

Fraud in the Workplace

by

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What is Fraud?

Fraud is any activity that relies on deception in order to achieve a gain.

Fraud becomes a crime when it is 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 using one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets.

Fraud Tree

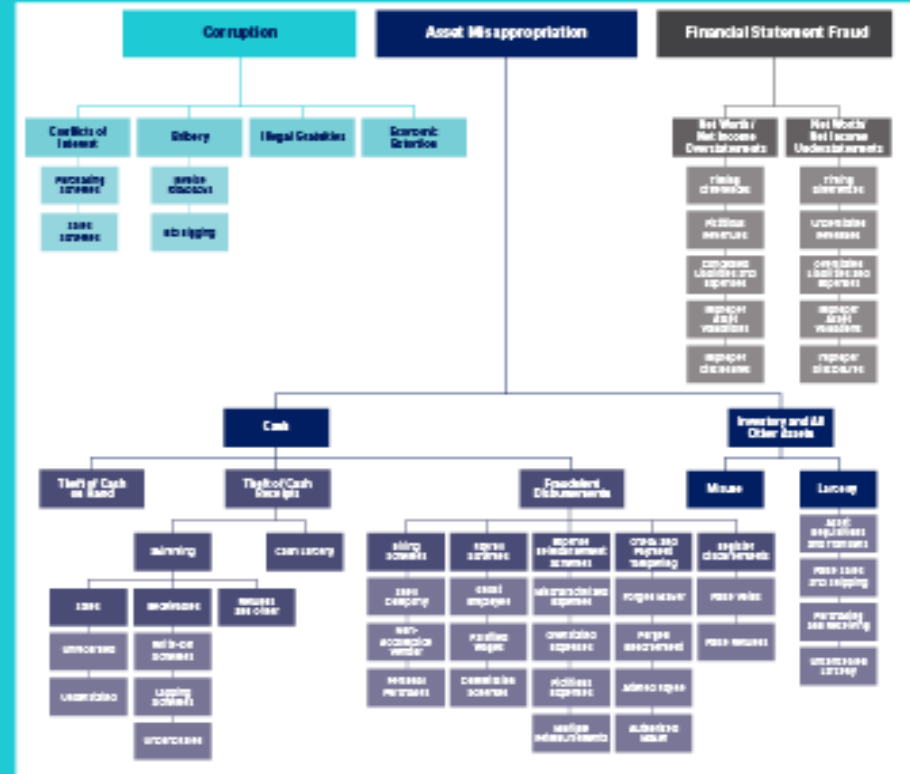
Three basic types of fraud schemes:

Corruption - A scheme in which an employee misuses his or her influence in a business transaction in a way that violates his or her duty to the employer in order to gain a direct or indirect benefit.

Asset Misappropriation - A scheme in which an employee steals or misuses the employing organization's resources.

Financial Statement Fraud - A scheme in which an employee intentionally causes a misstatement or omission of material information in the organization's financial reports.

THE FRAUD TREE



What is Waste and Abuse?

Waste and Abuse are allegations that tie closely to Fraud, and are investigated in a similar fashion.

Waste: Thoughtless or careless expenditure, mismanagement, or abuse of resources to the detriment (or potential detriment) of the organization. Waste also includes incurring unnecessary costs resulting from inefficient or ineffective practices, systems, or controls.

Abuse: Excessive or improper use of a thing, or to use something in a manner contrary to the natural or legal rules for its use.

Who Commits Fraud?

Fraud can be committed by anyone, there is no fraudster “look” or job type.

Occupational Fraud can be committed by employees at all levels of an organization (i.e. Top management, mid-level, and ground-level employees)

An organization as a whole can also commit fraud

“Good” people commit fraud all the time. People commit fraud for “relatable” reasons, but that doesn’t justify it.

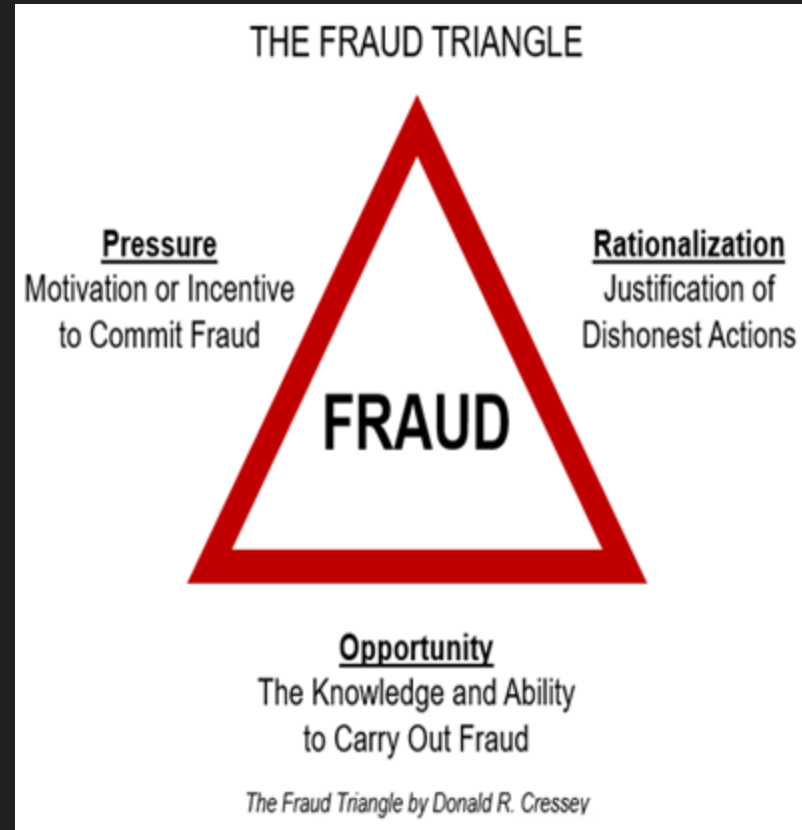
Factors That Lead to Fraud

There are three (3) factors that must exist to lead to someone committing Fraud, known as the “Fraud Triangle”:

Pressure: Motivation or incentive to commit fraud

Opportunity: Knowledge and ability to carry out a fraud

Rationalization: Justification of dishonest actions



Does Fraud Apply to Me and My Job?

Short Answer: YES!

Universities, especially HBCUs are traditionally highly vulnerable to Fraud.

Not just monetary loss, but reputational impact as well.

The typical organization loses 5% of their annual revenue due to fraud.

FSU reported close to \$260 million in total revenues on their 2025 Financial Statement. That is an estimated \$13 million lost to fraud.

Examples of University Fraud

- 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 personal possession to personally sell through their own private company.
- Faculty engages in consulting work on the side but use university facilities for the jobs or assign the work to students as term projects.
- Department heads use department funds to purchase goods and services for their personal use.
- Facilities forgoes bidding regulations to consistently award jobs to a vendor they have a personal relationship with.
- An employee has been 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, which includes no actionable duties or expectations
- An employee does not actually work the hours they report.

Why Are Universities So Susceptible to Fraud?

- Budget Cuts create little or no segregation of duties
- Supervisors and management “rubber stamping”
- Poor asset management
- Lower overall salaries in education
- Long tenures
- Policies and procedures not communicated and/or enforced
- Silo'd reporting structure
- Nepotism
- Low risk of detection
- Low risk of prosecution
- Poor tone at the top
- No anti-fraud program/training
- Don't even know or want to know they have a problem



Fraud Applies to More Than Just Money!

- Fraud involving assets that are not cash or directly monetary are classified as non-financial frauds.
- Any asset, material, or property can be misappropriated in a fraudulent way, not just money!
- Organizations take non-financial fraud just as serious as financial fraud.
- Non-financial fraud includes:
 - Stealing time/timesheet misreporting
 - Intentional neglect of job duties
 - Misappropriation of physical property (i.e. electronics, clothing, intellectual property, supplies/materials, etc.)
 - Inappropriate conduct (abuse)
 - Illegal activities

University Hotspots for Fraud

- Not always the areas you'd expect (not just the ones that handle the most money, have the most visible positions, or the largest reputation).
- Often surprising areas vulnerable to issues are ones of low visibility, low involvement with other departments, unique processes to just that area, low understanding of the process from other departments, and minimal oversight/regulation.
- Popular Areas for Review of University Fraud
 - Following Bidding Regulations / Vendor Fraud
 - Time Fraud / Timesheet Reporting
 - Misuse of Assigned Employee Vehicle(s)
 - Misappropriation of Grant Funds
 - Theft of Equipment and Materials
 - Inefficiency & Waste / Lack of Performance of Duties / Phony Positions
 - Fabrication of Employee Credentials
 - Kickbacks / Corruption
 - Conflicts of Interest

Common Red Flags

- There are red flags to look for that can be indicative of someone POSSIBLY being involved in fraudulent activity. The ACFE's 2022 Occupational Fraud Report noted the most common red flags exhibited by Fraudsters:
 1. Living beyond means
 2. Financial difficulties
 3. Unusually close association with vendor/customer
 4. No behavioral red flags
 5. Control issues, unwillingness to share duties
 6. Irritability, suspiciousness, or defensiveness
 7. Bullying or intimidation
 8. Divorce/family problems
 9. "Wheeler-dealer" attitude
 10. Excessive pressure from within organization
 11. Addiction problems
 12. Complained about inadequate pay
 13. Refusal to take vacations
 14. Social isolation
 15. Past legal problems
 16. Complained about lack of authority
 17. Other employment-related problems
 18. Excessive family/peer pressure for success
 19. Excessive tardiness or absenteeism
 20. Instability in life circumstances
 21. Excessive internet browsing



Controls To Protect Against Fraud

Quick and easy controls can be implemented to protect against Fraud. Examples include

- Keeping clear policies and procedures in place defining rules and expectations for a department.
- Ensuring segregation of duties exists, and no one person has a bulk of the duties and responsibilities for a department.
- Requiring supervisory reviews and signoffs to verify that reports and activity have been reviewed and approved by supervisors and management.
- Implementing safeguards to protect materials such as tracking software, signout 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 Report Fraud

Three basic levels for a university employee to report alleged activity to:

FSU Internal Audit (call/email/hotline/physical meeting)

- a. This is the preferred method, directly to us!
- b. PHONE: (910) 672-1117
- c. EMAIL: rdavis68@uncfsu.edu
- d. WEBSITE: *Ethics Hotline*
- e. OFFICE: *205 Collins Administration Building*

University North Carolina System Office website (internal allegation portal)

- a. The UNCSCO will likely forward that information back to FSU Internal Audit for review.
- b. PHONE: (919) 962-4610
- c. WEBSITE: hotline.northcarolina.edu

Office of the State Auditor allegation hotline (call/email/intake portal)

- a. The OSA will likely forward that information back to FSU Internal Audit or review.
- b. PHONE: 1 (800) 730-8477
- c. WEBSITE: www.auditor.nc.gov
- d. EMAIL: Hotline@ncauditor.net

Why Report to Internal Audit?

- We can follow up with a complainant directly to obtain more information.
 - We have firsthand knowledge of the campus environment and personnel and located on campus.
- External reporting sources often do not ask follow-up questions or ask for additional information needed to effectively assess and evaluate a complaint.
 - If a complaint does not contain adequate information, they will likely just send it to us as they received it or evaluate it as a non-actionable complaint.
- There is less reporting work put on our office, as we can address and report an issue directly and internally within the university, instead of being required to also having to process our reporting through a third party.
 - Helps simplify our process by not having to additionally draft reports for a third party with limited knowledge of a situation.
- Often complaints made to a third-party source are forwarded directly back to us for our review.
 - The third-party source will depend on our report and findings as the final disposition for what they received. So cut out the middle-man.

Protections for Complainants

Per NC General Statute, Internal Audit's work is confidential, so we cannot disclose the identity of those we speak with, nor can we disclose the source of a complaint or information.

NC Whistleblower Statute allows individuals to bring forth complaints free of the threat of retaliation or harassment from management. Therefore you cannot be punished or retaliated against by management for bringing forth an allegation to any source.

If you have an allegation you would like to share with us, our office will work to create a discreet and safe environment for you to speak with us candidly.

Similar protections exist when going to the System Office and the OSA, as well as HR.



Allegations vs. Grievances

Grievances are not allegations and are not reviewable by the three aforementioned offices. Feel free to report grievances to HR.

Reporting grievances has a negative impact on a University. Internally, responding to grievances can bog down an office by wasting resources responding to non-allegations. Externally, if an agency routinely responds to grievances from a University, it can create a negative reputation.

The following are common complaints that are NOT actionable allegations:

- Disagreements with management/management decisions
- Personal issues or dislike of a supervisor or coworker
- General request for reviews - “Follow the breadcrumbs” // “if you look you’ll find it”
- “Potential” issues or things that “may” happen
- Non-specific allegations with no actual facts
- Hearsay or second-hand accounts