



# ACBO Institute I Occupational Fraud and Internal Controls

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# Topics to Cover

- The Fraud Triangle – factors that influence the commission of fraud
- The Fraud Tree – occupational fraud & abuse classification system
- Internal Control Elements – mechanism for preventing and/or deterring fraud
- California Community College – case studies both current and past
- Questions



# The Fraud Triangle





## 3 Factors that Influence the commission of Fraud

- Motive – The person has a serious financial problem that requires immediate attention and cannot be resolved by ordinary financial resources
- Opportunity – The person becomes aware that the financial problem can be solved by stealing from organization or falsifying records
- Rationalization – Mindset and thinking that what you are doing is justified



# The Fraud Triangle – Common Red Flags

- Motive
  - Financial – unemployment, illness, lifestyle
  - Greed – can, willing, able
  - Dissatisfaction – poor morale, turnover
- Opportunity
  - No/weak controls – accessible, management overrides
  - Limited/no oversight – opportunity for collusion
- Rationalization
  - Need – cure financial
  - Entitled – cure greed/performance
  - Victim deserved it – cure dissatisfaction



# The Fraud Tree

## Three Major Types of Occupational Fraud



Off-book frauds that occur in the form of kickbacks, gifts, or gratuities to employees from contractors / vendors

Theft or misuse of organization's cash or assets

Deliberate misrepresentation of the financial condition of an organization through intentional misstatement or omission



# Occupational Fraud

- Occupational fraud is one of the most difficult types of fraud and abuse to detect
- Most common way of detection is through receiving tips
- Financial statement fraud represents approximately 10% of all occupational frauds worldwide (according to Association of Certified Fraud Examiner's "2010 Report to the Nations")



# Corruption – Types of Frauds

- Conflicts of Interest
  - Purchase schemes
  - Sales schemes
- Bribery
  - Invoice kickbacks
  - Bid rigging
- Illegal gratuities
- Economic extortion





# Asset Misappropriation – Types of Frauds

- Cash
  - Larceny
  - Skimming
  - Fraudulent Disbursements
- Inventory and all other assets
  - Misuse
  - Larceny



# Fraudulent Statements – Types of Frauds

- Financial
  - Timing differences
  - Fictitious revenues (FTES for CCCs)
  - Concealed liabilities and expenses
  - Improper disclosures
  - Improper asset valuations
- Non-Financial
  - Employment credentials
  - Internal and external documents



# Internal Control Elements – Effective Controls

- Principal mechanism for preventing and/or deterring fraud or illegal acts
- Provide reasonable assurance that a districts operations are effective and efficient, that financial information is reliable, and that the organization operates in compliance with all laws and regulations
- Provide the framework for an effective fraud prevention program



# Internal Control Elements – Five Interrelated Components

- Control Environment – the moral tone of the organization
- Fraud Risk Assessment
- Control Activities – policies and procedures
- Information and Communication – establishment of effective fraud communication
- Monitoring – regular evaluation



# Internal Control Elements – Improper Controls

- Failure to adequately segregate duties and responsibilities
- Failure to limit access to assets or sensitive data
- Not recording transactions, resulting in lack of accountability and the possibility of theft
- Unauthorized transactions resulting in skimming, embezzlement or larceny
- Lack of monitoring or implementing internal controls by the governing board and management
- Collusion among employees where little or no supervision exists



# Internal Control Elements – Proper Controls

- Segregation of duties
- Limiting access to cash
- Management review and approval
- Reconciliations
- Management tone
- Performance evaluations
- Training programs
- Maintaining established policies, procedures and standards of conduct



# Internal Control Elements - Conclusion

- A strong system of internal controls that consists of all five internal control elements can provide reasonable, but not absolute assurance that the organization will succeed in achieving its goals and objectives.



# California Community College – case studies

- #1 Financial Aid Fraud
- #2 Cash for Grades
- #3 Purchasing Agent Theft
- #4 Overstatement of FTES





**QUESTIONS?**