

Understanding Fraud in University Credit Card Programs

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Understanding Fraud in University Credit Card Programs

Why is this topic important to Research

- Grant Fraud in the News
- Understand Why People Commit Fraud
- Understand the Controls we Need
- Educate our PI's

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Benefits of Credit Card Programs

- Reduces purchasing costs for small-dollar items
 - Purchase Order costs in excess of \$100 per transaction
 - Typically a procurement card costs \$20 per transactions
- Source of revenue for University's
 - Last year the credit card program brought in \$95,000 to FIU from rebates

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Risks of Credit Card Programs

- Bypasses purchasing procedures, processes & approvals
- Reduced level of scrutiny
- Increased risk of collusion
- Fraudulent purchases
- Reputational harm



Credit card fraud, misuse found at 5 Florida universities

By Scott Travis, Sun Sentinel

6:28 PM EDT, April 19, 2010

A Florida International University professor used a school credit card to buy at least \$5,000 worth of personal items, including an MP3 player, a wireless reading device and a membership with United Airlines' Red Carpet club.

An administrative assistant in University of Florida's oral history program submitted receipts for books for a "WWII project." But the books weren't about a world war. They were from Weight Watchers.

An information technology specialist at UF made more than \$13,000 in unauthorized purchases, altering receipts to disguise a Blu-ray disc player, video games and Xbox gaming currency.

While university credit or purchasing cards are often quicker and cheaper than other payment methods, they are also prone to abuse, auditors and experts say, especially if employers have lax controls. State auditors this year found more than \$150,000 in improper or unverified purchasing card expenses at five universities around the state, and in a few cases, fraud.

Audits reveal ProCard misuse

Four staff members 'separate' from FIU

DAVID BARRIOS
Staff Writer

President Mark Rosenberg has reported two more cases of inappropriate usage of University issued procurement cards.

According to an e-mail sent by Rosenberg to

all faculty and staff dated Nov. 3, one member of the staff had inappropriately used one of his/her procurement cards while another staff member had failed to follow established approval procedures made for payments on the cards.

"The card holder and

the approver have separated from the University," stated Rosenberg in the same e-mail.

The names of the staff members and the circumstances of the separation have not been made public by the University.

This follows a similar occurrence in September when an e-mail was sent to faculty and staff noting the separation from the University of a senior faculty member for inappropriate use of the card

along with a staff member who failed to follow established approval procedures.

THE SYSTEM

Procurement cards, much like University issued credit cards, are issued to members of the faculty and staff who make purchases for their respective department's needs, such as University business expenses or

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PROTECTION

In both e-mails, Rosenberg stated that the employees' investigations were made after procurement card account audits were conducted by members of the University's Office of Internal Audit.

The audits are done on an unfixed schedule.

"We have been doing audits of all types: We've been doing audits University-wide, we do samples throughout different departments. We look for things that seem inappropriate and we investigate separately," said Allen Vann, audit director for

the OIA.

According to Vann, the OIA operates under the standards set by the Institute of Internal Auditors, an organization of more than 120,000 auditors worldwide.

"Our audits are planned. We evaluate the risks to the organization or department and we formulate audit plans that mitigate the risks," Vann said.

Vann said that there is a fine line between personal and business expenditures.

"People do run into problems when they cross that fine line. It's not appropriate and the University will not stand for it."

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Findings

- Inadequate Centralized Administrative Controls
 - Untimely cancellation of credit cards
 - Lack of administrative oversight
 - Physical control over unissued cards
 - Credit card limits not adequately managed
 - Too many types of cards issued
 - Subordinates approving supervisor's transactions
 - No written procedures manual for administering program

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Findings (continued)

- Cardholders/Approvers Circumvent Policies & Procedures
 - Cardholder “share” cards with other staff in their department.
 - Cards were not secured.
 - Lack of supporting documentation for purchases.
 - Unallowable personal purchases.
 - Inappropriate/extravagant charges (abuse).

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Internal Fraud Costs about \$4,500 for every worker

- Steal Money or Merchandise
- Kickbacks or Bribes from Suppliers
- Unreported Leave Time
- Cheat on Expense Reports
- Using Computers and Software without Permission

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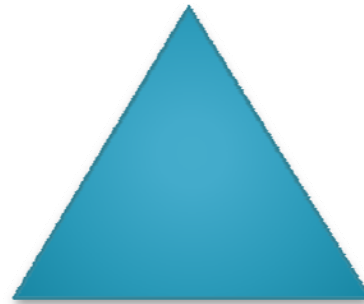
- The National White Collar Crime Center estimates annual losses from employee theft range from \$20 to \$90 billion annually
- U.S. Chamber of Commerce estimates that 75% of employees repeatedly steal, and one of every three business failures is the direct result of employee theft

As a result of layoffs, Acts of Violence /Sabotage against organizations are increasing

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**Employees Given the Right
Circumstances Will Commit Fraud**

Motive



Opportunity

Rationalization

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Common Pressures or “Motives” for Fraud Financial Pressures

- Medical Problems – Especially for a loved one
- Spouse loses a job
- Divorce
- Starting a New Business or Struggling Business
- Criminal Conviction
- Civil Lawsuit
- Purchase of a new home, a second home, or a home remodel
- Need to Maintain a Certain Lifestyle
- Excessive Gambling
- Drug or Alcohol Addiction

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Common Pressures or “Motives” for Fraud

Employee Satisfaction

- Unreasonable performance goals
- Disgruntled employee
- Layoffs in department
- Additional Duties without additional pay

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Common Pressures “Rationalization”

- I was only borrowing temporarily
- This is not much money, the University won't miss it
- Everybody does it
- I'll stop once I get over this financial hump
- The University owes it to me

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Operating Environment Challenges “Opportunity”

- Large decentralized organizations
- Independent reporting structures among the multiple schools
- Budget cuts that affect the segregation of duties
- Long tenures contributing to abuse of trust
- Liberal control environment and resistance to controls
- Lack of written policies and procedures
- Nepotism
- Lack of financial acumen

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Risks of Credit Card Programs

- By Pass the Purchasing Control Processes & Approvals
- Reduced Level of Scrutiny
- Increased Risk of Collusion

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Role of the Department

- Monitor for
 - Subordinate Approval
 - Self-Approval
- Ensure cardholders are held accountable for purchases
- Eliminate Excessive number of pro-cards under single approver
- Limit access of the card to the card holder
- Conduct Credit Back Ground Checks on New Employees
- Look for Red Flags signs of Fraud

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Role of the Employee

- Track your purchases and only use reputable vendors
- Do not allow anyone to use your card
- Submit receipts and work with your Approver to reconcile your account
- Report suspicious or erroneous charges immediately
- Guard against identity theft and report a lost or stolen Card immediately
- Protect your credit card information. Do not keep photo copies or write our number on a sheet of paper to give to others.

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Role of the Approver

- Look for signs of fraud, such as purchases that are sent to a home rather than to the office.
- Look for split purchases
- Watch for restricted items
- Ensure purchases made on the cards are documented by receipts and explanations
- Reconcile statements monthly
- Report suspected fraud activity

Be alert to situations or transactions that could be indicative of fraud or abuse, and perform additional procedures as appropriate if indications of abuse exist.

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Audit Red Flags

- Inadequate Segregation of Duties
- Lack of Monitoring
- Lack of Policies and Procedure
- Inadequate Supporting Documentation
- Copied, not Original Documentation
- Prior History of Questionable Practices
- Unusual Patterns of Disbursements
- Questionable Vendors
- Numerous Payments Just Under Threshold



Behavioral Red Flags

- Living Beyond Means (38.6% of cases)
 - Suddenly appears to be buying more material items – houses, cars, boats, clothes, jewelry, electronics, etc.
- Financial Difficulties (34.1% of cases)
- Wheeler-dealer attitude
- Control Issues
 - Unwillingness to share duties
- Divorce or Family Problems
- Unusually close association with vendor or customer
- Exhibits signs of dissatisfaction
 - decrease in productivity,
 - change attire,
 - irregular schedules
- Frequent complaining about inequities or work issues

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Restricted Items – Commodity Cards

- Personal Items of any kind
- Personal Office Decorations
- Alcohol
- Food (unless approved in advance)
- Holiday Cards
- All Hazardous Materials & Chemicals
- Kitchen Appliances (Microwaves, Refrigerators, etc.)
- Portable Air Cleaning Devices
- Restaurant Meals (Only if Authorized)
- Computers (cost > \$1,000)
- Flowers & Balloon Arrangements (for individual recognition)
- Repair of Equipment (if Off-Campus repairs where certification or cleaning & decontamination are required)
- Promotional Items (if not paid from student fees or grant funds)

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Fraud Discovery

Initial Detection of Occupational Frauds

Tips were, by far, the biggest source of fraud detection. Employees were the most common source of those tips. However, customers, vendors, competitors and other noncompany sources provided at least 34% of fraud tips, which suggests that fraud-reporting programs should be publicized to customers, vendors and other external stakeholders, not just employees, the ACFE says.



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09.15.09 University of Florida Information technology specialist

\$16,000 over 2 years

- iPods, a radar detector video games
- Noted on receipts that purchases were electronics bought for the department.

Administrative assistant employed for 30 years

- Used a typewriter to alter receipts for diet books to be World War II books for the program.

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09.15.09 University of Florida

Sr fiscal assistant 11 year employee

- Electronics and camera equipment
- She told university police that she wanted the items for her family but couldn't afford them.

Office Assistant employed for 29 years

- 219 personal items
- clothes and more than 110 DVDs
- altering receipts to hide purchases.

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03.16.09 Georgia Tech program coordinator

\$173,000 over 4 years

- Personal purchases within 6 months of being hired
- Car insurance, cellular telephone bills, personal tuition at Georgia State University, **college tuition** for a member of her family, car repair, Sam's Club gift cards, a **diamond ring**, and over \$4,000 in catering for a **wedding reception**.
- She did not submit receipts or monthly statements for a year and a half.

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01.31.09 University of Central Florida College of Engineering's associate dean

- Purchased more than \$40,000 in electronics for his newly built million-dollar home.
 - home entertainment system and several LCD televisions
- "altered receipt to make it appear that ... business-related items were purchased ... rather than a home-entertainment system

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10.11.07 Siena College's English Professor

- Accused of stealing credit cards from the school and using them to make personal purchases.
- Purchased **beer and lottery** tickets
- Bulger said being in a coma for eight days after contracting meningitis triggered an impulse to steal.

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02.12.08 Georgia Tech administrative coordinator \$316,000 on 5 credit cards over a 5 year period

- NSF Funds - more than 3,800 personal items
- Season tickets to Auburn University football game
\$1,900 **frozen drink** machine, holographic lighted **palm trees**, a Wave runner, wide-screen **television**, electric double wall oven, dishwasher, and air conditioning units for her RV
- The alleged theft was uncovered by a tipster

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**NYU administrator in chemistry department
false receipts submitted**

13,000 receipts over five years - \$409,000

- Scavenging around a local liquor store for discarded receipts and attaching them to NYU reimbursement request forms, claiming they were used for departmental purchase
- Caught by Temporary Worker Looking at Receipts

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What is the Difference Between Fraud and Abuse?

- **Fraud – intentional perversion of the truth to induce another to part with something of value or to surrender a legal right. Fraud is an illegal act.**
- **Abuse – behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances. It represents a corrupt practice.**

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Mounted Deer Head



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Bomber Jacket

\$500



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Fraud or Abuse?



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Itinerary	Airfare paid	Cost of coach trip
London to Honolulu (one way– family of 4 transfer)	\$21,000	\$2,500
Miami to Amsterdam	4,500	600
Miami to San Jose	4,100	500
Miami to Boston	3,400	700
Mimi to Washington, DC	3,300	250

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1. Assess the risks of fraud occurring.
2. Evaluate the strengths and weaknesses of internal controls to determine the susceptibility of the program being audited to fraud.
3. Design tests and evaluate evidence gathered to determine whether fraud has occurred.

Ultimately, whether an act is, in fact, fraud is a determination to be made through the judicial or other adjudicative.

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Questions?



"Are these just guidelines, or are they actual new policies?"