FAMU FRAUD FIGHTER

WHAT IS FRAUD?

In the broadest sense, the term fraud encompasses actions that are meant to deceive for financial or personal gain. It's any intentional or deliberate act to deprive another of property or money by guile, deception or other unfair means. Occupational fraud is fraud committed by people who work for, or do business with, an organization. This specific form of fraud represents a real and large risk to any organization that employs individuals.

The ACFE Classifies Occupational Fraud Into Three Main Categories:

1. **ASSET MISAPPROPRIATION:** Schemes in which an employee steals or misuses an organization's assets. Common examples include skimming payments received from customers, intercepting outgoing vendor payments and overstating reimbursable expenses.
2. **CORRUPTION:** Schemes involving a fraudster wrongfully using their influence in a business transaction to obtain a personal benefit or a benefit for another person (e.g., their spouse, children, or friends). Examples of corruption schemes include failing to disclose conflicts of interest, accepting illegal gratuities and paying bribes for favorable business decisions.
3. **FINANCIAL STATEMENT FRAUD:** Schemes involving the intentional misreporting of an organization's financial information with the intent to mislead others (e.g., investors, debtors or government authorities). Examples include creating fictitious revenues 3and concealing liabilities or expenses.

> "Fraud can be committed by anyone, making it important for all employees to be aware and observant of behavioral red flags"

The Most Common Higher Ed Fraud Schemes:

- Student Loan
- Fake Scholarships
- Payroll Schemes
- Financial Statement Fraud
- Financial Account Take Over
- Vendor Fraud

Why do people commit fraud?

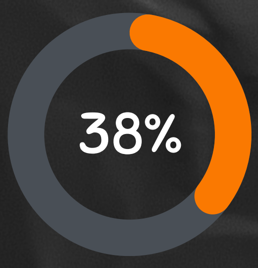
1. **PRESSURE:** This is a non-shareable problem — typically financial — that drives a person to commit fraud. Examples of these types of pressures include a gambling or drug habit, personal debt or poor credit, a significant financial loss, or peer or family pressure to succeed. They might believe fraud is the only solution for various reasons, such as shame, pride, or a desire to prove oneself.
2. **OPPORTUNITY:** This refers to the perceived ability to commit fraud. An employee must perceive that they have the opportunity to execute their scheme successfully. This opportunity could present itself as a lack in anti-fraud controls, like having no separation of duties, that they have discovered.
3. **RATIONALIZATION:** Offenders use rationalization to justify or excuse their criminal behavior and to maintain a positive image of themselves. People are often unwilling to view their behavior as bad or morally questionable. To keep a positive self-image, offenders rationalize their fraudulent actions in a variety of ways. They might tell themselves that they're only "borrowing" the money and will repay it at the first chance they get, or they could believe they're underpaid for their work and, therefore, deserve extra compensation.

Based on ACFE research, here are the six most common behavioral red flags of fraud:

1. **LIVING BEYOND MEANS:** Big spending is often an indicator of fraudulent behavior, especially if an employee's salary does not line up with their lifestyle.
2. **FINANCIAL DIFFICULTIES:** Financial problems are often cited as a motivation by those who commit occupational fraud. Examples include high student loan debt, car loans, mortgages, taxes or high credit card debt.
3. **A CLOSE PERSONAL RELATIONSHIP WITH VENDORS OR CUSTOMERS:** This might indicate a conflict of interest or collusion between an employee and a vendor or customer.
4. **CONTROL ISSUES OR AN UNWILLINGNESS TO SHARE DUTIES:** Fraudsters might fear that they will be caught if they share their job duties with another employee. They may not use their allotted time off, or they might come up with excuses to gatekeep information from their colleagues.
5. **IRRITABILITY, SUSPICIOUSNESS OR DEFENSIVENESS:** Fraudsters may act unusually paranoid or harsh with colleagues in order to project suspicion onto others or to discourage questions.
6. **"WHEELER-DEALER" ATTITUDE:** A fraudster may display an attitude involving shrewd or unscrupulous behavior.

What can be done to prevent fraud?

Every employee, regardless of position, can help prevent fraud. Organizations should consider putting anti-fraud controls in place that are proven to reduce the cost of fraud. According to the Report to the Nations, the six anti-fraud controls that showed the greatest association with lower fraud losses were:



Organizations that provided fraud training for employees saw a 38% reduction in the median loss per fraud instance

- An established, company-wide code of conduct
- External audit of internal controls over financial reporting
- An internal audit department
- Management review
- Management certification of financial statements
- Hotlines

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