



Fighting Fraud and Corruption in Higher Education

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Defining fraud

“Fraud is any intentional act or omission
designed to deceive others, resulting in the
victim suffering a loss and/or the perpetrator
achieving a gain.”

-- *Committee of Sponsoring Organizations (COSO)*



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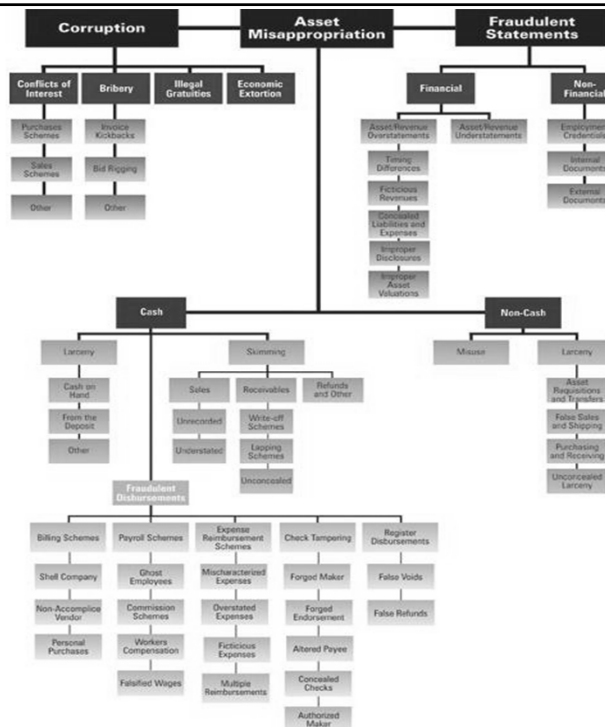
Major classifications of fraud schemes

- ❖ Asset Misappropriation
 - Financial
 - Non-Financial
- ❖ Fraudulent Statements
- ❖ Corruption and other illegal acts



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The Fraud Tree



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is perpetrating fraud
in academe?

- ❖ Administrators
- ❖ Faculty
- ❖ Staff
- ❖ Students
- ❖ Vendors
- ❖ Outside Hackers



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types of fraud are
committed in
academe?

Misappropriation or misuse of
university resources, such as
funds, supplies or other assets

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types of fraud?

Expense
reimbursement
schemes



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types of fraud?

Payroll and overtime abuse



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types of fraud?

- ❖ Procurement fraud
- ❖ Fictitious vendors
- ❖ Contract bid rigging

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types of fraud?

- ❖ Grant fraud
- ❖ Purchase Card abuse
- ❖ Using college endowment funds in violation of the gift provisions
- ❖ Reselling review copies of textbooks



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HOW

are the frauds
perpetrated?

Creating or altering
documents or computer
files with the intent to
defraud



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HOW

Management override of
internal controls

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-money accounts

Research Foundations College-related entities

- ❖ College Foundations
- ❖ Student Associations
- ❖ Auxiliary Enterprises



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How are these frauds detected?

- ❖ Employee **tip** to supervisor, internal auditor, or external auditor
- ❖ Accident
- ❖ Whistleblower hotline
- ❖ Internal Audit
- ❖ External Audit
- ❖ Exit interviews
- ❖ Technology - continuous monitoring



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Investigation Techniques

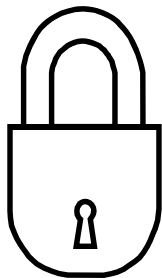


- ❖ Interviews
- ❖ Public database searches (commonly used for procurement fraud)
- ❖ Analyzing documents for fraud red flags (e.g., payroll fraud)
- ❖ Tracing funds (e.g., cancelled checks, wire advices)
- ❖ E-discovery (e.g., email review, electronic document review)

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are universities
susceptible to fraud?



Weak control environment

- ❖ Budget cuts create little or no segregation of duties.
- ❖ Supervisors have many responsibilities that are not always performed diligently and give “rubber stamp” approvals
- ❖ Little to no asset management

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- ❖ Lower salaries in education
- ❖ Long tenures
- ❖ Policies and procedures not communicated or enforced
- ❖ Silo-ed reporting structure



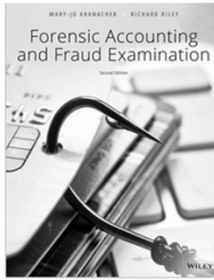
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- ❖ Nepotism
- ❖ Low risk of detection
- ❖ Low risk of prosecution



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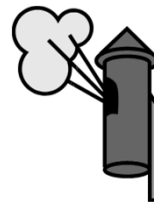
Enhancing Deterrence



- ❖ Tone at the top
- ❖ Fraud education
- ❖ Code of conduct
- ❖ Enforcement of sanctions against perpetrators

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Reducing Opportunities for Fraud to Occur



The “Perception of Detection”

- ❖ Whistleblower hotline
- ❖ Internal controls
- ❖ Surprise audits
- ❖ Background checks (criminal and financial)

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Updated Anti-Fraud Guidance

In September 2016, COSO and the ACFE developed a new Fraud Risk Management Guide.



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Fraud risk management principles

- ❖ Risk Governance
- ❖ Risk Assessment
- ❖ Control Activity
- ❖ Investigation & Corrective Action
- ❖ Risk Management Monitoring Activities



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Fraud risk governance

The organization establishes and communicates a fraud risk management program that demonstrates the expectations of the Board of Trustees and senior management, and their commitment to high integrity and ethical values regarding managing fraud risk.



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Fraud risk assessment

- ❖ What type(s) of fraud is the academic or administrative unit susceptible to?
- ❖ What controls currently exist?
- ❖ Where could fraud occur?
- ❖ What would the fraud look like?
- ❖ What are the effects on the books and records?

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Fraud control activity



- ❖ What additional controls should be implemented?

Select, develop, and deploy preventive and detective fraud control activities **to mitigate the risk of fraud** events occurring or not being detected in a timely manner.



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FRAUD INVESTIGATION & CORRECTIVE ACTION

Obtain information about potential fraud and deploy a coordinated approach for investigation and corrective action.



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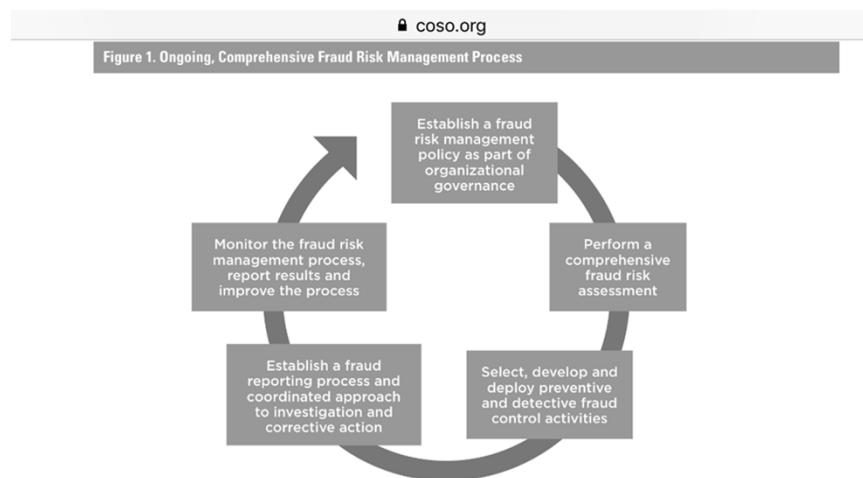
FRAUD RISK MANAGEMENT MONITORING ACTIVITIES



- ❖ Select, develop, and perform ongoing evaluations to ascertain whether each of the five principles of fraud risk management is present and functioning.
- ❖ Communicate any deficiencies in a timely manner to parties responsible for taking corrective action, including senior management and the Board of Trustees.

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Ongoing fraud risk management process



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- ❖ *Adelphi University (NY)*
- ❖ *West Virginia University*
- ❖ *St. John's University (NY)*
- ❖ *CUNY*
- ❖ *Caldwell University (NJ)*
- ❖ *MacEwan University (Canada)*

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The seal of Adelphi University is a circular emblem. At the top, the words "ADELPHI UNIVERSITY" are written in a semi-circle. In the center, there is an open book above a pair of crossed wings. Below the wings, the year "1896" is inscribed. A banner at the bottom of the seal contains the motto "The Truth Shall Make Us Free". The Latin phrase "VITA SINE LITTERIS MORS EST" is written in a semi-circle just above the banner.

An investigation by the New York State attorney general in 1995 revealed that, among other perks, Adelphi paid for former president Diamandopoulos' \$82,314 Mercedes, his \$1.3 million Manhattan condominium (in addition to a residence on the Garden City campus) and his \$4,000 in holiday tips to the apartment building's staff. He was fired in 1997.

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West Virginia university



Academic Fraud

In 2007-WVU fraudulently granted an MBA degree to a Mylan pharmaceutical company executive. An independent panel concluded that the university changed its records, and granted the degree despite incomplete graduation requirements.

In 2012-WVU named a 37-year old “genius” to the first endowed position in its new School of Public Health. They later discovered all his credentials were a forgery.

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St. John's university



Sept. 2010 – Fundraiser Charged with \$1Million Embezzlement⁶

T&E expenses for non work-related items included:

- casino expenses,
- shopping at Victoria's Secret,
- St. John's Law School tuition for her son, and
- subscriptions to dating websites.

She also wrongfully appropriated \$250,000 by creating a not-for-profit entity, the Global Development Initiative Foundation.

⁶ New York Times, 'Fallen Dean's Life, Contradictory to Its Grisly End,' Dec. 10, 2012

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The City University of New York has 25 campuses across NYC's five boroughs:

- 11 Senior Colleges
- 7 Community Colleges
- 7 Graduate, Honors, and Professional Schools

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City College



The New York Times reported in May 2016 that the 21st Century Foundation, a nonprofit group affiliated with the college, paid for some of the former president's personal expenses, including furniture and fruit baskets, when she took office in 2010. The foundation was then reimbursed for more than \$150,000 by the CUNY Research Foundation.

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Brooklyn College



A former president of Brooklyn College used \$36,000 of the school's money to pay a part-time housekeeper. The IG report also found that the same president used \$35,000 of the school's money to fund her retirement party.



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Baruch College

A former Baruch College basketball coach embezzled \$600,000 by renting out gym space when it wasn't being used and directed the funds to bank accounts over which he had personal control. He spent the money to pay his personal debts, such as home renovations, mortgage payments, and his credit card bills.



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Two women admit to \$24M 'bait-and-switch' to scam vets at N.J. college

A former associate dean at Caldwell University was one of the people involved in tricking veterans into thinking they had enrolled in accredited university classes when they actually were taking courses developed and taught by an online correspondence school.

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Across the border ...



In September 2017, media outlets reported that MacEwan University in Alberta, Canada lost \$9.2 million in a computer fraud scheme that began with a phishing attack.

Emails sent to university staff fraudulently caused them to believe that the banking information for a major vendor had changed. Consequently, they transferred a \$9.2 million payment to this bogus account.

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Recent news ...



College Admissions Scandal – **\$25 million fraud**
William “Rick” Singer (mastermind) owned a college
advisory and prep business
Lori Loughlin (“Full House”) and Felicity Huffman
(“Desperate Housewives”)



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Lessons Learned

- ❖ Red flags were present, however, fraud continued for many years because no one was looking for them
- ❖ Decentralized nature of universities may mean that similar frauds are occurring at various colleges
- ❖ Allegations of university waste, fraud, and abuse is likely to become public

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ACFE Fraud Prevention Check-Up



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Fraud Risk Oversight

- ❖ To what extent has the organization established a process for oversight of fraud risks by the board of trustees or others charged with governance (e.g., an audit committee)?

Score from 0 (process not in place) to 20 points (process fully implemented, tested within the past year and working effectively).

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Fraud Risk Ownership

- ❖ To what extent has the organization created “ownership” of fraud risks by identifying a member of senior management as having responsibility for managing all fraud risks within the organization and by explicitly communicating to business unit managers that they are responsible for managing fraud risks within their area?

Score from 0 (process not in place) to 10 points (process fully implemented, tested within the past year and working effectively).

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Fraud Risk Assessment

- ❖ To what extent has the organization implemented an ongoing process for regular identification of the significant fraud risks to which it is exposed?

Score from 0 (process not in place) to 10 points (process fully implemented, tested within the past year and working effectively).

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Fraud Risk Tolerance and Risk Management Policy

- ❖ To what extent has the organization identified, and had approved by the board of trustees, its tolerance for different types of fraud risks?
- ❖ To what extent has the organization identified, and had approved by the board of trustees, a policy on how it will manage its fraud risks?

Score from 0 (process not in place) to 10 points (process fully implemented, tested within the past year and working effectively).

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Process-Level Anti-Fraud Controls

- ❖ To what extent has the organization implemented measures to eliminate or reduce each of the significant fraud risks identified in its risk assessment?
- ❖ To what extent has the organization implemented measures at the process level designed to prevent, deter, and detect each of the significant fraud risks identified in its risk assessment?

Score from 0 (process not in place) to 10 points (process fully implemented, tested within the past year and working effectively).

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Environment-Level Anti-Fraud Controls

- ❖ To what extent has the organization implemented a process to promote ethical behavior, deter wrongdoing and facilitate two-way communication on difficult issues?

i.e. compliance/ethics officer, code of conduct, training, monitoring of compliance, measuring the extent of compliance, incorporate compliance and fraud prevention goals into performance measures.

Score from 0 (process not in place) to 30 points (process fully implemented, tested within the past year and working effectively).

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Proactive Fraud Detection

- ❖ To what extent has the organization established a process to detect, investigate, and resolve potentially significant fraud?

e.g., audit “hooks” to flag suspicious transactions, computerized email monitoring

Score from 0 (process not in place) to 10 points (process fully implemented, tested within the past year and working effectively).

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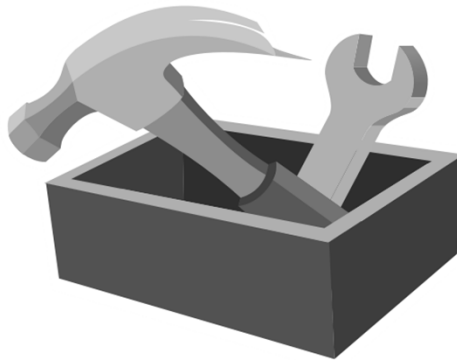
Results of Fraud Prevention Check-Up

Add all scores for the total score

(Out of a possible 100 points)

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ACFE Fraud Risk Assessment Tool



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Select questions – module 1 (Employee assessment)



- ❖ Does the organization provide an anonymous way to report suspected violations of the ethics and anti-fraud programs?
- ❖ Are fraud incidents promptly and thoroughly investigated?
- ❖ Does the organization maintain a record of fraud incidents?
- ❖ Is compliance with IC audited periodically?

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Select questions – module 2 (management assessment)



- ❖ Does the organization delay or avoid supplying auditors with the information necessary to complete the audit?
- ❖ Are there poor accounting records?
- ❖ Is the accounting department inadequately staffed?

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Select questions – module 3 (physical controls)



- ❖ Does management support the organization's ethics and anti-fraud policies?
- ❖ Does the organization provide an anonymous way to report suspected violations of these policies?
- ❖ Does the organization conduct random, unannounced audits of inventory, cash, expenses, purchasing, billing and other accounts by internal or external auditors?

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Additional questions – adapted from modules 10, 14, & 15

Module 10 (Expense Schemes)

- ❖ Are expense accounts reviewed for appropriateness of expenditures?



Module 14 (Conflicts of Interest)

- ❖ Does the organization have a reporting procedure for personnel to report their concerns about vendors receiving favored treatment?



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Additional questions –
adapted from modules 10, 14, & 15
(cont'd)

Module 15 (Fraudulent Financial Reports)

- ❖ Are senior managers visible in their support of internal controls?
- ❖ Does the organization continuously operate on a crisis basis or without a careful budgeting and planning process?



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Contact Information



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