## FRAUD RISK MANAGEMENT PROGRAM

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## SESSION OBJECTIVE AND OUTLINE

- Assist campus managers in the development of their respective *Fraud Risk Management Programs (FRMP)* to help minimize the potential for and reduce actual losses from fraud.
  - Introduction (Fraud Myths and Facts)
  - Fraud Categories and Statistics (Education and UC)
  - Systemwide FRMP Internal Audit Results and Recommendations
  - Common FRMP Elements (including UCB & UCLA FRMP)
  - Proposed UCR FRMP
  - Conclusion
  - Q&A

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## MYTHS & FACTS

**Myth # 1:** The losses from fraud must be *immaterial* in the big picture.

**Fact # 1:** Survey participants of the Association of Certified Fraud Examiners (ACFE) 2012 Global Fraud Study estimated that the typical organization loses 5% of its annual revenue to fraud. Applied to the estimated 2011 Gross World Product, this figure translates to a potential total fraud loss of more than $3.5 trillion. The median loss caused by the occupational fraud cases in the study was $140,000.

*Source: 2012 ACFE Report to the Nation on Occupational Fraud & Abuse, Association of Certified Fraud Examiners.*

**SEAHAWK SHAKEUP**
Punter Ryan Plackemeier, two others get the boot
SPORTS > D1

28-page special section
**Fall Arts Guide**
Best bets and complete listings for a bounty of arts and entertainment events > F1

WEDNESDAY, SEPTEMBER 10, 2009

# The Seattle Times

75¢

## UC Irvine settles lawsuits of stolen eggs, embryos

*The University of California, Irvine has settled dozens of civil lawsuits over eggs or embryos stolen by two doctors more than a decade ago, in an effort to end the scandal over its fertility center.*

*The UC system has paid more than $24 million for 137 separate incidents in which eggs or embryos disappeared or were given to other women without consent in the late 80s.*

**ELECTIONS 08**

**Gregoire and Rossi far apart on social**

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# MYTHS & FACTS

**Myth # 2:** We hire honest people and I trust them with my life. I just need to keep an eye on my "problem" employees.

**Fact # 2:**

Around 86% of fraudsters in the study had never been previously charged or convicted for a fraud-related offense. Also, 82% of Fraud perpetrators have never been punished or terminated in their previous employment.
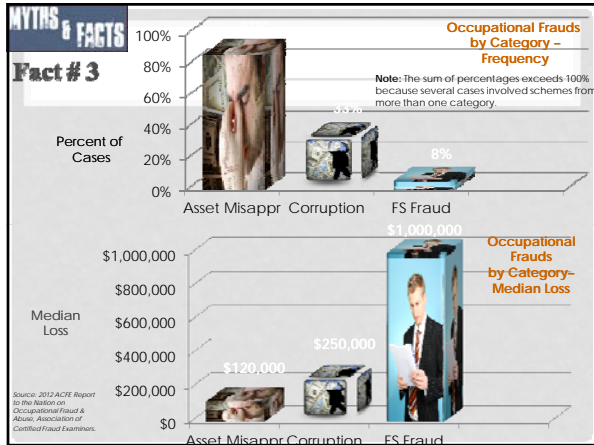
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# Los Angeles Times

**UC Riverside official is indicted in bribery case**
January 25, 2007

A UC Riverside administrator was indicted on federal charges of soliciting and receiving several bribes from the contractor in charge of constructing the University's Psychology building. An Associate Director of the Office of Design and Construction, solicited a $50,000 bribe from an Irvine contractor.

UCR's Director of Media Relations, **said she didn't know of any problems University officials had with the Associate Director during his 19 years** in the school's Design office.

# MYTHS & FACTS

**Myth # 3:** We don't handle cash – what's to steal?

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**Fact # 3**



**Occupational Frauds by Category – Frequency**

**Note:** The sum of percentages exceeds 100% because several cases involved schemes from more than one category.

Percent of Cases

100% 80% 60% 40% 20% 0%

8%

Asset Misappr  Corruption  FS Fraud

**Occupational Frauds by Category– Median Loss**

$1,000,000 $800,000 $600,000 $400,000 $200,000 $0

$120,000  $250,000  $1,000,000

Median Loss

Asset Misappr  Corruption  FS Fraud

*Source: 2012 ACFE Report to the Nation on Occupational Fraud & Abuse, Association of Certified Fraud Examiners.*

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# MYTHS & FACTS

**Myth # 4:** We have an excellent internal control system that will either prevent the fraud or detect the fraud at its inception.

**Fact # 4:**

Internal controls alone are insufficient to fully prevent occupational fraud. In addition, the frauds lasted a median of 18 months before being detected.

*Source: 2012 ACFE Report to the Nation on Occupational Fraud & Abuse, Association of Certified Fraud Examiners.*

## FRAUD CATEGORIES AND STATISTICS (EDUCATION )

| Education 88 Cases | | |
|---|---|---|
| Scheme | Number of Cases | Percent of Cases |
| Billing | 28 | 31.8% |
| Expense Reimbursements | 23 | 26.1% |
| Corruption | 21 | 23.9% |
| Skimming | 19 | 21.6% |
| Payroll | 13 | 14.8% |
| Check Tampering | 11 | 12.5% |
| Cash on Hand | 11 | 12.5% |
| Cash Larceny | 8 | 9.1% |
| Non-Cash | 7 | 8.0% |
| Register Disbursements | 5 | 5.7% |
| Financial Statement Fraud | 4 | 4.5% |

*Source: 2012 ACFE Report to the Nation on Occupational Fraud & Abuse, Association of Certified Fraud Examiners.*

## UC FRAUD CATEGORIES AND STATISTICS FY2011-12 (243 CASES)

- Fraud, Theft or Embezzlement – 78 cases (32%)
- Economic Waste/Misuse of Resources – 76 cases (31%)
- Conflict of Interest/Commitment – 54 cases (22%)
- Research/Academic Misconduct – 35 cases (15%)

## FRAUD, THEFT & EMBEZZLEMENT 78 CASES (32%)

| | |
|---|---|
| Fraud | 22 |
| Theft of Cash | 11 |
| Theft of Goods/Services | 10 |
| Falsification of University Records | 7 |
| Travel/Expense Reimbursement Issues | 7 |
| Vendor/Consultant/Contractor Fraud | 5 |
| Compensation Plan Violations | 3 |
| Embezzlement | 3 |
| Employment Credentials Misrepresentation | 2 |
| Academic Credentials Misrepresentation | 1 |
| Billing & Coding Errors or Irregularities | 1 |
| Billing & Coding Errors or Irregularities : Patient Related | 1 |
| Fraud : Fraudulent Financial Statements | 1 |
| Fraudulent Insurance Claims | 1 |
| Health Care Fraud | 1 |
| Medical Credentials Misrepresentation | 1 |
| Theft | 1 |

## ECONOMIC WASTE/MISUSE OF RESOURCES
### 76 CASES (31%)

| | |
|---|---|
| Misconduct, Incompetency, Inefficiency | 22 |
| Use of Resources for Private/Personal Business | 15 |
| Wage & Hour Issues | 10 |
| Abuse of Authority | 9 |
| Theft of Time | 8 |
| Gross Misconduct, Incompetency, Inefficiency | 2 |
| Improper Use of Technology Resources | 2 |
| Use of Resources for Private/Personal Business : Computer Workstation | 2 |
| Use of Resources for Private/Personal Business : Fax | 2 |
| Use of Resources for Private/Personal Business : Supplies | 2 |
| Missing/Unaccountable Asset | 1 |
| Use of Resources for Private/Personal Business : Equipment | 1 |

## CONFLICT OF INTEREST/COMMITMENT
### 54 CASES (22%)

| | |
|---|---|
| Conflicts of Interest | 30 |
| Employee/Vendor Relationship | 10 |
| Near Relatives | 7 |
| Conflict of Commitment | 3 |
| Gifts, Gratuities or Benefits | 2 |
| Conflicts of Interest : Failure to Disclose Conflict (Other Staff) | 1 |
| Honoraria Acceptance | 1 |

## RESEARCH/ACADEMIC MISCONDUCT
### 35 CASES (15%)

| | |
|---|---|
| Academic Misconduct | 10 |
| Grant Misconduct/Misappropriation | 9 |
| Scientific/Research Misconduct | 8 |
| Human or Animal Subjects Concern | 4 |
| Academic Fraud | 2 |
| Clinical Trials Issues | 1 |
| Copyright/Trademark Violations | 1 |

## SYSTEMWIDE FRMP REVIEW
### (JUNE 27, 2011)

- **Observation #1:**
  - Formal fraud risk management programs have not been established .

- **Management Actions**
  - *Systemwide:* Guidance will be issued by the Office of Ethics and Compliance Services addressing the importance of fraud risk management and providing recommendations on how roles and responsibilities for fraud risk management at the campus level might be addressed.

  - *Local:* Enhance Fraud Risk management by:
    - Assignment of fraud risk management responsibilities.
    - Enhancement of local policies and procedures to provide guidance specific to managing fraud risk.
    - Establishment and/or enhancement of local training programs to include specific reference to fraud schemes and red flags.

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## SYSTEMWIDE FRMP REVIEW
### (JUNE 27, 2011)

- **Observation #2:**
  - Fraud Risk Assessments have not been performed.

- **Management Actions**
  - There are plans to implement entity-wide fraud risk assessments using a repeatable and consistent process.

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## SYSTEMWIDE FRMP REVIEW
### (JUNE 27, 2011)

- **Observation #3:**
  - Control activities to mitigate fraud risk need enhancing.

- **Management Actions**
  - *Systemwide:* UC Strategic Sourcing will incorporate a reference to the Whistleblower Policy in the standard request for proposal template, contract documents, and Business and Finance Bulletin (BFB) B43 – Materiel Management.

  - *Local:* Fraud-related control activities are being added or enhanced to address the specific control issues noted.

## FRAUD RISK MANAGEMENT PROGRAM (FRMP)

- Minimize potential for and reduce actual losses from fraud
- Management Focus:
  - Understand and identify the fraud risks that can undermine the business objectives and University mission.
  - Identify best ways to develop, implement and evaluate controls to prevent, detect and respond appropriately to fraud.
  - Reduce exposure to liability, sanctions and litigation from law and regulations non-compliance, violations and exceptions.
  - Determine whether existing anti-fraud programs and controls are actually effective in minimizing fraud instances.
  - Achieve highest levels of integrity and ethics through sound governance, internal control, and transparency.

## 5 KEY FRMP ELEMENTS

- Governance
- Fraud Risk Assessment
- Fraud Prevention
- Fraud Detection
- Fraud Response

## 5 KEY FRMP ELEMENTS: GOVERNANCE

- System by which FRMP is directed and controlled
- "tone at the top"
- Creating a culture of ethics, integrity, accountability and transparency
- Institutional Support of FRMP
- Audit Committee oversight
- Campus Fraud Risk management Committees or workgroups and clear responsibilities
- Designated Senior management FRMP oversight

## 5 KEY FRMP ELEMENTS: FRAUD RISK ASSESSMENT

- Helps management:
  - Identify and understand the general campus vulnerability and various fraud risks including fraud schemes.
  - Identify gaps or controls weaknesses to mitigate identified risks.
  - Develop a plan to target adequate resources and controls to reduce the risks.

## 5 KEY FRMP ELEMENTS: FRAUD RISK ASSESSMENT

- Fraud Risk Assessment Process
  - Identify business units or processes to assess.
  - Interview appropriate managers and staff.
  - Inventory and categorize fraud risks or occurrences.
  - Rate risks based on likelihood and significance of occurrence.
  - Remediate risks through control optimization.
    - Evaluate the effectiveness of current controls to mitigate inherent risk, identifying gaps where control is weak.
    - When the residual risk is too high, the functional owner of the risk will be expected to design an action plan to bring the residual risk down to an acceptable level.

## 5 KEY FRMP ELEMENTS: FRAUD PREVENTION

- Designed to help reduce the risk of fraud from occurring in the first place.
- Fraud Prevention Techniques include:
  - UC Statement of Ethical Values
  - UC Standard of Ethical Conduct
  - Employee hiring, promotion and third party due diligence
  - Communication and Training
    - Fraud Awareness; Whistleblower Policy; Internal Controls; Ethics

## 5 KEY FRMP ELEMENTS: FRAUD DETECTION

- Designed to uncover fraud when it occurs
- Fraud Detection Techniques include:
  - Whistleblower Policy
    - Hotline
    - Ethicspoint
  - Auditing and monitoring
  - Data Analysis; data mining

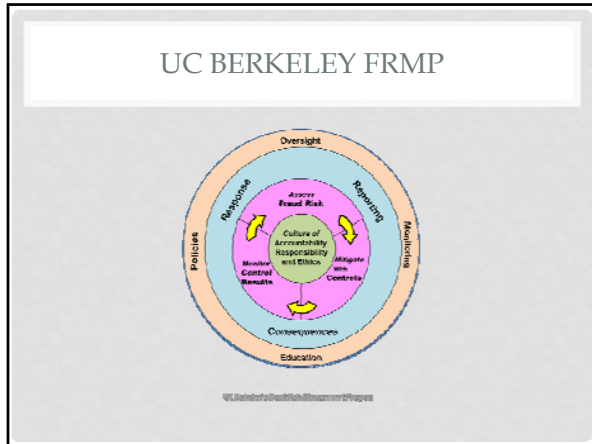## 5 KEY FRMP ELEMENTS: RESPONSE CONTROLS

- Designed to take corrective action and remedy the harm caused by fraud
- Response Controls include:
  - Investigations
  - Enforcement and accountability
  - Corrective Action

## UCLA FRMP

**UCLA Fraud Risk Management Program**

**Contents**

## UC BERKELEY FRMP



## ANTI-FRAUD CONTROLS

| United States | | |
| --- | --- | --- |
| Control | Number of Cases | Percent of Cases |
| Code of Conduct | 527 | 75.4% |
| External Audit of F/S | 515 | 72.6% |
| Internal Audit/FE Department | 473 | 62.6% |
| External Audit of ICOFR | 449 | 64.1% |
| Employee Support Programs | 427 | 67.1% |
| Hotline | 403 | 54.4% |
| Management Certification of F/S | 397 | 61.7% |
| Management Review | 394 | 57.2% |
| Independent Audit Committee | 373 | 53.7% |
| Fraud Training for Managers/Executives | 337 | 49.7% |
| Fraud Training for Employees | 328 | 48.4% |
| Anti-Fraud Policy | 323 | 46.7% |
| Formal Fraud Risk Assessments | 241 | 35.2% |
| Surprise Audits | 190 | 27.1% |
| Job Rotation/Mandatory Vacation | 93 | 13.6% |
| Rewards for Whistleblowers | 56 | 8.6% |

*Source: 2012 ACFE Report to the Nation on Occupational Fraud & Abuse, Association of Certified Fraud Examiners.*

## UCR FRMP

- 4 Categories
  - Low Resource Requirement/High Benefit (LRR/HB)
  - High Resource Requirement/High Benefit (HRR/HB)
  - Low Resource Requirement/Low Benefit (LRR/LB)
  - High Resource Requirement/Low Benefit (HRR/LB)

## LRR/HB

- *Training/Briefings*
  - o Provide Face-to-Face training and Webinars on specific topics related to Risk/Fraud that are common in Universities and/or Industry with similar functions (e.g. cash handling).
    - o Webinars would be recorded and presented within the Learning Management System (LMS) on a continuing basis.
    - o Report metrics from LMS to Ethics and Compliance Risk and Audit Controls Committee (ECRAC) and Enterprise Risk Workgroup (ERWG).
  - o Conflict of Interest (COI )Training
    - o Require within 60 days of employment as part of onboarding process: supervisors responsible for compliance.
    - o Report metrics from LMS to ECRAC and ERWG. Note: Training required depends on role / circumstances.
    - o Action required to develop a second matrix depicting an inventory of all trainings along who and which training is required.
  - o Compliance Briefing on UC Ethical Values and Conduct
    - o Require within 60 days of employment as part of onboarding process. Include the information in new employee orientation materials. Require new employees to certify that they have read and understand the information.
    - o Address annual briefing requirement in performance evaluation.
    - o Reports metrics from LMS to ECRAC and ERWG.
  - o Business Officer's Institute (BOI) – Require for all managers.

## LRR/HB

- *Fraud Risk Management Best Practices*
  - o Develop understanding of fraud which has occurred at other campuses.
    - e.g., high risk areas of common concern
  - o Identify best practices existing at other campuses.
    - o Note: Implementation of such practices could have high impact.
  - o Presentation of best practices via webinar and recorded for training within LMS.  Report metrics from LMS to ECRAC and ERWG.

- *Compliance Reporting/Oversight (ECRAC, ERWG, Organizational and Departmental Management)*
  - o Periodic review of metrics from LMS depicting training/briefings assigned and taken.
  - o "Roll-up" LMS data to provide visibility to summary data at department, division, organization and enterprise wide levels

## LRR/HB

- *Implement Vacation Requirement*
  - o Time and Attendance Reporting System (TARS) allows management to track/report on vacation time taken.

- *Whistleblower Policy*
  - o Distribute to all faculty, staff and students on a more frequent basis e.g., at the start of each academic quarter (the law requires only annual distribution). Note: The law requires annual distribution by July 1. More frequent distribution (quarterly) may not balance interest. As an alternative, recommend twice per year (Fall and Spring).

## HRR/HB

- *Training/Briefings*
  - Enterprise Accountability Training – Expand to include potential fraud risk schemes.
  - Cash Handler's Training – Develop formal training for cashiers/cash handlers.
  - Whistleblower Policy/Fraud Awareness Training - current 3 hour session conducted by Audit & Advisory Services (A&AS). Modify the course to a shorter format, to incentivize attendance (including faculty).
  - Fraud Risk Briefings – Develop and incorporate in Department Chair's Forums and New Faculty Orientation Sessions.
  - Fraud Assessment and Detection Training – Identify external training providers e.g., UC's external audit firm. Utilize webinars whenever possible. Record live training sessions/create LMS webinars. Require annual training.
  - Action required to develop a second matrix depicting an inventory of all trainings - who and which training is required. LMS could be used to enable; furthermore, the data could be moved to a data warehouse to improve transparency. Computing & Communications (C&C) would need to evaluate whether this would have a "high resource requirement."

## HRR/HB

- *Management Tools/Analytics*
  - Identify higher risk areas and develop tools/reports to inform the Chief Financial and Administrative Officers (CFAOs)/managers of abnormal fluctuations/variances. Note: Could be developed incrementally over multiple years. Finance and Business Operations (FBO) Reporting System functionality could support trend analysis. Consider ways in which such analytics could be tied in to best practices.
- *Ledger Reconciliation/Financial Controls and Practices*
  - Staff Rotations and/or Peer Reviews to examine unit ledger reconciliation processes, financial controls, etc. Recommend and implement best practices.
  - Segregation of Duties – Consider risk implications of staff reductions: identify and implement best practices for minimizing risk.
- *Concept of Service Centers*
  - Consider fraud risk management benefits which could be gained if high risk financial, human resource and payroll tasks were abstracted from departmental / unit operations.
- *Recovery of Funds*
  - Consider benefit / impact of pursuing recovery of funds in some fraud cases. Awareness of possible prosecution could be a deterrent.

## LRR/LB & HRR/LB

*LRR/LB*

- *Quarterly Accountability Structure Review and Certification*
  - Add language/attestation concerning responsibility to mitigate fraud risk.
- *Annual Systems Access Administration (SAA) Certification*
  - Add language/attestation concerning responsibility to mitigate fraud risk.

*HRR/LB*

- *Petty Cash Audits*
  - Financial Services should routinely perform surprise audits of departmental petty cash funds (if not being done now, could be a high impact/resource issue in Financial Services).

## REFERENCES

- KPMG White Paper on Fraud Risk Management : Developing a Strategy for Prevention, Detection and Response
- 2012 ACFE Report to the Nation on Occupational Fraud & Abuse, Association of Certified Fraud Examiners.
- ACFE Occupational Fraud: A Study of the Impact of an Economic Recession
- Managing the Business Risk of Fraud: A Practical Guide, ACFE,