

THE **Audit Report**

AN INTERNAL AUDIT NEWSLETTER.

ISSUE

06

October 2022

FRAUD EDITION

MESSAGE
from the
VP for Audit

FEATURED TOPICS

- College Admissions Scandal
- Student Loan Fraud
- Academic Fraud
- University Embezzlement

AWESOME
FALL PHOTOS
2022



The Smoky Mountains of Pigeon Forge, Tennessee

October 2022

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Message from the VP for Audit

JOSEPH K. MALESZEWSKI

MBA, CIA, CISA, CIG, CIGA, CIGI, CGAP, CCEP, CCA, CFE

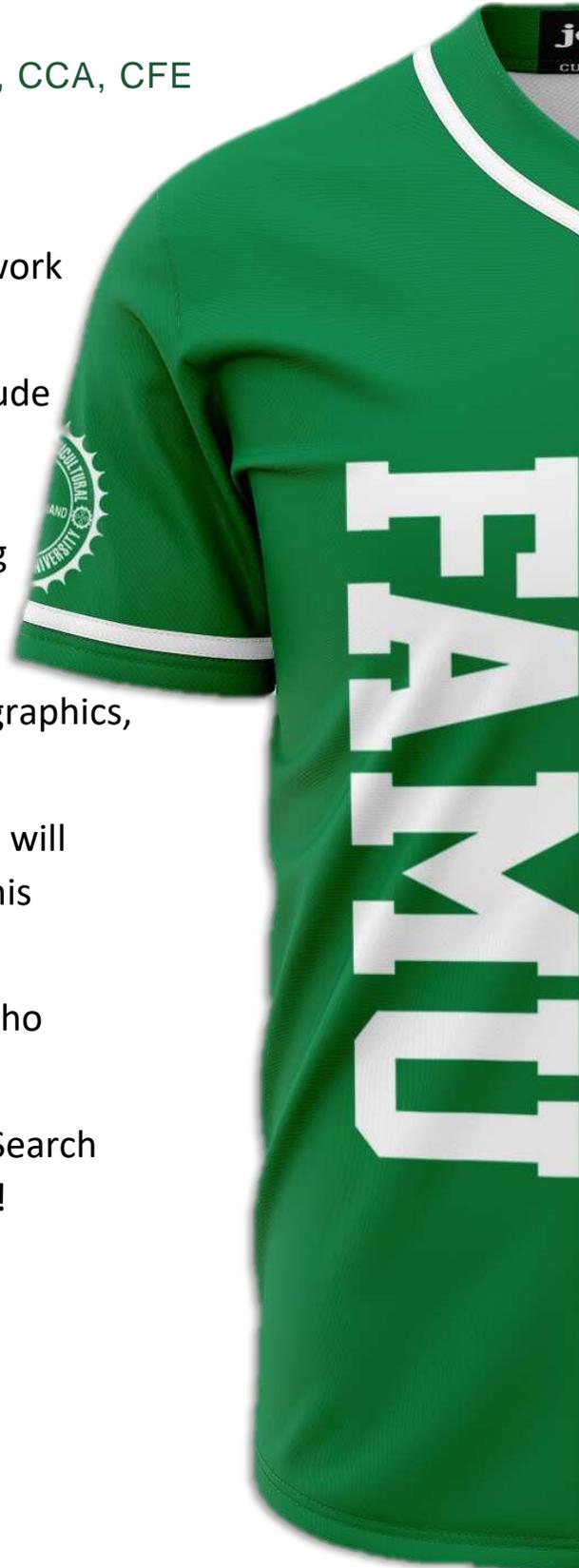
The Division of Audit is excitedly celebrating FAMU Homecoming this week, but there is much important work underway!

This special **Fraud Edition** of *The Audit Report* is a prelude to next month when we will join the Association of Certified Fraud Examiners in celebrating International Fraud Awareness Week (November 13th-19th). During this year's Fraud Awareness Week, we will be sending out information via FAMUINFO to engage you with various fraud awareness topics which will include infographics, videos, games, and more.

As you read this edition of *The Audit Report* I hope you will reflect on all of the work our staff put into preparing this important fraud information and share it with others.

A special thank you to Trystal Wright, Senior Auditor who serves as *The Audit Report* editor-in-chief!

Finally, good luck to all of you who attempt the Word Search puzzle on page 9 – remember there are prizes at stake!



DoA EMPLOYEE SPOTLIGHTS



NEW IT AUDITOR

William Thomson

Join us in welcoming the DoA's new IT Auditor. Will comes to us as a Certified Information Systems Auditor (CISA), with a degree in Information Technology, and a background in information security consulting and auditing. Will gained cybersecurity and compliance experience working with frameworks such as SSAE 18, SOC 2, HIPAA, HITRUST, and NIST. He is excited to bring his skillset to FAMU and looks forward to the opportunity to bring assurance and add value to IT initiatives in his new role.



NEW CERTIFICATION: CERTIFIED INTERNAL AUDITOR

Arriet Foster MBA, CFE, CIGA, CIGI, CIA*

Congratulations Arriet for becoming a Certified Internal Auditor (CIA). The CIA is the only globally recognized internal audit certification. It indicates a dedication to internal auditing and demonstrates credibility in the field.



NEW ROLE: SENIOR AUDITOR

Trystal Wright CGAP, CIGA

Congratulations Trystal for being promoted to Senior Auditor. Senior Auditor responsibilities include planning and overseeing the auditing process, assigning responsibilities to junior staff, providing training, performing effective risk and control assessments, and coordinating audit projects.



URMIA SCHOLARSHIP RECIPIENT

Bill Knight CIGA

Congratulations Bill for winning the [URMIA](#) scholarship for FAMU. URMIA promotes professional development for those in the field of risk management in higher education and invests in developing the next generation of higher education risk managers.

UNDERSTANDING FRAUD IN HIGHER EDUCATION

FRAUD - any intentional act or omission designed to deceive others, resulting in the victim suffering loss and/or the perpetrator receiving a gain.

-- **The Committee of Sponsoring Organizations (COSO)**



THE UGLY TRUTH

Most institutions of higher education invest a great deal of effort to develop education systems driven by ethics, transparency, and integrity. Although it is easy and common to imagine colleges and universities as untouchable by corruption, unfortunately, fraud can also rear its ugly head in the most prestigious of institutions.

COMMON REASONS FOR FRAUD IN HIGHER ED

- Decentralized operations with weak or no internal controls
- Not performing timely reviews of critical information
- No clear segregation of duties
- Not performing continuous monitoring to detect red flags or fraud
- No reoccurring audits to determine risks to internal controls
- Internal & external pressures to do the following:
 - Compete in a highly competitive industry
 - Increase enrollment despite budget limitations
 - Support student needs with thinning resources
 - Maintain or improve overall reputation
 - Maintain or improve rankings to meet fiscal targets

(Source: Bakertilly.com)

ASSOCIATION OF CERTIFIED FRAUD EXAMINERS 2022 REPORT TO THE NATIONS HIGHLIGHTS

A typical fraud case lasts 12 months before it is detected and causes a median loss of \$117,000. Nearly half of all reported frauds occurred in the operations department, accounting, executive/upper management, and sales. Not separating functional responsibilities of authorization, custodianship, and record keeping is a huge red flag for fraudulent activity. No one person should be responsible for all aspects of a function from the beginning to the end of the process.

DETECTING FRAUD

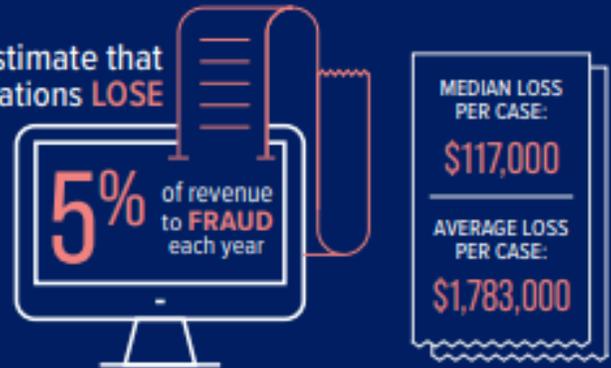
Fraud is most often detected through an employee's tip to a supervisor, internal or external auditor, whistleblower hotline, or exit interviews. Fraud can also be detected through technology and continuous monitoring.

ACFE OCCUPATIONAL FRAUD 2022: A REPORT TO THE NATIONS

STUDY COVERED:



CFEs estimate that organizations **LOSE**



DETECTION



More than **HALF** of all tips came from employees



Email and web-based reporting **BOTH** surpassed telephone hotlines

SCHEMES

ASSET MISAPPROPRIATION SCHEMES are the most common but least costly



FINANCIAL STATEMENT FRAUD SCHEMES are the least common but most costly



CORRUPTION was the most common scheme in every global region

ORGANIZATIONS WITH HOTLINES

detect fraud more quickly and have lower losses than organizations without hotlines



A TYPICAL FRAUD CASE



8% of fraud cases involved the use of **CRYPTOCURRENCY**



Among these cases, cryptocurrency was most commonly used for:

48% Making bribery and kickback payments

43% Converting misappropriated assets

ACFE OCCUPATIONAL FRAUD 2022: A REPORT TO THE NATIONS

VICTIM ORGANIZATIONS

TOP 5 MEDIAN LOSSES BY INDUSTRY



ORGANIZATIONS WITH THE **FEWEST EMPLOYEES** HAD THE HIGHEST MEDIAN LOSS (\$150,000)

PERPETRATORS

Owners/executives committed only 23% of occupational frauds, but they caused the largest losses



Nearly half of all occupational frauds came from these four departments:



85% of fraudsters displayed **BEHAVIORAL RED FLAGS** of fraud



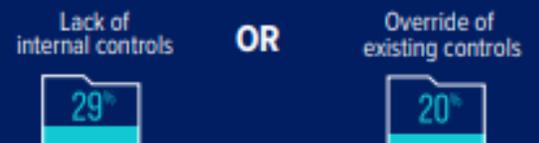
Only 6% of perpetrators had a prior fraud conviction

ANTI-FRAUD CONTROLS

The presence of anti-fraud controls is associated with



Nearly **HALF** of cases occurred due to:



81% of victim organizations **MODIFIED** their anti-fraud controls following the fraud.



CASE RESULTS



61%

of perpetrators were terminated by their employers



58%

of cases were referred to law enforcement



66%

of cases referred to law enforcement resulted in a conviction



50%

of organizations that didn't refer cases to law enforcement cited internal discipline as the reason

Operation Varsity Blues – College Admissions Scandal

By William “Bill” Knight, CIGA



A former Florida prep school administrator was recently sentenced to federal prison in perhaps the largest scandal in college admissions history. Over 50 people have been charged with fraud in the Department of Justice sting called Operation Varsity Blues.

In 2019, a scandal came to light involving a criminal conspiracy to influence undergraduate college admissions decisions at several top American universities.

The scandal involved wealthy parents paying as much as \$1,000,000 to William “Rick” Singer, CEO of a college admissions prep company, to facilitate getting their children into prestigious colleges such as Yale, Stanford, Georgetown, UCLA, and others. The scheme involved cheating on college entrance exams, bribing test administrators, and bribing university coaches to recruit wealthy parents’ children.

Singer hired Mark Riddell, a former Florida prep school administrator, to take college entrance exams for wealthy students while test administrators were paid to look the other way. Singer would then bribe a coach at the targeted school to recruit the student. Most students would quietly withdraw from the sport after the school year began.

It worked because Singer had an intimate understanding of college athletics recruiting; he served as a college basketball coach before working for the admissions prep company. He understood that coaches in second-tier sports had some of their own prerogatives. There were slots that they were allowed to fill and would bring to the admissions committee. There wouldn't be a tremendous amount of scrutiny from the admissions committee.

The fraud triangle is a framework commonly used in auditing to explain the reason behind an individual’s decision to commit fraud. The details below reference the three components of the fraud triangle that contribute to increasing the risk of fraud as they relate to Singer’s behavior:

Opportunity - Singer’s knowledge of college admissions and athletic coaches’ roles in recruiting created the unique opportunity to commit this fraud.

Rationalization - Singer rationalized that he was helping children get into good schools.

Incentive – Singer was incentivized to commit this fraud by the money that wealthy parents were willing to pay him (over \$25,000,000) to help get their children into prestigious schools.



Avoiding Student Loan Fraud

By Stephanie Omah



A student loan is a type of loan that is designed to help students pay for post-secondary education and other fees such as tuition, books, supplies, and living expenses. Student loans are financial support for some students that will otherwise be unable to attend college. Student loans often come with lower interest rates which can be paid over a period of time.

With school tuition on the rise and many people struggling to pay for school, there is an increased probability for student loan fraud to occur. Often people misrepresent their income on applications for student loans. They may do so by using someone else's identity or fake names to obtain student aid. There is also internal fraud that occurs. Schools sometimes mislead students about the education they will receive or violate state laws related to student loans.

Federal Student Aid, one of the largest providers of financial aid for college, has provided several ways to identify student loan scams:

1. You're asked to pay an upfront cost or monthly fee. **TIP:** If you are having a hard time paying your student loans, you can work with the U.S Department of Education or your federal loan servicer for free.
2. You're promised immediate loan forgiveness. A student loan debt relief company may claim that they can get rid of your loans quickly. No one can promise loan forgiveness or cancellation.
3. You're asked to provide your FSA ID password. Your FSA ID is used to sign legally binding documents and should **never** be given out.

To prevent student loan fraud:

1. Protect your identity. Apply for your federal student loans on the official website studentaid.gov.
2. Don't rush and do your research on any company or school that offers a good deal.
3. Rule of thumb, if it sounds too good to be true, then it is likely not genuine, legitimate, or true.



THE AUDIT REPORT MAGAZINE

WORD SEARCH - FRAUD EDITION

Find all the words on the list. Words can go in any directions. Once all of the words are found, copy the unused letters starting at the top left corner into the blank spaces below to reveal a hidden message. The first two respondents with all correct answers win a prize. Deadline to respond is November 30, 2022. Submit responses to: DivisionofAudit@famu.edu.

S	N	D	P	C	O	U	P	I	N	T	E	R	Y	A
E	O	I	L	R	C	T	E	N	F	R	S	A	T	U
L	I	S	U	D	E	U	R	T	L	L	S	E	I	N
E	T	H	F	D	T	V	P	E	O	A	E	C	N	T
C	A	O	E	U	I	V	E	R	I	T	M	T	U	Y
T	Z	N	R	A	B	Y	T	N	B	E	E	N	T	I
I	I	E	A	R	M	N	R	A	T	N	H	A	R	N
V	L	S	C	F	O	I	A	L	G	P	C	L	O	R
E	A	T	S	C	O	A	T	C	T	I	S	I	P	V
E	N	Y	E	M	N	D	O	C	T	T	T	G	P	E
F	O	E	S	V	X	I	R	D	I	C	W	I	O	I
E	I	I	S	D	I	O	V	A	E	V	Y	V	W	X
V	T	B	O	J	N	O	I	T	P	U	R	R	O	C
B	A	G	L	V	M	W	E	S	C	A	N	D	A	L
P	R	T	T	S	Q	D	E	C	E	P	T	I	O	N

- | | | |
|------------|-----------------|-------------|
| avoid | careful | controls |
| corruption | deception | detection |
| dishonesty | fraud | internal |
| losses | opportunity | perpetrator |
| prevent | rationalization | scandal |
| schemes | selective | victim |
| vigilant | | |

Detering Dishonesty – Tips for Preventing Academic Fraud

By William Thomson



During COVID-19 the transition, e-learning and remote examinations became a requirement for nearly every classroom, including higher education. Academic fraud, or academic dishonesty, has become a unique challenge to the education system in the age of e-learning. Studies analyzing Google search trends during the 2020 remote AP Exams showed that searches for exam topics increased during corresponding exam scheduled start times.

In the audit world we tend to look to internal controls like policies or procedures as measures that can lessen the likelihood or impact of fraud. With e-learning, technology exists to reduce primary forms of academic fraud, such as plagiarism or the abuse of online resources.

Certain Learning Management Systems (LMS) have evolved to protect testing integrity and to accommodate controls that detect or prevent academic fraud. For example:

- **Plagiarism** can be detected by programs like “[TurnItIn](#),” which automatically finds similarities between an assignment and other published works.
- **Searching online resources to find exam answers** can be deterred through LMS plug-ins such as “[HonorLock](#),” which allows remote exam proctoring via web camera and detects external web browsers attempting to search the internet.

Regardless of how teaching is provided, promoting a culture that respects integrity and encourages the value and relevance of education is one of the most effective internal controls. For example, an environment that reminds students their work has meaning and is read and actively responded to by their teachers helps promote self-pride and accomplishment. The ideal academic culture reaffirms the value of student investment in education and inspires self-respect for their commitment to their development; dissuading any dishonesty that may violate that commitment.

There will always be a need for “anti-cheating” measures and those measures will continue to evolve as education does. Providing a modern learning model that proactively incorporates these measures is still a necessity for deterrence. However, the importance of mutual understanding, integrity, and respect between students and faculty is not to be forgotten, as this culture will not only help deter academic fraud, it will embolden students to continue growing in their futures and enable the academic institution to grow with them. Ultimately the greatest defense against academic fraud is the culture and integrity of the student society.

Don't be Duped – Scholarship Scams

By Arriet Foster



Finding ways to finance education is the number one priority for most students applying to or working their way through college. Adding to the pressure, the scholarship journey can be a treacherous one as scammers are also out searching for money - yours, in particular. Don't let that discourage you. Educate yourself and be on the lookout for warning signs of a scholarship scam. To help you out, we've compiled some key information to keep in your back pocket.

Scholarships Do Not Require Payment or Repayment

Legitimate scholarships want to give you money not take it away! The vast majority of scholarship opportunities will come free of charge. Don't waste your coin paying application fees or consultant services. Remember they are investing in you, not the other way around.

Scholarships Won't Pressure You to Apply

Are they constantly emailing or calling you? Are they saying you **HAVE TO** respond **RIGHT NOW** or else you'll lose the money? Be wary of someone pressing you or creating a false sense of urgency. This is likely an indication that you're dealing with scammers. Legitimate organizations seeking to award aid are actively working to help students. Be cautious of anyone who claims to have special access to limited-time scholarships that cannot be found anywhere else. It's a service, not a secret.

Document Everything

Keep a record of advertisements, emails, and any other correspondence regarding the specific scholarships for which you are applying. Don't trust verbal communication or spoken promises. Ask for everything in writing, and if the scholarship offeror won't confirm the offer details in writing it's likely a scam.

Research the Scholarship's History

Doing your research can go a long way in helping you avoid scams. Is the organization that's offering the scholarship reputable? Does the scholarship have an established history with a record of past winners? Are those past winners real people? Search online for "complaints" and "scams" associated with the company's name.



Don't be Duped – Scholarship Scams

Continued By Arriet Foster



Apply Directly

We wouldn't recommend applying through a third-party webpage. There's no telling where that information actually goes! Instead:

1. Research the organization or institution offering the scholarship to see if you can apply directly through their website.
2. Check to make sure the webpage is secure (as indicated by "https" in the URL) before entering any personal information.
3. Make sure you are confident the scholarship is legit before providing your personal information.
4. Be very selective with whom you share your name, date of birth, social security number, credit card number, or bank account number, as this information can be used to steal your identity.

Report Any Suspected Scams

If you do come across a scholarship scam, you can help protect yourself and others by reporting it to the Federal Trade Commission (FTC) at <https://reportfraud.ftc.gov/>. The FTC seeks to prevent unfair and deceptive practices in the marketplace and accepts a variety of complaints from spam emails and texts, to fraud, scams, and bad business practices.

You can also report a suspected scholarship scam to the U.S. Department of Education's Office of Inspector General, or the Florida Office of the Attorney General's Consumer Protection Division.

Occupational Heists – Averting University Embezzlement

By Trystal Wright

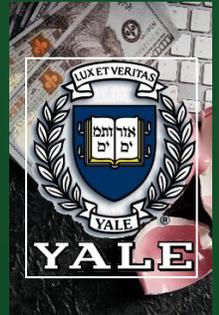


Embezzlers are frequently your most trusted, most valued, least problematic, and hardest working employees. No institution, regardless of its prestige, is exempt from dishonest people taking advantage of weak financial controls. Below are some recent examples of theft from institutions of higher education:



Lisa Schuetz, a former University of Maryland employee, was indicted Wednesday, March 9, 2022, for two counts of theft. She had allegedly stolen more than \$1.1 million from the university between 2016 and 2020. According to The Washington Post, Schuetz allegedly stole **\$1,134,887.66** in total and faces up to 20 years in prison and a \$25,000 fine for misusing her purchasing power while working at the University of Maryland as the Director of the School of Engineering.

In April 2022, a former Yale University employee named Jamie Petrone pleaded guilty to fraud and tax offenses and admitted to stealing **\$40 million** in computer equipment and other electronics from the school and then selling it. Petrone, who had been an administrative employee of the Yale School of Medicine's Department of Emergency Medicine, was arrested in September 2021 and pleaded guilty to one count of wire fraud and one count of filing a false tax return. She will pay restitution to Yale and the IRS, and was sentenced in June 2022 to 109 months in prison, followed by three years of supervised release.



Ralph Puglisi, admittedly stole at least **\$12.8 million** over a six-year period, while working as an accounts manager for a nonprofit tied to the University of South Florida's medical system. In his position at the nonprofit, which is called the University Medical Services Association, Inc., Puglisi was responsible for paying for the operation of USF's expansive medical system. According to Protiviti, Puglisi started working for the nonprofit in 2006 and by 2015 had acquired exclusive control over its four credit card programs. That control gave Puglisi the sole authority to set up new credit card accounts, change spending limits, manage card access and even terminate accounts. As part of his guilty plea, Puglisi agreed to pay back at least \$12.8 million of the stolen money. On Monday, September 26, 2022, Puglisi was sentenced to 10 years in prison.

5 Tips for Preventing Embezzlement

Tip 1: Hire with Care. Be sure to review the resume to look for previous jobs with companies that seem to have had financial trouble. Be diligent. Check references.

Tip 2: Separate Accounting Duties. Don't let the same person control both the money coming in and the payments/deposits going out. Speeding up or not reporting collections and slowing down the payments process is a classic way to cover up an embezzlement.

Tip 3: Keep communication open. If co-workers are sensing suspicious activity, you want them to feel comfortable reporting it. Take actions using sensitivity and confidentiality. Be sure to separate gossip from facts.

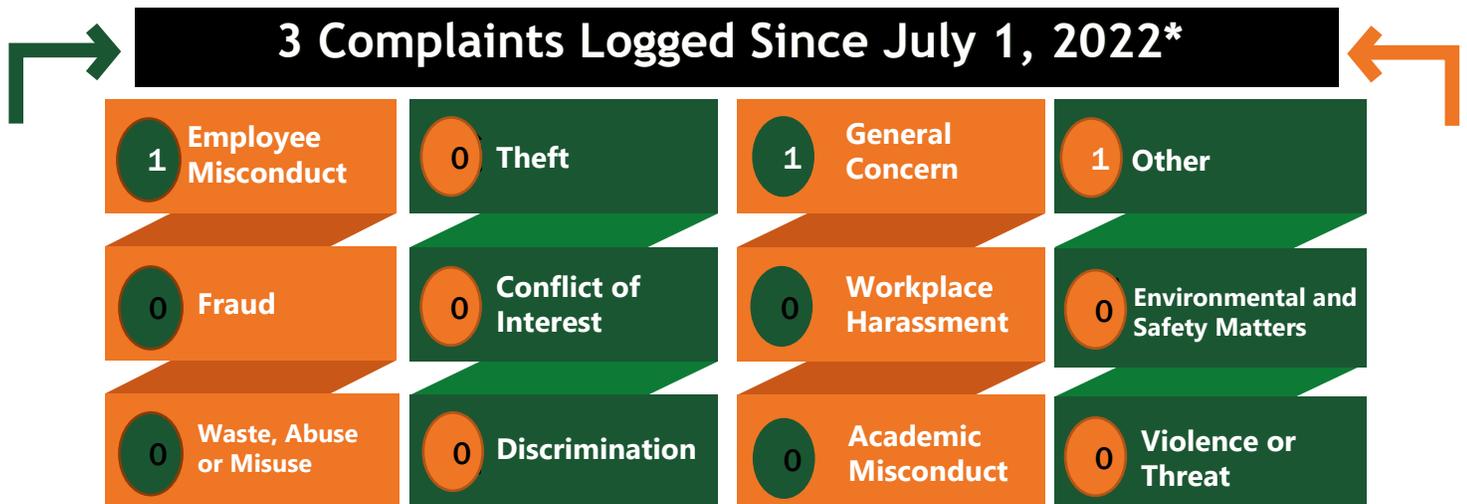
Tip 4: Be discreet. If there is evidence of an embezzlement, do not confront the embezzler, speak to co-workers or immediately go to the police. Contact our [Division of Audit Team](#) to determine how to proceed.

Step 5: Be Vigilant. Be aware that human weakness is everywhere, even among trusted employees and partners. Do not become cynical or unduly suspicious, but do be proactive.

FY JULY 2022 – JUNE 2023: Audit Workplan Status



JULY 2022 – Present: Investigations Data



*This chart represents cases in which DoA was involved, including investigations referred out to other units or split between University investigative units.

RESOURCES

Need to file a complaint or make a report to the DoA?

You can reach DOA by emailing us at DivisionofAudit@famu.edu or by phone at 850-412-5479.

Complaints can also be submitted via the University's Compliance and Ethics website which allows anonymous reporting.

[Click on this link to file an Ethics Report.](#)



We look forward to hearing from you.

Additional DoA Resources

[The Audit Charter](#)

[Audit Reports](#)

[ERM, Training, & Other Resources](#)

Did you enjoy reading...

The Division of Audit's The Audit Report Magazine? [Click here](#) to find previous issues on the Division of Audit's website.



Fraud Education and Resources

Want to know more about how to prevent, detect and address fraud within the University or in your day to day life?

Check out some of the resources listed below:

[Association of Certified Fraud Examiners](#)

[AGA Fraud Resources](#)

[FAMU Division of Audit](#)

[FRAUD Magazine](#)

[Institute of Internal Auditors Fraud Resources](#)

ACCOUNTABILITY • INTEGRITY • EFFICIENCY
FAIRNESS • OBJECTIVITY • PROFESSIONALISM

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"At FAMU, Great Things are Happening Every Day!"