

Fraud in Higher Education Institutions

It Only Happens at Other Schools

SCCE Higher Education Compliance Conference 2020

Joseph Agins, CCEP, CFE

Institutional Compliance Officer, Sam Houston State University

Adjunct Professor – White-Collar Crime

Regent Emeritus – Association of Certified Fraud Examiners (ACFE)

1

Learning Objectives

- ✓ Can it really happen here? Yes! Discuss and learn from countless recent examples as we cover several, entirely preventable, frauds at institutions of higher education just like yours
- ✓ There are a multitude of factors that contribute to educational institutions being repeat victims of fraud. Understanding these factors can help you detect, deter and minimize occupational fraud from occurring at your institution
- ✓ Why do they do it? Delve into the mind of a fraudster to understand how they commit the fraud, and more importantly, how they rationalize and justify crossing the line

2

2

How bad is it?

According to the *Association of Certified Fraud Examiners (ACFE) Report to the Nations on Occupational Fraud And Abuse*, the education industry ranked **5th** out of 23 different industries for reported fraud

2014 Report to the Nations on Occupational Fraud and Abuse. Copyright 2014 by the Association of Certified Fraud Examiners, Inc.

3

How bad is it?

According to a 2016 ACFE study, “Fraud Costs (Higher) Education At Least \$70 Million”

2016 Report to the Nations on Occupational Fraud and Abuse. Copyright 2016 by the Association of Certified Fraud Examiners, Inc.

4

Drop in the Bucket?

- ✓ Many/most institutions don't even report the fraud
- ✓ Many don't know they have been victimized or the extent they have been victimized
- ✓ The dollars lost to fraud is only a fraction of the overall loss
 - The significant risk from fraud in Higher Ed is the Reputational Damage
 - Institution receiving negative publicity
 - Potential drop in future enrollment
 - Potential drop in future advancement/development contributions
 - Potential drop in future research grant funding

5

Fraud 101

- ✓ Occupational Fraud
- ✓ The Fraud Tree
- ✓ The Fraud Triangle
- ✓ The Association of Certified Fraud Examiners (ACFE) and the Annual Report to the Nations
- ✓ Red Flags
- ✓ Fraud Detection
- ✓ Fraud Prevention
- ✓ Education

6

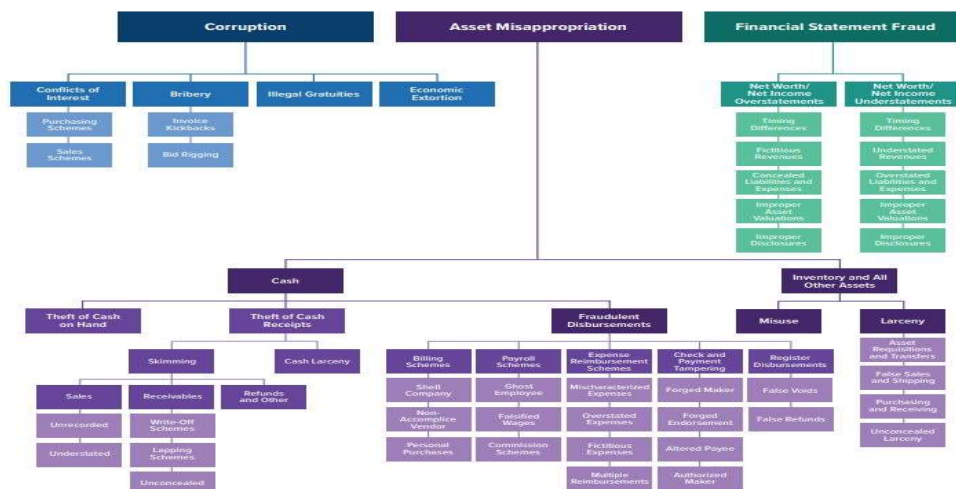
Occupational Fraud

The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets.

1. *Corruption schemes (i.e. schemes involving bribery or conflicts of interest)*
2. *Financial statement fraud schemes (i.e. recording fictitious revenues, understating reported expenses)*
3. *Asset misappropriation schemes (i.e. theft of company cash, false billing schedule, false or inflated expense reports)*

7

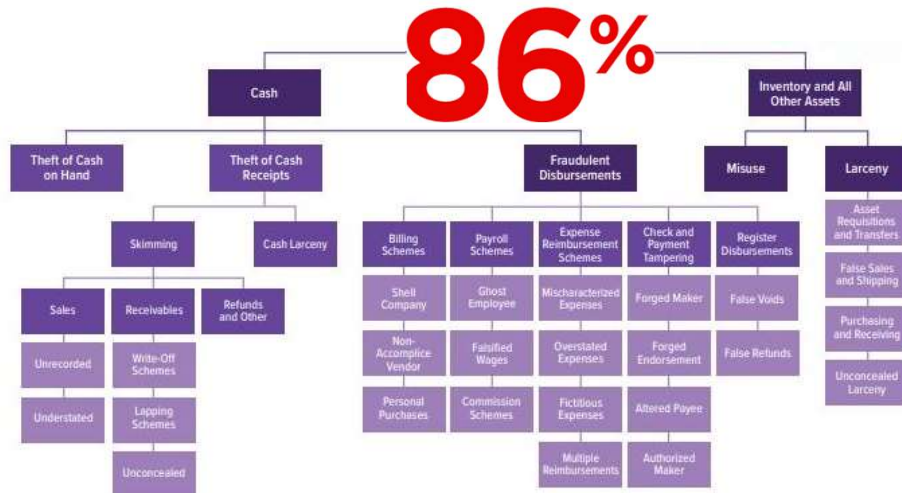
The Fraud Tree



2020 Report to the Nations on Occupational Fraud and Abuse. Copyright by the Association of Certified Fraud Examiners, Inc.

8

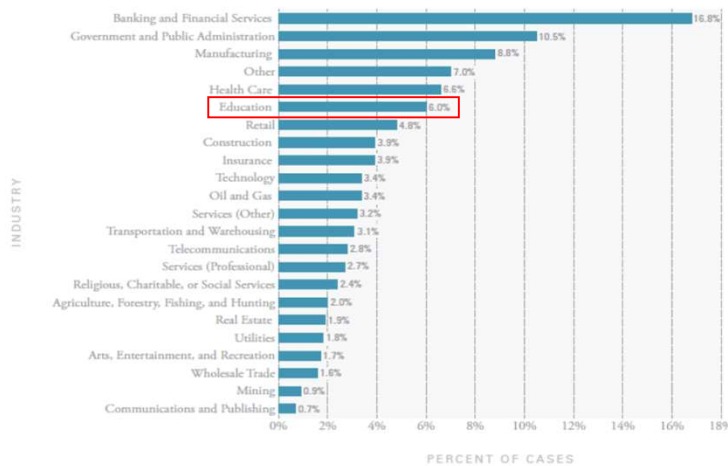
Asset Misappropriation



2020 Report to the Nations on Occupational Fraud and Abuse, Copyright by the Association of Certified Fraud Examiners, Inc.

9

Reported Fraud Cases by Industry



2012 ACFE Study -
Education Industry
✓ 5th of 23

2016 ACFE Study -
Education Industry
✓ 6th of 23

2020 ACFE Study -
Education Industry
✓ 6th of 23

ACFE 2016 & 2020 Report to the Nations

10

Why are Universities so Susceptible?

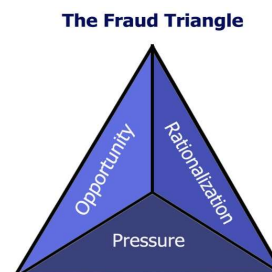
- ✓ Budget Cuts create little or no segregation of duties
- ✓ Supervisors and management “rubber stamping”
- ✓ Poor asset management
- ✓ Lower overall salaries in education
- ✓ Long tenures
- ✓ Policies and procedures not communicated and/or enforced
- ✓ Silo’d reporting structure
- ✓ Nepotism
- ✓ Low risk of detection
- ✓ Low risk of prosecution
- ✓ Poor tone at the top
- ✓ No anti-fraud program/training
- ✓ Don’t even know or want to know they have a problem

Fighting Fraud and Corruption in Higher Education – Mary-Jo Kranacher, MBA, CPA, CFE, CFF

11

The Fraud Triangle

- ✓ Opportunity
- ✓ Pressure
- ✓ Rationalization



Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-shareable, are aware this problem can be secretly resolved by violation of the position of financial trust, and are able to apply to their own conduct in that situation verbalizations which enable them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users of the entrusted funds or property.¹

¹Donald R. Cressey, *Other People's Money* (Montclair: Patterson Smith, 1973) p. 30.

12

Opportunity

If one is talking about theft, there must be something to steal and a way to steal it. Anything of value is something to steal. Any weakness in a system—for example, lack of oversight—is a way to steal. Of the three elements of the Fraud Triangle, opportunity is often hard to spot, but fairly easy to control through organizational or procedural changes.

- ✓ *Internal Controls either non-existent, not enforced, not effective or not monitored*
- ✓ *No segregation of duties*
- ✓ *Too much trust*
- ✓ *Poor “Tone at the Top”*

13

Pressure

What is it in someone’s life that drives one to commit fraud? Pressure, or motivation, typically involve personal situations that create a demand for more money; such situations might include addictions such as drug use or gambling or merely life events like a spouse losing a job. At other times, pressure arises from problems on the job; unrealistic performance targets may provide the motive to perpetrate fraud.

- ✓ *Debt*
- ✓ *Keeping up with the Jones’*
- ✓ *Healthcare*
- ✓ *Addiction – shopping, gambling, drugs, sex, etc.*
- ✓ *Pressure to perform*
- ✓ *Too much work*

14

Rationalization

There are two aspects to rationalization: One, the fraudster must conclude that the gain to be realized from a fraudulent activity outweighs the possibility for detection. Two, the fraudster needs to justify the fraud. Justification can be related to job dissatisfaction or perceived entitlement, or a current intent to make the victim whole sometime in the future, or saving one's family, possessions or status. Rationalization is discernible by observation of the fraudster's comments or attitudes.

- ✓ *"I don't get paid what I'm worth"*
- ✓ *"Everyone else is doing it"*
- ✓ *"I'm going to pay it back"*
- ✓ *"If they don't know I'm doing it, they deserve to lose the money"*
- ✓ *"Nobody will miss the money"*

15

Examples of Fraud in Higher Ed

- ✓ Deans and chairpersons create phony positions (e.g., "assistant dean for retention") and hire friends and relatives into them
- ✓ Instructors order desk copies of books from publishers under the guise of considering them for adoption as a textbook, then turn around and sell them. Professors can make several hundred dollars per month in this scheme. (check my WCC class notes and PP for more info on this)
- ✓ Faculty members develop software and other products through their university-sponsored research funds, and then market or sell the products through their own private companies
- ✓ Staffers engage in consulting work on the side but use university labs and facilities for the jobs or assign the work to students as term projects
- ✓ Foreign-born faculty issue admissions to relatives to come to the U.S. for graduate studies, and offer them assistantships and tuition waivers over other more qualified students without revealing their relation to them
- ✓ Professors send the same paper abstract to various conferences in their native countries just to have paid trips back home
- ✓ Department heads use department funds to purchase goods and services for their personal use
- ✓ Varsity Blues
- ✓ Academic fraud involving student athletes

Yasmin Vazquez - The Fraud Curve: White-Collar Crime in Higher Education – ACFE Fraud Examiner

16

Actual Cases from 2019

- Theft of more than \$300,000 from Indiana University Foundation
- Purdue University Professor accused of using research funds (\$1.3 million)
- Drexel University professor spent federal grants at strip clubs (\$189K)
- Former UCO employee allegedly caught selling university property online
- Stony Brook University Professor Steals More Than \$200K in Cancer Research Funds
- Audit launched for Cal State San Marcos dean, whose expenses feature first class travel, chauffeurs and a \$110 steak
- Three indicted in wide-ranging UMass fraud scheme
- St. Louis Community College employee pleads guilty to embezzling college funds (\$7.5 million)
- Sour Note: Former Southern University band leader suspected of theft
- Clemson Extension employee charged with embezzlement
- Former workers arrested for embezzling nearly \$1 million from Mississippi community college
- Del. College Administrator Pleads To \$3 million Bribery Scheme

17

Cases from 2019 (Cont.)

- ISU police arrest campus employee who allegedly stole almost \$160K from Bone Student Center
- LSU notified as investigation reveals \$810K lost in OLOL Foundation head's alleged embezzlement scheme
- Student accused of embezzling from Sac State Dreamer Resource Center
- For nearly 10 years, a Washington University official embezzled
- LMU dean abused school funds for dating and pornography
- Former Utah Valley University administrator and his wife charged with fraud
- Ex-Virginia Tech biotech professor found guilty of grant fraud
- Former UCR employee awaiting sentencing for embezzling money from UCR Brain Game Center
- Ex-UNM athletic director Paul Krebs faces felony charges, up to 15 years in prison
- FBI investigating former Pfeiffer University CFO amidst embezzlement allegations
- School Official On Probation After Embezzling \$217K
- Fired Gophers ticket director charged in alleged long-running ticket-order scheme
- Former WKU professor sentenced to 52 weekends in jail for fraud

18

Headline News

Purdue University Professor accused of using research funds

- ✓ Qingyou Han, director (former) of Purdue's Center for Materials Processing Research
- ✓ Submitted fraudulent invoices against the grants, from 2007 - 2017, to a shell company (Hans Tech, LLC) he and his wife created that purportedly provided research items and equipment for his cancer related research projects
- ✓ Stolen funds of over \$1.3 million came from federal grants awarded by National Science Foundation and others
- ✓ Han wrote grant proposals on behalf of Hans Tech and submitted them and other documents to the NSF, using his wife's name. The proposals did not mention two were married or that Han, "who was not affiliated as an owner or employee of the company, was actually running Hans Tech behind the scenes"
- ✓ Some Hans Tech proposals to the NASAF recommended bringing on Han – in his role as a Purdue professor – as be a subcontractor to work on the research

[Dave Bangert – Reporter, Journal & Courier, Oct 19, 2019, 9:43am](#)

19

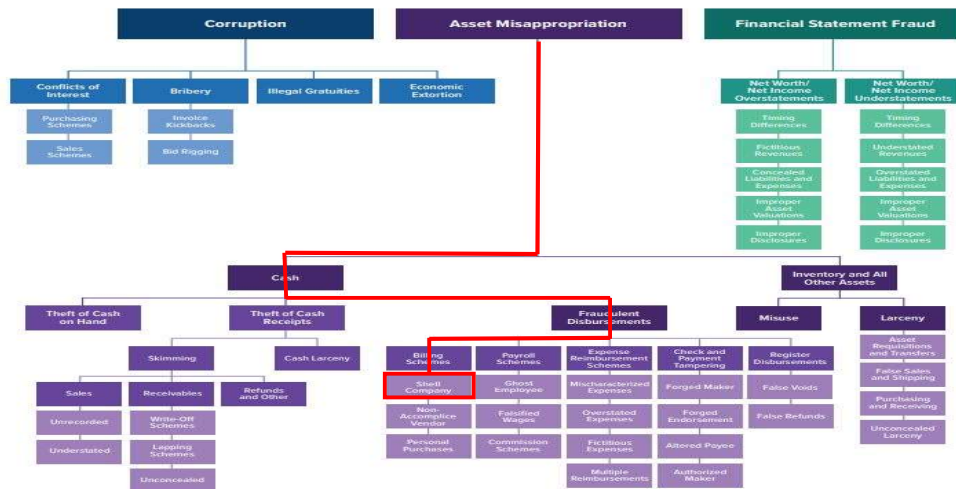
Headline News Continued!

- ✓ Hans Tech told the NSH that it was paying two employees who wound up being his children, who were younger than 16
- ✓ Hans Tech claimed some of the research money (\$150K) was going toward \$3,000-a-month rent on a laboratory which was actually an additional home they were buying
- ✓ Han, using a company in his name, posed as a third party looking to invest \$100,000 into Hans Tech. That turned out to be money from Hans Tech's own money. After the \$100,000 investment was made, \$120,000 – at least \$80,000 of it from federal grant money – wound up back in Han's bank account, according to the plea. Of that, \$75,000 was used to pay off his home mortgage
- ✓ Asset Misappropriation/Cash/Fraudulent Billing Schemes/Shell Company

[Dave Bangert – Reporter, Journal & Courier, Oct 19, 2019, 9:43am](#)

20

The Fraud Tree



21

Outcome((

- ✓ Unsure how it was discovered but scheme went on for 10 years
- ✓ Was not initially placed on administrative leave during the investigation
- ✓ Pleaded guilty to felony charge of wire fraud on behalf of themselves and Shao's company, Hans Tech of Lakewood, Ohio
- ✓ Likely prison time and certainly restitution
- ✓ Purdue spokesman stated school officials are aware of Han's plea, and "will carefully consider the matter in light of its policies"

22

Headline News

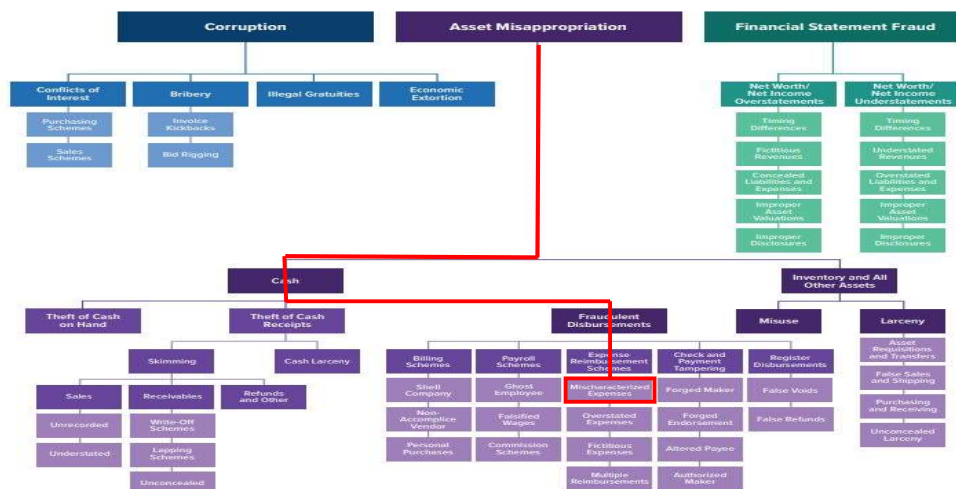
Drexel University professor spent federal grants at strip clubs

- ✓ Chikaodinaka Nwankpa, Department Head (former), Electrical & Computer Engineering
- ✓ Submitted improper charges against the grants, including trips to local strip clubs Cheerleaders and Club Risqué, from July 2007 to April 2017
- ✓ Funds came from 8 federal grants related to energy and naval technology research, awarded by the Dept. of the Navy, Dept. of Energy and the National Science Foundation
- ✓ Asset Misappropriation/Cash/Fraudulent Disbursements/Expense Reimbursement Schemes/Mischaracterized Expenses
- ✓ How would you like to see this headline with your school's name in it?

[Adrianna Rodriguez – Reporter, USA Today, Oct 8, 2019, 2:29pm](#)

23

The Fraud Tree



2020 Report to the Nations on Occupational Fraud and Abuse. Copyright by the Association of Certified Fraud Examiners, Inc.

24

Outcome((

- ✓ Discovered by an Internal Audit in 2017 (after it had been going on for 10 years)
- ✓ The University will pay the U.S. government \$189,062 to settle claims
- ✓ Nwankpa was placed on administrative leave during the investigation
- ✓ He ultimately resigned and repaid \$53,328 to the institution
- ✓ He was banned from federal contracting for six months
- ✓ Statement: *"Drexel takes allegations of unethical or unlawful business conduct on the part of any members of the university community very seriously and remains committed to being in full compliance with all billing regulations and requirements"*
- ✓ Drexel developed new internal/external auditing controls to prevent any future misuse of grant funds, including training faculty and staff to recognize red financial red flags and showing them how to report them

25

Headline News

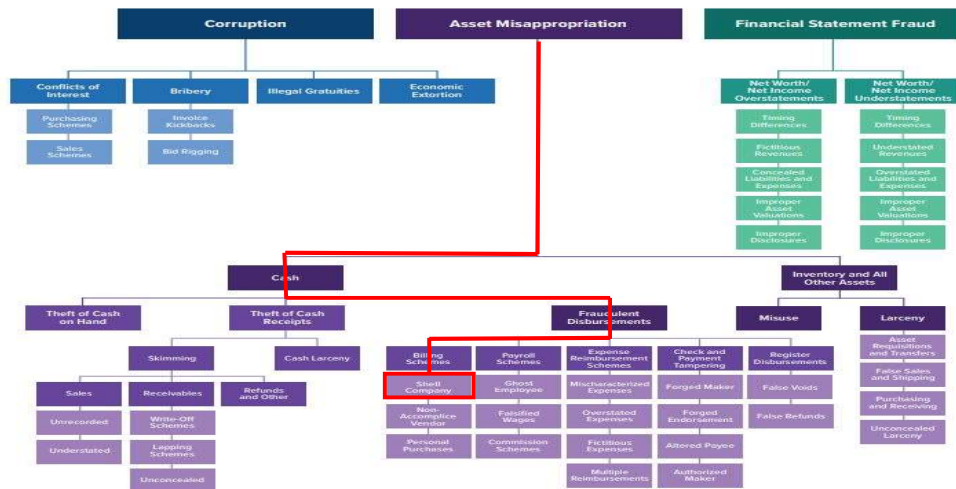
Stony Brook University Professor Steals More Than \$200K in Cancer Research Funds

- ✓ Associate professor, department of pathology and director of cancer metabolomics at the Renaissance School of Medicine at SBU
- ✓ Submitted fraudulent invoices against the grants, from 2013 - 2017, to two shell companies he created that purportedly provided research items and equipment for his cancer related research projects
- ✓ Submitted fraudulent invoices to SBU, requesting payments from SBU and grants from the National Institutes of Health and others that were for cancer research
- ✓ Asset Misappropriation/Cash/Fraudulent Disbursements/Billing Schemes/Shell Company

[Catherine Thorbecke – Reporter, ABC News, Sept 12, 2019, 6:10pm](#)

26

The Fraud Tree



2020 Report to the Nations on Occupational Fraud and Abuse, Copyright by the Association of Certified Fraud Examiners, Inc.

27

Outcome((

- ✓ Sept 2019 - Charged in a seven-count indictment with theft of state and federal government funds, wire fraud and money laundering
- ✓ Released on \$250K bond, pleaded not guilty and his lawyer said they were "shocked by the charges"
- ✓ Resigned from his position in December 2019 and pleaded guilty
- ✓ Ordered to pay \$225K in restitution to the NIH funds and SBU
- ✓ SBU Statement: "We are outraged and appalled by the allegations that led to the professor's arrest. "This alleged behavior is absolutely contrary to the ethical and professional standards expected of our faculty"

28

Headline News

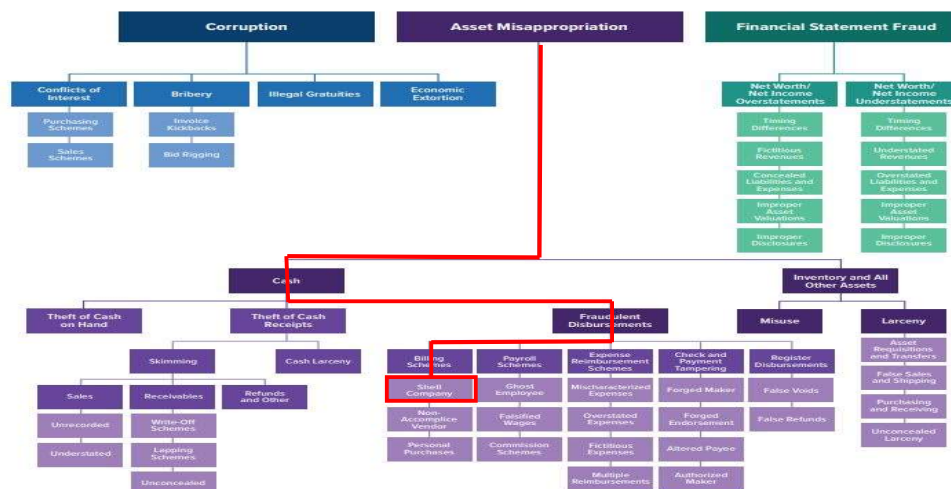
Former St. Louis Community College employee sentenced for embezzling college funds

- ✓ Donald Robison, manager of corporate services for the college's Workforce Solutions Group
- ✓ Distributed money from the state agency's training fund for employee training. He was the only person with access to the funds, according to the college
- ✓ Stole \$7.5 million in state job training funds from August 1998 to November 2018 to his shell company, MS Services, and began submitting false documents seeking reimbursement for training never provided
- ✓ He then moved the funds from the MS Service's account into his personal account, and then into investment accounts
- ✓ Asset Misappropriation/Cash/Fraudulent Disbursements/Billing Schemes/Shell Company

Kevin Held -- Reporter, Fox2Now, Dec 13, 2019, 4:13pm

29

The Fraud Tree



2020 Report to the Nations on Occupational Fraud and Abuse. Copyright by the Association of Certified Fraud Examiners, Inc.

30

Outcome((

- ✓The college launched an investigation after an employee told supervisors about financial irregularities
- ✓Suspended without pay during the investigation
- ✓Robison pleaded guilty in August to 15 counts of wire fraud, mail fraud, and money laundering. He was sentenced to 75 months in federal prison and fined \$125,000 for his crimes
- ✓Admitted that he'd siphoned off \$7.5 million in job-training funds over 20 years but made millions more investing the money
- ✓Agreed as part of a plea deal in federal court to forfeit \$11 million, including the profits of his scheme. The money will go to the state of Missouri and the college

31

Headline News

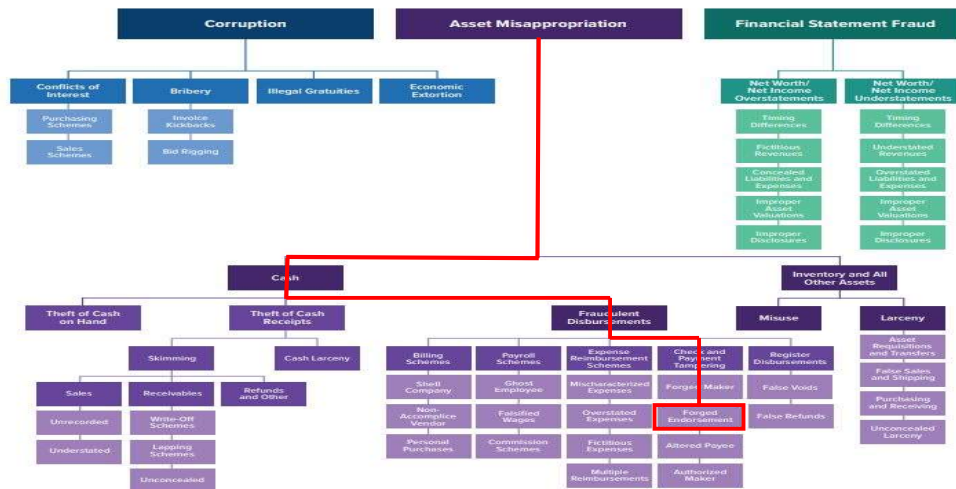
Student accused of embezzling from Sac State Dreamer Resource Center

- ✓Rosemerri Ramirez, student employee
- ✓Took in the funds (checks) from a university hosted event she helped coordinate
- ✓The checks were intended for the Keeping the Dream Alive Conference and the funds were going towards the DRC Emergency Fund for students
 - The DRC Emergency fund is for students in a temporary financial crisis that would threaten their education
- ✓Asset Misappropriation/Cash/Fraudulent Disbursements/Check & Payment Tampering/Forged Endorsement

[Reanna Simmons – Reporter, The State Hornet, March 10, 2019](#)

32

The Fraud Tree



2020 Report to the Nations on Occupational Fraud and Abuse, Copyright by the Association of Certified Fraud Examiners, Inc.

33

Outcome((

- ✓The bursar's office at Sac State was notified by a member of the Wells Fargo fraud team that several checks totaling \$5,850.00 made out to Sac State were being deposited into a student employee's personal bank account
- ✓“We review our procedures and practices for handling University resources to safeguard them. Unfortunately, someone chose to betray the University's trust. Ultimately, though, because of safeguards in place, she was caught”
- ✓University Bursar said in the time she's worked at Sac State this has not happened before
- ✓Student no longer employed with or attending Sac State
- ✓Charges were filed as a “court date” was mentioned
- ✓While students are happy she was caught, they're hoping more is done to prevent this from happening again

34

Headline News

For nearly 10 years, a Washington University official embezzled

- ✓ Barbara Skudrzyk, former business director for division of medical education
- ✓ Stole nearly \$400K in total
- ✓ Paid for personal expenses, including her divorce lawyer, by submitting bogus invoices to the University
- ✓ Submitted false W-9 tax forms to make it look like the vendors she hired were doing the work for the University
- ✓ Forged a co-worker's signature to buy VISA gift cards at the university bookstore and then used those cards for personal expenses
- ✓ Billed the university for travel for herself and relatives to Poland, Germany, Thailand, Canada, FL, AZ, NYC and TX

[Robert Patrick — Reporter, St. Louis Post Dispatch, March 8, 2019](#)

35

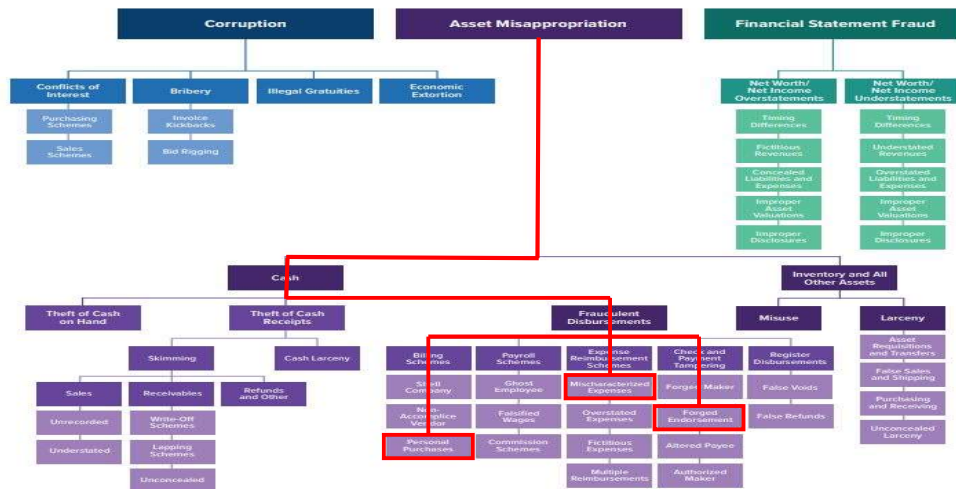
Headline News Continued!

- ✓ Paid her moving company, a home cleaning service, divorce lawyers, painters and construction companies by creating, submitting and approving false invoices to the University
- ✓ When contractors questioned why they were being paid by Wash U, she said she had been paid a bonus or had withdrawn money from her retirement account
- ✓ Purchased approximately \$140,000 in VISA gift cards at the University bookstore by forging other employees' signatures and charging the purchases to 100 different university accounts
- ✓ Submitted false W-9's to make it look like the vendors she hired were doing the work for Wash U
- ✓ Asset Misappropriation/Cash/Fraudulent Disbursements/Expense Reimbursement Schemes/Mischaracterized Expenses – Billing Schemes/Personal Purchases

[Robert Patrick — Reporter, St. Louis Post Dispatch, March 8, 2019](#)

36

The Fraud Tree



2020 Report to the Nations on Occupational Fraud and Abuse, Copyright by the Association of Certified Fraud Examiners, Inc.

37

Outcome((

- ✓The gift card scheme was uncovered only due to a error by the bookstore. After the store double-billed one of her transactions, they called the listed employee to notify her that they would be issuing a credit
- ✓Pleaded guilty in U.S. District Court to three counts of mail fraud
- ✓She will serve 30 months in prison
- ✓Ordered to repay \$381,583
- ✓“I am determined and driven to rebuild myself ... It’s really hurting me that I did extreme wrong”
- ✓Caused an “enormous disruption” to the work of the division, which educates medical students, residents and fellows, damaged its reputation and inflicted emotional trauma on former colleagues falsely implicated in her scheme

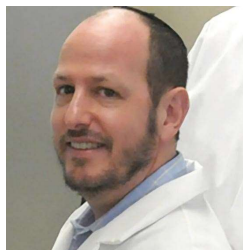
38

The Sad Part ☹️

Most all of these frauds could have been prevented!

39

What does a Fraudster Look Like?



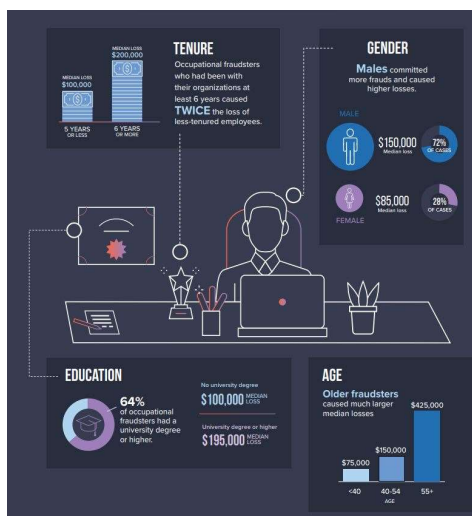
40

What does a Fraudster Look Like?



41

Profile of a Fraudster

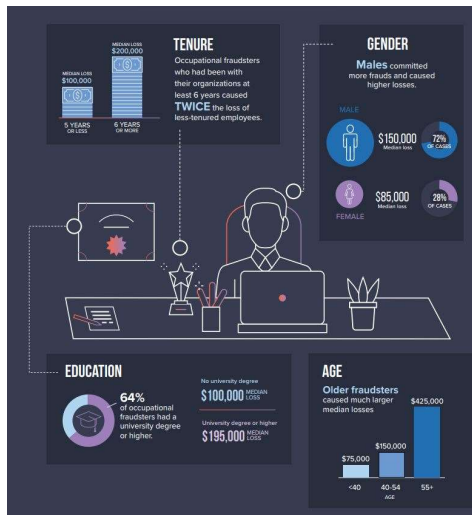


2020 Report to the Nations on Occupational Fraud and Abuse. Copyright by the Association of Certified Fraud Examiners, Inc.

- ✓ Gender – Males (72%) committed more frauds and caused higher losses
- ✓ Tenure – Nearly 50% have been with the institution for over 5 years and those that have caused twice the losses of less tenured employee fraudsters
- ✓ Education – 65% had a bachelors degree or higher
- ✓ Age – Most 40+ and the older the more they are taking
- ✓ Prior Convictions – 90% have never been charged with or convicted of a crime
- ✓ Good employees – 86% never had any employment-related disciplinary actions or terminations, etc.

42

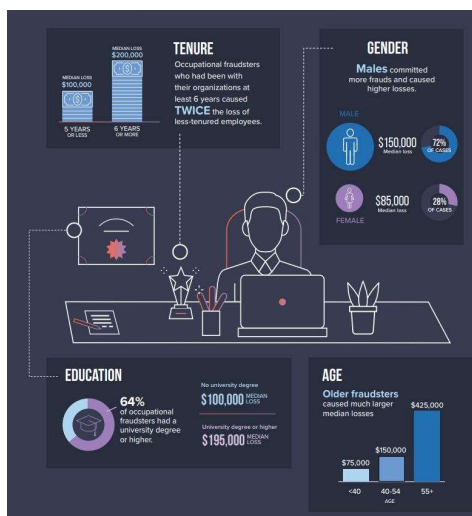
Profile of a Fraudster



2020 Report to the Nations on Occupational Fraud and Abuse. Copyright by the Association of Certified Fraud Examiners, Inc.

43

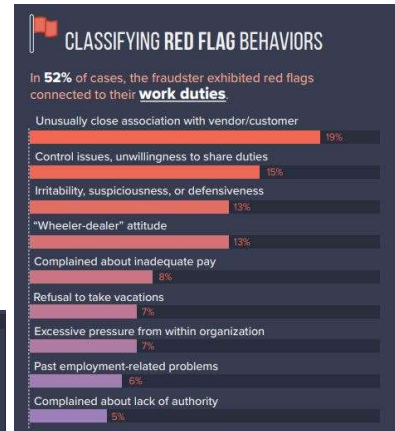
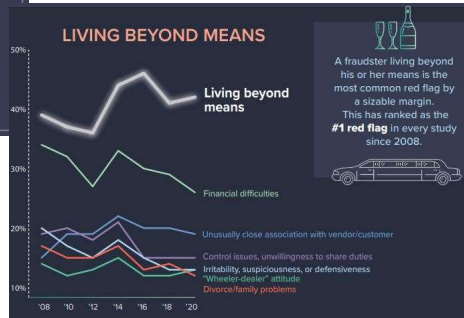
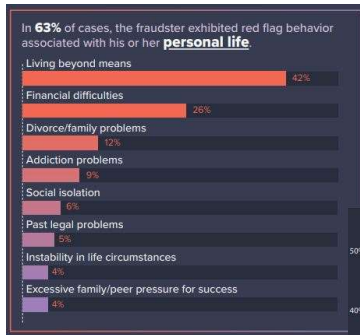
Profile of a Fraudster



2020 Report to the Nations on Occupational Fraud and Abuse. Copyright by the Association of Certified Fraud Examiners, Inc.

44

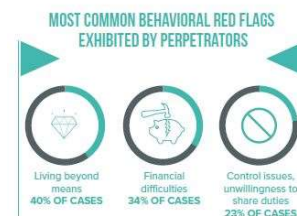
More on Red Flags



2020 Report to the Nations on Occupational Fraud and Abuse. Copyright by the Association of Certified Fraud Examiners, Inc.

45

Red Flags



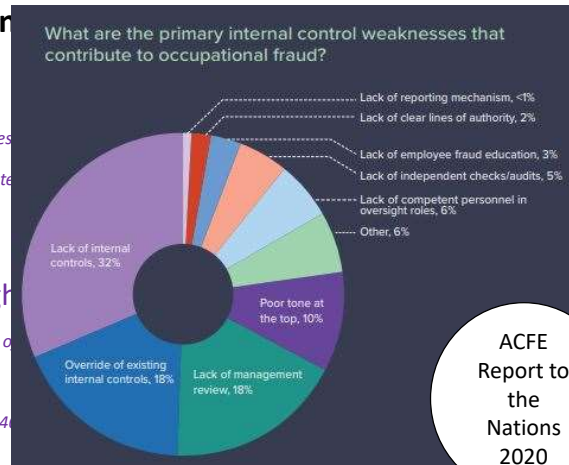
2020 Report to the Nations on Occupational Fraud and Abuse. Copyright by the Association of Certified Fraud Examiners, Inc.

46

Why is this happening?

Unfortunately, we in Higher Education teach:

- ✓ Lack of internal controls (*Internal control weaknesses)
- ✓ Lack of management review (*13% of fraud detected)
- ✓ Override of existing internal controls
- ✓ Poor tone at the top
- ✓ Lack of competent personnel in oversight roles
- ✓ Lack of independent checks/audits (*15% of fraud detected)
- ✓ Lack of employee fraud education
- ✓ Lack of reporting mechanism/Hotline (*4% of fraud detected)

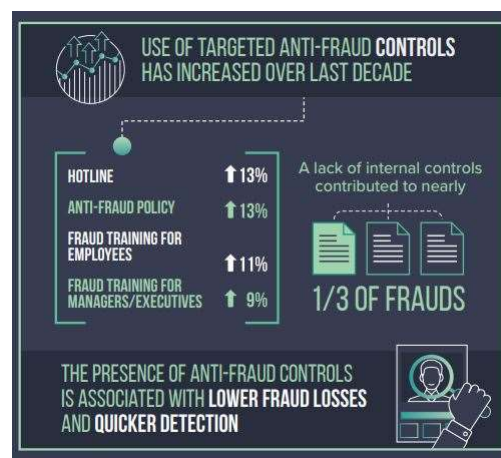


2016 Report to the Nations on Occupational Fraud and Abuse. Copyright 2016 by the Association of Certified Fraud Examiners, Inc.

47

Prevention

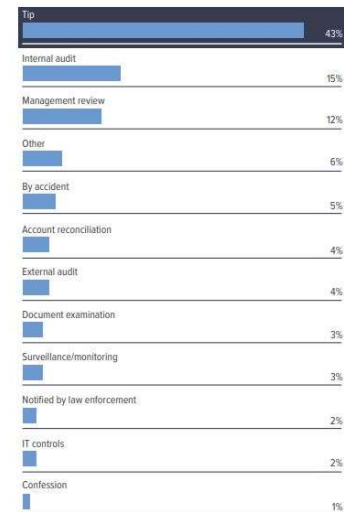
- ✓ Hotline
- ✓ Fraud policy
- ✓ Code of Conduct
- ✓ Importation strategies
- ✓ Culture
- ✓ Fraud controls
- ✓ All need to be communicated
- ✓ Consistent treatment
- ✓ Fraud Training



ACFE 2020 Report to the Nations

48

A Few Words About Hotlines



49

Dollars Lost and Reputational Damage

Oftentimes, a good portion of fraud financial losses are covered under fidelity insurance policies (less deductibles).

The significant risk to Fraud in Higher Education, IMO, is the Reputational Damage.

- ✓ *Institution receiving negative publicity (i.e. news broadcasts, newspapers, rating agencies, etc)*
- ✓ *Potential drop in future enrollment*
- ✓ *Potential drop in future advancement/development contributions*
- ✓ *Potential drop in future research grant funding*

50

We don't know what we don't know

The underlying dynamics of the differing types of fraud in Institutions of Higher Ed need to be better understood and socialized in order for effective response strategies and policies based on these dynamics to be developed:

- ✓ Education
- ✓ Policies
- ✓ Risk assessments
- ✓ Reporting mechanisms

Look out for an upcoming research paper on this topic - ***Employees Not True to Their School: Occupational Fraud in Higher Education*** – by Ronald Daigle, Ph.D. CPA, CFE, CGMA, Oscar Harvin, Ph.D., CPA, CFE and Joseph Agins, CCEP, CFE

51

Thank U!

Joseph Agins, CCEP, CFE
Institutional Compliance Officer
Sam Houston State University
936-294-2671
jxa101@shsu.edu
<https://www.linkedin.com/in/josephagins/>



52