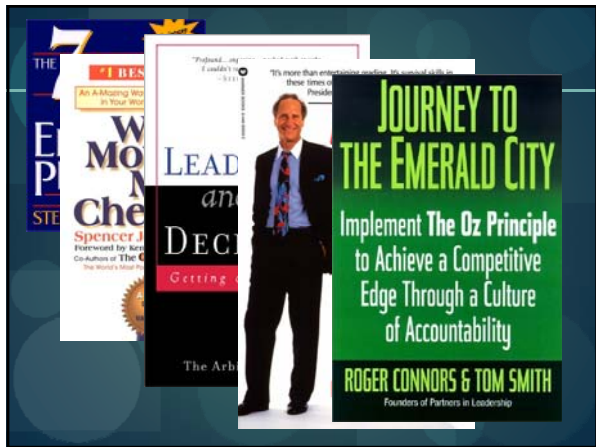
“Management must manage!
Things may be happening out there, for better or for worse, but (if) you are not making them happen...you are not a manager.”

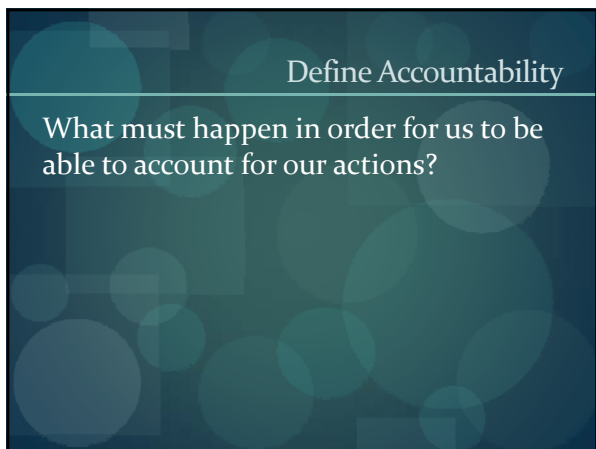
Harold S Geneen, former Chairman, International Telephone and Telegraph.

Change


“Everyone wants to do things better;
no one wants to do things differently.”







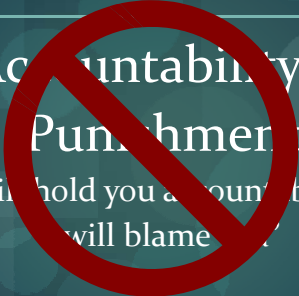
Account-able,



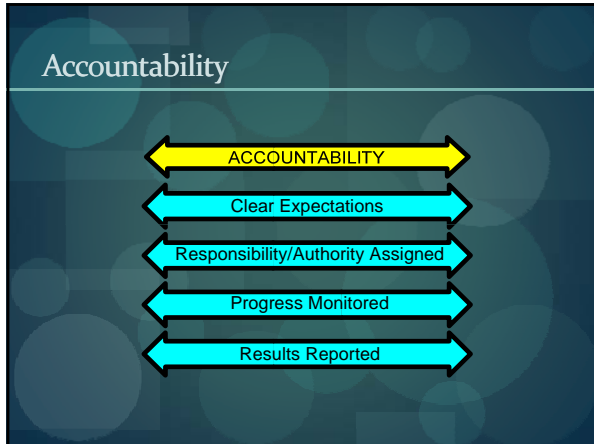
i.e., able to make or render an account of...

Accountability =
Punishment

“I will hold you accountable” =
I will blame you



“When it comes to employee performance, management gets what it deserves”.



Clear Expectations

There should be a stated objective.

- The objective should be realistic, documented and communicated to everyone involved in its achievement.
- The objective should be measurable, either quantitatively or through observation and evaluation.

Responsibility/Authority Assigned

The responsibility and authority for achieving the objective should be clearly assigned.

- The responsibility should be appropriate to meet the objective.
- Authority (i.e., ability to command resources) to achieve the objective should match the responsibility given.
- Both the responsibility and authority to achieve the objective should be effectively communicated.

Progress Monitored

Progress toward the achievement of objectives should be monitored.

- The methods of measurement should be consistent with those used to define the objective.
- The establishment and achievement of measurable objectives should be auditable (others can see what was accomplished and how it was accomplished.)
- Progress should be monitored on a timely basis so management can impact the achievement of the objectives.

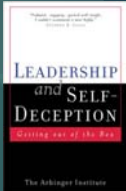
Results Reported

Achievement or failure to achieve objectives must be reported to managers using a timely and certain reporting process which is

- unbiased,
- accurate,
- uses the same terms and methods as defined in the objectives and their supporting justification, and
- reports lessons learned for incorporation into subsequent requests and projects.

Leading Beneficial Change

“The point of all this isn’t perfection. It’s simply that we get better—better in systematic and concrete ways that improve the company’s bottom line. That kind of leadership mentality—at every level of the organization—is what sets us apart.”



Kate
Leadership and Self-Deception
Getting Out of the Box

Accountability

ACCOUNTABILITY	WHAT/WHO	HOW	WHEN
Clear expectations			
Responsibility and Authority assigned			
Progress monitored.			
Results reported			

“I have always been willing to make an explanation, but never an excuse, for doing anything I considered proper.”
 - Eleanor Roosevelt (1884-1962)



Accountability

- Identifiability – A person’s “knowledge that his outputs could be linked to him.” – Williams et al.
- Evaluation – “Performance will be assessed by another according to some normative ground rules and with some implied consequences.” – Lerner and Tetlock

Dr. Anthony Vance; Dr. Gove Allen

What Can We Do?

- Monitor effectiveness of internal controls.
- Establish a positive “tone at the top”.
- Conduct regular fraud risk assessments.
- Conduct background checks on new hires involved in financial transactions.
- Communicate regularly and consistently with all stakeholders.
- Have publicized codes or policies in place for ethics, whistle-blower protection and conflicts of interest.

Grant Thornton

