Your input matters...

We will be soliciting your input during our presentation. Please log on to the website below and use code 41 12 63 to participate in audience polls.

www.menti.com
Learning Objectives

• What is fraud?
• Why fraud happens
• Ways to reduce fraud risk
• How to report possible fraud
Go to www.menti.com and use the code 79 95 94

Who is responsible for fraud prevention at HCC??

0 2 0 1 0
Faculty Staff Students Management Everyone at HCC

You Are HCC’s MOST IMPORTANT Control!
Fraud defined...

"Any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain." *

*Source: The Institute of Internal Auditors (IIA), The American Institute of Certified Public Accountants (AICPA), & Association of Certified Fraud Examiners (ACFE), Managing the Business Risk of Fraud: A Practical Guide (pp. 5).

What does a “TYPICAL” Fraudster look like?

**Gender**
- Female: 31%
- Male: 69%

**Level of Authority**
- Owner/Executive: 19%
- Manager: 34%
- Employees: 44%
- Others: 3%

**Length of Tenure**
- > 1 year: 5%
- 1-5 years: 44%
- 6-10 years: 23%
- > 10 years: 24%

**Perpetrator's Age**
- < 30: 15%
- 31 – 35: 15%
- 36 – 40: 19%
- 41 – 45: 19%
- 46 – 50: 14%
- > 50: 18%

**Education**
- High school graduate or less: 24%
- Some University: 15%
- University Degree: 47%
- Postgraduate Degree: 14%
Fraud News Headlines

Former Washington University administrator pleads guilty to embezzlement...

Most Common Categories of Fraud

(Occupational-committed by employees against employers)

<table>
<thead>
<tr>
<th>Asset Misappropriation</th>
<th>Corruption</th>
<th>Financial Statement Fraud</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Involves the actual theft of an entity’s assets</td>
<td>• Dishonest or fraudulent conduct by those in power, typically involving bribery</td>
<td>• The deliberate misrepresentation of the financial condition of an enterprise accomplished through the intentional misstatement or omission of amounts or disclosures in the financial statements</td>
</tr>
<tr>
<td>• Most common</td>
<td>• Next most common</td>
<td>• Least common</td>
</tr>
<tr>
<td>• 89% of cases</td>
<td>• 38% of cases</td>
<td>• Most costly</td>
</tr>
<tr>
<td>• $114,000 median loss</td>
<td>• $250,000 median loss</td>
<td>• $800,000 median loss</td>
</tr>
</tbody>
</table>

Association of Certified Fraud Examiners (ACFE) 2018 Report to the Nations
Common Types of Fraud in Higher Education

- Fake vendor payments
- Fraudulent employee expense reports
- P-card abuse
- Financial aid kickbacks
- Theft of donations

<<Fraud can cost our students, donors, and key stakeholders>>


How Fraud Can Affect HCC...

Financial loss is the generally the main effect of FRAUD in Higher Education, but...

Reputational Damage is another significant risk of Fraud in Higher Education. The Institution receiving...

- negative publicity (i.e. news broadcasts, newspapers, rating agencies, etc.)
- Potential drop in future enrollment
- Potential drop in future advancement/development contributions
Why good people do bad things?

"Integrity is doing the right thing, even when no one is watching." - C. S. Lewis

In large organizations, employees can begin to feel more like numbers or cogs in a machine than individuals.

The use of nicknames and euphemisms for questionable practices can free them of their moral connotations, making them seem more acceptable. ("greasing the wheel", "financial engineering")

Sometimes people, having been moral and forthright in their dealings for a long time, feel as if they have banked up some kind of "ethical credit".

Small thefts are ignored. Then slightly larger ones, like overclaiming expenses or accepting unauthorized business gifts. (stationery, sugar packets, paper cups, toilet paper)

Why Does Fraud Happen?

RED FLAGS OF FRAUD

Understanding and recognizing the behavioral red flags displayed by fraud perpetrators can help organizations detect fraud and mitigate losses.

These **6 BEHAVIORAL RED FLAGS** have been the most common in studies dating back to 2008.*

- Living beyond means
- Financial difficulties
- Unusually close association with vendor/customer
- Control issues, unwillingness to share duties
- Divorce/family problems
- “Wheeler-dealer” attitude

*Association of Certified Fraud Examiners (ACFE) 2018 Report to the Nations*
Primary internal control weaknesses that contribute to occupational fraud.

- Lack of Internal Controls: 30%
- Overriding of Existing Controls: 19%
- Lack of Management Review: 18%
- Poor Tone at the Top: 10%
- Lack of Competent Personnel in Oversight Roles: 8%
- Other: 6%

*Association of Certified Fraud Examiners (ACFE) 2018 Report to the Nations

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Easy Ways to Reduce Fraud Risk

1. Management Controls
2. Fraud Risk Assessments
Key Management Controls

- Segregation of duties
- Change management
- Physical and IT access
- Update policies and procedures
- Management oversight – required reviews, approvals, and reconciliations

Go to www.menti.com and use the code 799594

Which anti-fraud controls are in place and operating effectively at HCC?
### 3 Lines of Defense

#### THE FIRST LINE OF DEFENSE: OPERATIONAL MANAGEMENT
- Responsible for maintaining effective internal controls.
- Responsible for executing risk and control procedures on day-to-day basis.
- Identifies risks and assesses controls to mitigate risks.
- Guides the development and implementation of internal policies and procedures.

#### THE SECOND LINE OF DEFENSE: RISK MANAGEMENT AND COMPLIANCE FUNCTIONS
- A risk management function (and/or committee) that facilitates and monitors the implementation of effective risk management practices.
- A compliance function to monitor various specific risks.
- A controllership function that monitors financial risks and financial reporting issues.

#### THE THIRD LINE OF DEFENSE: INTERNAL AUDIT
- Provide the governing body and senior management with comprehensive assurance based on the highest level of independence and objectivity within the organization.
- Provides assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the 1st and 2nd lines of defense achieve risk management and control objectives.

### Fraud Risk Assessments

Process to identify where fraud may occur and who may be committing it

1. **Ask how would I commit the fraud?**
2. **Document the controls in place to prevent this fraud from happening.**
3. **Determine whether the control environment is adequate to prevent the fraud.**
4. **Add practical procedures to bring the control environment to an acceptable level if needed.**
Active Fraud Risk Brainstorming

- How could someone exploit weaknesses in our controls and daily behaviors?
- How could someone override or circumvent our controls?
- How could someone conceal their wrongful actions?
- Begin with the presumption that a fraud event has already occurred.
- Assume you are committing the fraud.

Fraud News Headlines
Tips are the #1 source...

How is Occupational Fraud Initially Detected?

<table>
<thead>
<tr>
<th>Method</th>
<th>Detection Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confession</td>
<td>1%</td>
</tr>
<tr>
<td>IT Controls</td>
<td>1%</td>
</tr>
<tr>
<td>Notified by Law Enforcement</td>
<td>2%</td>
</tr>
<tr>
<td>Surveillance/Monitoring</td>
<td>3%</td>
</tr>
<tr>
<td>External Audit</td>
<td>4%</td>
</tr>
<tr>
<td>Document Examination</td>
<td>4%</td>
</tr>
<tr>
<td>Account Reconciliation</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
<tr>
<td>By Accident</td>
<td>7%</td>
</tr>
<tr>
<td>Management Review</td>
<td>13%</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>15%</td>
</tr>
<tr>
<td>Tip</td>
<td>41%</td>
</tr>
</tbody>
</table>

Who Reports Occupational Fraud?

<table>
<thead>
<tr>
<th>Reporting Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholder/owner</td>
<td>2%</td>
</tr>
<tr>
<td>Competitor</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
<tr>
<td>Vendor</td>
<td>8%</td>
</tr>
<tr>
<td>Anonymous</td>
<td>14%</td>
</tr>
<tr>
<td>Customer</td>
<td>21%</td>
</tr>
<tr>
<td>Employee</td>
<td>53%</td>
</tr>
</tbody>
</table>

*Association of Certified Fraud Examiners (ACFE) 2018 Report to the Nations

HCC is pleased to provide a third-party Ethics and Compliance Hotline for employees, students, and members of the public to encourage the reporting of any fraud, waste, and abuse and violations of College District policy and law.

http://www.hccs.ethicspoint.com/
1.855.811.6284
Access to Ethics and Compliance Hotline via HCC Homepage

https://www.hccs.edu/

https://www.hccs.edu/media/AboutEthicsComplianceHotline.pdf

Select “The Ethics and Compliance Hotline” link

Prevention and Deterrence

Visible and vocal leadership
Active ongoing fraud risk brainstorming
Policies on Fraud Responsibilities

See something, say something
HCC Policies on Fraud Responsibilities

- Policies

BBFB (LEGAL)  CAK (LEGAL)
CDC (LOCAL)   CDE (LOCAL)
DGBA (LOCAL)  DH (LOCAL)
FEA (LOCAL)   FLB (LOCAL)
FLD (LOCAL)

- Employee Standards of Conduct annual training
• Terry Corrigan, Internal Audit Director
• 713-718-7278
• hcc.internalaudit@hccs.edu
• https://www.hccs.edu/departments/internal-auditing/

Questions/Comments