

## Definitions

# FRAUD

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



## Definitions

# WASTE

Any thoughtless or careless expenditure, consumption, mismanagement, use, or squandering of resources. Waste also includes incurring unnecessary costs as a result of inefficient or ineffective practices, systems, or controls.



## Definitions

# ABUSE

The excessive or improper use of a thing, or to employ something in a manner contrary to the natural or legal rules for its use.

Abuse also includes intentional destruction, diversion, manipulation, misapplication, maltreatment, misuse of resources, or excessive use as to abuse one's position or authority.

## Fraud Factors

Donald R. Cressey (1919-1987) a noted scholar of fraud hypothesized that a classic model existed for the fraud offender. This became known as the "Fraud Triangle."



## Fraud Factors

# OPPORTUNITY

*The situation that allows fraud to occur or that decreases the probability that fraud will be disclosed or punished.*

- Weak internal controls or circumvention of internal controls
- Familiarity with operations, including cover-up capabilities
- The greater the position, the greater the trust and exposure to unprotected assets
- "Most Trusted Employee"

## Fraud Factors

# PRESSURE

*The need for committing fraud (e.g., need for money)*

- Non-sharable financial pressure
- Family pressures - Unexpected expenses-illness
- Resentment – Against company, boss
- Getting even or "just taking what they owe me"
- Living beyond ones means
- Vices – Gambling, extramarital activity, alcohol/drugs
- Insatiable desire for financial gain
- Strong challenge to "beat the system"
- Pressure to meet institutional goals
- Close association with suppliers/vendors & other key people

## Fraud Factors

### RATIONALIZATION

*The mindset of the fraudster that justifies them to commit fraud*

#### Common beliefs:

- Person is owed this money
- Just borrowing until they are able to pay it back
- Everyone else is doing it
- The university is big enough that it won't miss it
- Nobody will get hurt
- It is for the greater good

## Conditions that Contribute to Fraud

- Managers not caring about honesty
- Inadequate Pay
- Low Loyalty
- Crisis Management
- Rigid Rules
- Repression of Differences
- Poor Promotion Opportunities
- Lack of Recognition
- Unreasonable Budget Expectations
- Short-Term Focus
- Reactive vs. Proactive
- Hostile Work Environment
- Pressure to Perform
- Inadequate staff/resources
- Poor Training

## Personal Red Flags

Behavioral Flag	% of Cases
Living beyond means	43%
Financial difficulties	36%
Control issues; unwillingness to share duties	23%
Unusually close association with vendor or customer	22%
Wheeler-dealer attitude	19%
Divorce/family problems	18%
Irritability, suspiciousness or defensiveness	14%
Addiction problems	12%
Refusal to take vacations	10%

The sum of percentages in this chart exceeds 100% because in many cases perpetrators displayed more than one behavioral red flag

Source: Association of Certified Fraud Examiners 2010 Report to the Nations on Occupational Fraud and Abuse

## Organizational Flags

- Placing too much trust in key employees
- No communication of expectations
- Lack of proper authorization of transactions
- Inadequate attention to details
- No separation of duties between accounting functions
- Lack of clear lines of authority and responsibility
- Tendency toward crisis management
- Relaxed management style
- Poor system design
- Inadequate training

