

# Fraud Prevention and Internal Controls

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# Agenda

- ◆ What is Fraud
- ◆ How and where can it occur
- ◆ Mitigating controls to counteract
- ◆ Infrastructure that should be in place

# Fraud

**Fraud** is the deliberate misrepresentation of fact for the purpose of depriving the university of a valuable possession or legal right.

# How and When?

- ◆ Pay attention to your high risk areas
  - This could be tied to:
    - Where the greatest amount is spent
      - Pay attention to your significant expenditures
    - Certain activities
      - Like cash receipting, cash disbursing or moveable assets
    - Areas where your institution is weak
      - Where you know a bad job is being done

# Comprehensive Fraud Exposure Analysis

- ◆ By Functional Area
- ◆ By Position
- ◆ By Relationship

End Result: Fraud Risk Inventory

# Creation of Fraud Risk Inventory

- ◆ What could go wrong?
- ◆ What has happened in the past?
- ◆ Can we prevent it?
- ◆ Can we catch it right away?
- ◆ What we handle it?

# By Function?

- ◆ Compensation
- ◆ Travel or any reimbursement
- ◆ Vendor Payments
- ◆ Construction
- ◆ Cash Receipting
- ◆ Inventory
  - Operational
  - Equipment

# Compensation

- ◆ Benefits – is it possible to steal?
  - Dependents who are not
  - Spouses or Partners who are no longer
  - TDA: are the claims originals
- ◆ Salaries and hourly pay
  - Did they work the hours
  - Are they still employed
  - Who approved the supplemental

# Compensation

- ◆ Ghost Employment
  - Does the person exist
  - Conflict of commitment
    - Second jobs
    - Employee owned businesses
    - Consulting
  - Supervisors being nice
    - Time off before holidays
    - Bonus time off
    - Reduced hours in lieu of a better raise

# Travel

- ◆ Are receipts required?
  - Hotel Receipts
  - Taxi Receipts
  - Are they originals?
- ◆ Per Diem – do policies discourage double-dipping?
- ◆ Mileage
  - Are you sure they made the trip?

# Vendor Purchases

- ◆ Can the same person
  - Requisition
  - Approve purchase order
  - Receive goods
  - Reconcile monthly detailed transactions
  - Steal and Conceal
- ◆ Vendor buying incentives - Insist on discounts
- ◆ Fake Vendors
- ◆ Overcharges by Vendors
- ◆ Don't forget construction – large dollars

# Cash Receipting

- ◆ Can the same person
  - Receive cash
  - Deposit it
  - Record the transaction
  - Reconcile the detailed transactions
  - Steal and conceal
- ◆ Eliminate cash receipt points
- ◆ Cash/Checks can be diverted

# Inventory/Moveable Equipment

- ◆ Identify high risk areas
  - What is easy to take
    - High traffic areas
    - Mobile equipment
  - What is attractive to take
- ◆ Inventory more than the mandatory requirement
- ◆ Make changes to database as changes occur

# How is Fraud Detected?

- ◆ Normal internal controls
- ◆ Management and employees paying attention
- ◆ “Whistle Blower”
- ◆ Change of Management
- ◆ Internal Auditors
- ◆ External Auditors
- ◆ Other tip-off
- ◆ Other

# Other Detection/Deterrence

- ◆ Fraud Expectations stated and understood
- ◆ Codes of Conduct require reporting
- ◆ Fraud Policy in effect
- ◆ Fraud Hotline in place and trusted
- ◆ Strong Internal Controls
- ◆ Prevention and early detection skill training

# Other Detection/Deterrence

- ◆ Timely Bank Reconciliations
- ◆ People believe they will be punished
- ◆ Comprehensive Fraud Exposure Analysis
- ◆ Clear Action upon suspicion
- ◆ Special Attention to Third Party Relationships
- ◆ Monitoring

# Questions

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