

Fraud Information Alert!

What is Fraud?

Fraud is any activity that relies on deception to achieve a gain, which becomes a crime when an individual makes a “*knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment*”. Occupational Fraud is the deliberate misuse or misapplication of an employer’s resources by an employee for personal gain.

What Leads To Fraud? - Fraud Triangle

Three (3) factors must exist to lead to fraud: (1) Pressure: Motivation or incentive to commit fraud; (2) Opportunity: Knowledge and ability to carry out fraud; and (3) Rationalization: Justification of dishonest actions.

Fraud Schemes

There are three (3) categories of fraud: (1) Corruption: An employee misuses their influence in a business transaction to gain a direct or indirect benefit in a way that violates their duty to their employer. (2) Asset Misappropriation: An employee steals or misuses the employing organization’s resources; and (3) Financial Statement Fraud: An employee intentionally causes a misstatement or omission of material information in the organization’s financial reports.

Common Examples of University Fraud

Fraud can occur anywhere, especially in higher education! Below are common examples:

- A management position creates a phony position and hires a friend/relative.
- Instructors order copies of books, then turn around and sell them.
- Faculty members take university property into their possession for sale through their private company.
- Faculty engage in consulting work on the side but uses university facilities for the jobs.
- Department heads use department funds to purchase goods and services for personal use.
- Facilities forego bidding regulations to award jobs to a vendor they have a personal relationship with.
- An employee is hired without following the proper university hiring protocols because they are friends with the department head.
- An employee uses their assigned university vehicle for personal trips after work hours.
- A faculty member has created their own job duty for their position, with no actionable duties or expectations.

Controls to Protect Against Fraud

Implementing simple internal controls can be the easiest preventive measures against fraud. Below are some simple preventive controls that protect against the risk of fraud:

- Keeping clear policies and procedures in place, defining rules and expectations for a department.
- Ensuring segregation of duties exists, no one person should have the bulk of a unit’s duties.
- Requiring supervisory reviews and signoffs to verify that reports and activity is reviewed and approved by supervisors and management.
- Implementing safeguards to protect materials like tracking software, sign-out logs, locks/keycard access, etc.
- Routinely test internal controls to evaluate the effectiveness of the controls.
- Ensuring all software and programs have secured access for employees.

How to Contact the Office of Internal Audit

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