

Fraud Prevention: How to Identify and Protect Your Higher Ed Institution

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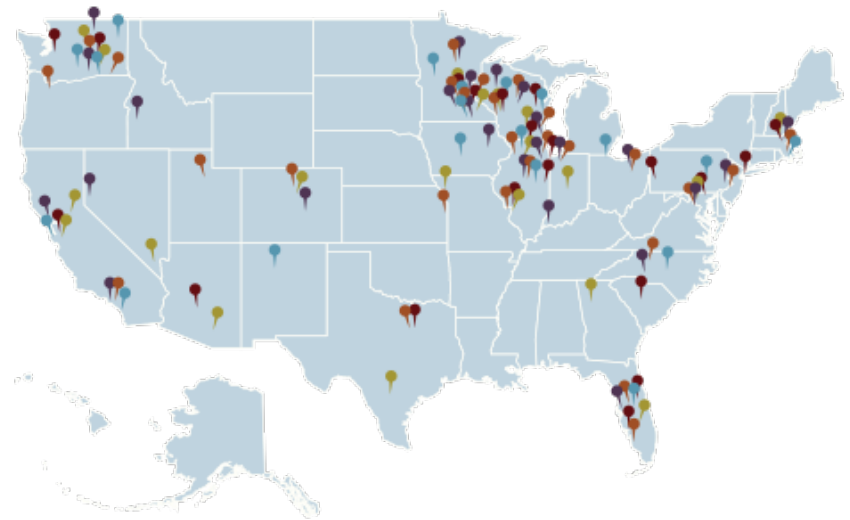
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- Offices coast to coast
- Serving higher education for more than 50 years



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Speaker Introductions



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Learning Objectives

- At the end of this session, you will be able to:
 - Name the “top” frauds/schemes targeting higher education institutions
 - Explain the potential impact of fraud on an institution
 - Identify methods to prevent fraud in your institution



Fraud in Education

- The question is not if it is happening ...
The question is at what level of fraud and how often!
- What are you doing to prevent and detect fraud?
- Why is this important to higher education?
- Two industries with highest events of fraud are:
 - Government Entities
 - Public Sector
- Majority of higher education falls within those two categories!



Fraud in Education – Recent Examples

- Embezzlement of at least \$200K by former finance director at Northern New Mexico College – October 13, 2017
- A former official of Dodge City Community College is subject of a Kansas Bureau of Investigation fraud-by-misuse-of-funds inquiry – October 10, 2017
- A tenured Medgar Evers College (New York) professor accused of selling sham health care certificates to students for years – October 2, 2017
- Southern Oregon University loses \$1.9 million in email scheme – June 8, 2017

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BREAKING City Filmmakers Board: Keller broke campaign finance rules

State auditor: \$200,000 embezzled from Northern New Mexico College

By Mark Oswald | Journal Staff Writer
Published: Wednesday, October 13, 2017 at 11:00am
Updated: Wednesday, October 13, 2017 at 11:00am

SANTA FE — State Auditor Tim Keller confirmed Wednesday the theft of an estimated \$200,000 at Northern New Mexico College, which is based in Española and El Rito.

A table of financial data is shown, with a magnifying glass graphic over it. The table has multiple columns of numbers, likely representing financial data.

KBI investigating former official at Dodge City Community College

By Michelle Hanks

Fraud In Education- As reported by the ACFE

- Association of Fraud Examiners (ACFE)
- World's largest anti-fraud organization and premier provider of anti-fraud training and education
- 2016 Report to the Nations on Occupational Fraud and Abuse reported:
 - 132 cases of occupational fraud in education
 - ◇ 34% - Billings Schemes
 - ◇ 31% - Corruptions Schemes
 - ◇ 25% - Skimming
 - ◇ 17% - Cash on hand
 - ◇ 16% - Expense Reimbursements



Fraud In Education: Five Facts of Fraud

- 5% of annual revenue is lost to fraud
- Fraud in education is one of the top five industries affected by fraud (behind banking, government, manufacturing, and healthcare)
- Stronger internal controls minimizes risk of fraud
 - Trust is NOT an internal control
- Tips are the most common detection method
- **Anyone** can commit fraud



Impact of Fraud – More than Just Money

- Monetary (losses that may or may not be recovered and costs and time spent of investigation/litigation)
- Loss of confidence from stakeholders (students – current and prospective, staff, auxiliary organizations and related parties, donors)
- Reputation (newspapers, TV news, social media) – length of time and effort needed to restore reputation



Fraud in Education - Most Common Fraudulent Activities

1. Fake Vendor Fraud
2. Employee Expense Reports Fraud
3. P-Cards Fraud
4. Wire Fraud
5. Donations Fraud
6. Multiple Check Deposits
7. Contract and Procurement Fraud
8. Financial Aid Fraud
9. Conflict of Interest
10. Off-Site Cash, Check and Credit Card Fraud



1. Fake Vendor Fraud

- **Tips for institutions of higher learning to safeguard against fake vendor fraud**
 - Segregation of duties
 - ◊ Vendor setup
 - ◊ Changes to vendor records
 - Vendor database management
 - Vendor activity review processes
 - Testing the system



2. Employee Expense Reports Fraud

- **Tips for institutions of higher learning to safeguard against employee expense report fraud**
 - Ensure a proper review process is in place for all employees (including the President)
 - Establish a training program for reviewers/authorizers
 - Properly establish control policies
 - Review of expense report activity
 - Sample testing
 - Compare expense report activity to P-Cards



3. P-Cards Fraud

- **Tips for institutions of higher learning to safeguard against P-Card fraud**
 - Implement a training program for users and reviewers of P-Cards
 - Strong and detailed review of P-Card statements
 - Properly established policies
 - ◊ Who should receive?
 - ◊ Restrictive limits
 - ◊ Proper use
 - ◊ Detailed receipts
 - Review of P-Card activity year over year
 - Sample tests
 - Compare P-Card activity to expense reports



4. Wire Fraud

- **Tips for institutions of higher learning to safeguard against wire fraud**
 - Require all wires to be sent to preauthorized vendor or receiver bank accounts
 - Validation is extremely important for all email requests! Verify the authenticity of the requester by speaking to them directly. Never disclose sensitive information without proper approvals and authentication.
 - Require all changes to vendor payment locations and account information include a second authorization
 - Require positive ID for all transfers through use of passwords and two factor authentication or verification.
 - Require two approvals from authorized personnel and limit those with approval authority
 - Educate employees and students on what to look out for and how to avoid being a victim.



5. Donations Fraud

- **Tips for institutions of higher learning to safeguard against donation fraud**
 - Use donors' egos as a control
 - Utilize two employees and a log as mail is opened
 - Send notes to donors who have donated in the past but not in the current year
 - Providing gifts to donors of certain thresholds
 - Segregate duties between pledge write-offs donation collections



6. Multiple Check Deposit

- **Tips for institutions of higher learning to safeguard multiple check deposit fraud**
 - Bank reconciliations
 - Detailed review of check clearing activity
 - Utilize ACH or other electronic means for student refunds



7. Contract and Procurement Fraud

- **Ways to ensure strong internal controls surround your contract and procurement process**
 - Ensure that someone in your organization is involved in the procurement process besides the end user of the goods/services provided by the vendor
 - Consider having a contract administrator who can provide administrative oversight
 - Require vendors to submit detailed time cards with their invoices
 - Compare the labor hours and costs billed to the terms of the contract for all vendor invoices.
 - Analyze percentage of change orders and compare across vendors
 - Periodically check for duplicate invoices
 - Require receiving documents prior to payment approval and verify materials specifications
 - Ensure all vendor contracts include a “right to audit” clause and perform audits of vendor’s books, payroll, and expense records



8. Financial Aid Fraud

- **What can an institution of higher learning do to minimize the risk of Financial Aid Fraud?**
 - Establish conflict of interest policies
 - Organize and compile all financial aid policies (Make available online)
 - Provide conflict of interest training/ethics training
 - Compare student addresses to the addresses of financial aid office employees
 - Review file assignment report, manual change report and verification audit report
 - Ensure that financial aid disbursement checks are never sent to the financial aid office for students to pick up
 - Ensure the financial aid office never collects student repayments
 - Report cases of fraud to the Inspector General at the US Department of Education



9. Conflict of Interests

- **Tips to minimize the issue of conflict of Interests**
 - Ensure your institution has a sound written conflict of interest policy
 - Ensure all employees understand your conflict of interest policy, aware of the ramifications, and how they should respond
 - Get employees to confirm in writing that your institution has made them aware of the specifics of the conflict of interest policy
 - Provide training on fraud, ethics and conflict of interest to all employees
 - Consider having internal auditors perform surprise audits of potential conflict of interest transactions and situations
 - Ask the hard questions of any indications of conflict of interest transactions they become aware.



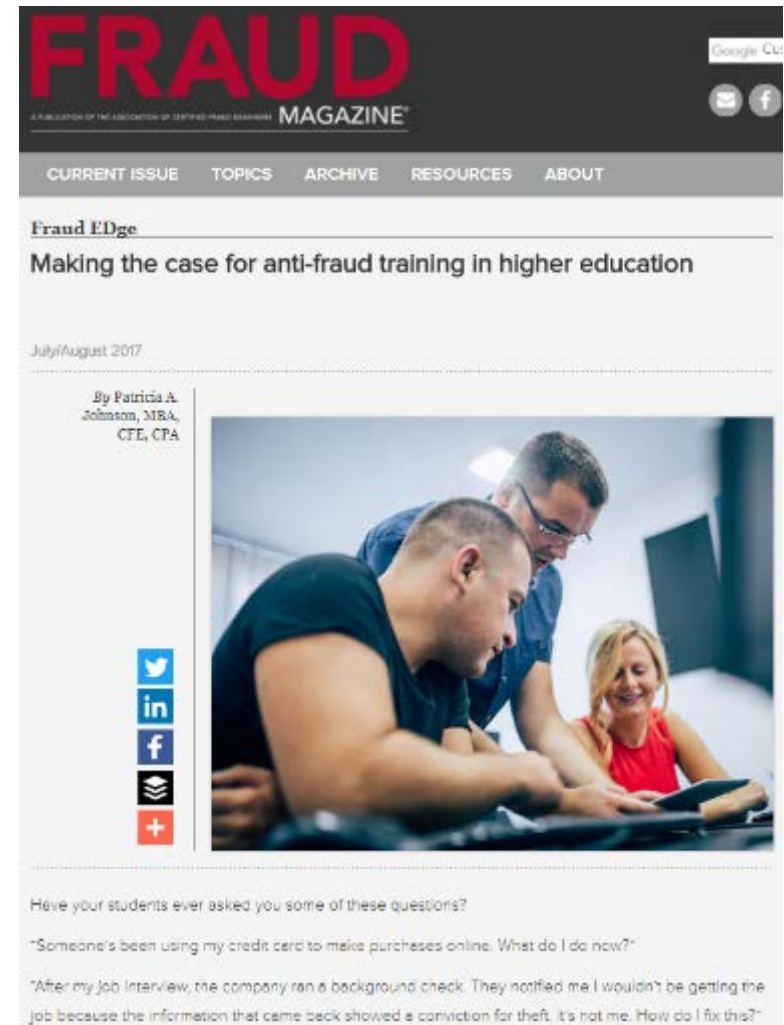
10. Off-Site Cash, Check, and Credit Card Fraud

- **Tips for institutions of higher learning to safeguard against off-site cash, check and credit card fraud**
 - Limit off-site locations
 - Audit credit card activity (specifically surrounding refunds)
 - Require receipts be issued for all transactions through an auditable P.O.S system
 - ◇ Reconcile P.O.S. system activity to collections
 - ◇ Post a sign which clearly tells customers should expect a receipt
 - Require fundraising payments be processed centrally



Fraud In Education- Conclusion

- Acknowledge that fraud risk exists
- Encourage open and candid discussion
- Continuously assess the risk of management and control override
- Openly display your skepticism to set the tone at the top and spread awareness
- Take swift action when fraud event occur and make the event of action (not the details) known internally
- If I were to try to commit fraud, how would I do it? – Understand key fraud areas committed in higher education and develop controls to detect and/or prevent and minimize loss
- Develop Whistle Blower policies and establish an easily attainable fraud hotline



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