FRAUD

Brought to you by The Office of Institutional Compliance and Risk Services. The estimated time to review this lesson is 20 minutes.
OVERVIEW AND OBJECTIVES

At the end of this online Fraud lesson, you should be able to answer the following:

What is fraud?
What are "Red Flags" of fraud?
How is fraud detected?
What are the effects of fraud?
What policies apply to fraud?
What can you do to prevent fraud?
How can you report fraud at UTSA?
WHAT IS FRAUD?

The Association of Certified Fraud Examiners (ACFE) defines **Occupational Fraud** as: “The use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.”

UTSA HAS DEFINED FRAUD AS:

The intentional distortion of the truth in an attempt to obtain something of value. It does not have to result in monetary gain.

As an employee of UTSA, you have a duty and obligation to "Do the Right Thing." This means that you should not commit any kind of fraud and if you are aware of a fraudulent act, you should report it.
Where can Fraud occur? Hover over each box below for more information before proceeding.

**FINANCIAL STATEMENT**
- Recording revenues and expenditures in wrong time periods

**CONTRACTS**
- Kickbacks

**PROCARD**
- Bidding and splitting items
- Corrupt billing
- Unauthorized purchases
- Counterfeit tickets

**BILLING**
- Employee creates a shell company and adds employee for services not rendered
- Stealing tickets to events
- Billing for expenses not actually incurred
- Employee sick for 2 days, only claims 1 day purchases

**TICKETING**
- Submitting duplicate expense receipts for multiple reimbursement

**PAYROLL**

**PETTY CASH**

**TRAVEL**
WHAT ARE RED FLAGS OF POTENTIAL FRAUD?

- Missing documentation
- Lack of segregation of duties and account reconciliations
- Overage/shortage in deposits or petty cash funds
- Lack of physical security over assets/inventory
- Inflated costs of goods or services

- Hesitation in providing documentation or information
- Employee has close association with vendors or customers
- Employee lives beyond their means
- Employee refuses assistance with tasks
- Employee refuses to take vacations
John is a Program Coordinator at UTSA. His neighbor Paula owns a business supply company.

John often orders office supplies from Paula’s business because Paula can deliver the supplies on the weekends when the two neighbors hang out.

What red flag could John run into by using his neighbor’s company? Click on the continue button to see a list of red flags to choose from.
Which red flag describes John’s behavior?

- Lack of physical security over assets/inventory
- Inflated cost of goods or services
- Missing documentation
- Employee has close association with vendors or customers
THAT’S RIGHT.

That’s right. John’s relationship with his neighbor Paula would fall into the category of having a “close association with a vendor or customer.”
"Good people can do bad things ..."

Studies show **three conditions** usually exist when someone has committed fraud. These conditions are known as the “Fraud Triangle.”

1. **Opportunity** – A person is in a position that provides the opportunity to commit fraud (e.g., access to cash, access to inventory, access to accounting system, position of trust)

2. **Pressure** – A person is feeling pressure, usually financial (e.g., debt, expensive lifestyle, etc.)

3. **Rationalization** – A person rationalizes that it is acceptable to commit fraud because they are “owed” (e.g., work long hours, they get no respect, they are underpaid, they work harder than everyone else, etc.)
 EXAMPLES OF EACH CONDITION:

**Pressure**
- Financial difficulties
- Family problems
- Addictions

**Opportunity**
- Poor “tone from the top”
- Poor or lack of internal controls
- Management override of controls
- Lack of supervision/management monitoring
- Access to cash or inventory
- Collusion – “partnering with vendors, other employees or management to commit a fraud”

**Rationalization**
- “Only borrowing”
- “Just taking what they owe me”
- “Haven’t had a raise in 5 years”
Jerry has noticed that several boxes of safety equipment have gone missing over the last few weeks from the new UTSA library construction site. He’s been talking to his employees to find out if they know anything about the missing inventory.

Heather initially claims not to know anything about the missing items....

...but then she admits that she has been selling the equipment online to make extra money.
Heather explains that since she is often unsupervised at the job sites, it was fairly easy to take the boxes of supplies and load them into her car without anyone noticing.

Using what you have learned about the 3 conditions that usually exist when someone has committed fraud, which condition affected Heather?

Click on a box below.

- Pressure
- Rationalization
- Opportunity
YOU’RE RIGHT.

Because Heather was often left unsupervised, she had opportunity to commit fraud by selling the safety supplies that were meant for the university.
HOW IS FRAUD DETECTED?
Tips and hotline calls are the #1 way fraud is discovered.

OTHER METHODS OF DETECTION:

- IT Controls
- Account Reconciliation
- By Accident
- Notified by Police
- Surveillance/Monitoring
- Internal Audit
- External Audit
- Quality Audit
- Confession

Management Oversight = Perception of detection
YOU ARE THE FRONT LINE OF DEFENSE AGAINST FRAUD!

What are the potential effects of fraud?

You have a lot to gain from learning how to protect the University and yourself against fraud. When fraud occurs, the cost to the University can include:

- Loss of state assets
- Loss of grants and donations
- Loss of reputation and public trust
- Possible state and federal fines
- Loss of employees and UTSA cut backs
- Prosecution & Jail Time - UTSA will prosecute to the fullest extent of the law
WHAT POLICIES APPLY TO FRAUD

**UT System Policies**

**UTS 118- Dishonest or Fraudulent Activities**
UT System policy regarding internal investigations of suspected defalcation, misappropriation and other fiscal irregularities.

**UTS 131- Protection from Retaliation for Reporting Suspected Wrongdoing**
Prohibits unlawful retaliation against employees who in good faith report unethical behavior or assist in any investigation for suspected wrongdoing.

**UTSA Policies/Guidelines**

**Financial Management Operational Guidelines**
Section 1: Internal Control which provides information on the UTSA internal control framework.

**HOP 10.02- Misconduct in Research or in Other Scholarly Activities**
Misconduct includes fabrication, plagiarism or other practices that materially deviate from those commonly accepted within the academic community for proposing, conducting or reporting research.
WHAT CAN YOU DO TO PREVENT FRAUD?

Be Proactive - You are the front line of defense against fraud.
Segregate duties
Set the Tone at the top ... middle ... bottom - It is everyone's responsibility to prevent fraud
Report it! If you notice something, let someone know
Know what you are signing - if you don't know, ask questions
Have policies and procedures in place and enforce them
Secure property and assets
Review and reconcile accounts
Conduct surprise reviews and cash counts

Remember: UTSA policy prohibits retaliation for good faith reporting of, or participating in, an investigation of an allegation of wrongdoing.
RETALIATION IS ILLEGAL AND GOES AGAINST UTSA POLICY

Retaliation - Any action that adversely affects the employment or other institutional status of an individual (including discharging, demoting, suspending, threatening, harassing, or in any other manner discriminating against an employee in the terms and conditions of employment) that is taken by the institution or its employee because the individual has, in good faith, made an allegation concerning the violation of a law, rule, policy, or procedure, or of inadequate institutional response thereto, or has cooperated in good faith with an investigation of such allegation.

Source: UTS131 - Protection from Retaliation for Reporting Suspected Wrongdoing
**UTSA's anti-retaliation policy currently under review**
Examples of retaliation may include, but are not limited to:

- Actions that negatively impact the significant terms or conditions of employment (to include salary, demotion, suspension, termination, non-reappointment)
- Unsupported adverse performance evaluations or disciplinary actions
- Arbitrary denial of pay increases, promotion or other benefits
- Unsubstantiated reduced or limited work assignments
- Discrimination, harassment, or bullying
- Hostile work environment, defined as conduct that is so objectively offensive as to alter the conditions of employment
- Physical threats and/or destruction of personal or University property
- Actions taken or threatened that would discourage a reasonable employee from engaging in activities protected by the retaliation policy
HOW TO REPORT FRAUD AT UTSA

Every UTSA faculty and staff member has an ethical and moral responsibility to report suspected waste, fraud, abuse and other illegal activities or unethical conduct.

Remember: Employee tips/reporting are the #1 way fraud is discovered!

You have several mechanisms available to you when you suspect fraud or other unethical behavior is occurring.

Click over each box below for more information before proceeding.

- SUPERVISOR
- HOTLINE
- OFFICE OF INSTITUTIONAL COMPLIANCE
- STATE AUDITOR’S OFFICE
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Communicate your concerns to your supervisor
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Report your concerns to the Hotline – use the Hotline (phone or website) if you can’t report the concern to your supervisor.

**HOTLINE PHONE NUMBER:** 1(877)-270-5051

Hotline Web site:
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**CONTACT** the Office of Institutional Compliance & Risk Services:

- Website: [Website](#)
- Phone: 210-458-4992
- Email: Compliance@utsa.edu

Click here for more information regarding the Hotline: [Hotline](#)
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Contact the Texas State Auditor's Office

1(800)TX-AUDIT or 1(800)892-8348

Texas State Auditor’s Hotline Web site:
You have completed the Fraud lesson. What would you like to do next?

- e-mail The Office of Institutional Compliance and Risk Services
- Review lesson
- Scroll up and click the orange EXIT ACTIVITY button above this lesson to return to the course homepage and click on the INFORMATION SECURITY lesson