



A Look at Fraud in Higher Education

Chuck Kozlik

Charla Hollowell

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A professional services firm serving clients through

- Outsourcing
- Consulting
- Audit
- Tax
- Wealth Advisory



More than 5,000 employees

Offices coast to coast

Serving higher education for more than 50 years

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC.



Speakers

Chuck Kozlik
CPA, CFE, CGFM
Principal

16+ years of experience serving institutions of higher education and state & local government entities performing audits and reviews.

Charla Hollowell
CPA, CFE, CGMA, ITRP
Consultant

20+ years of experience serving institutions of higher education in various capacities, including: enterprise risk management, risk assessment, investigations, and internal control reviews.



Our Discussion Today

- Fraud Overview
- Victim Organizations
- Who Commits Fraud
- Typical Fraud Schemes
- Prevention & Detection



Fraud

In the broadest sense, fraud can encompass any crime for gain that uses deception as its principal modus operandi. More specifically, *fraud* is defined by *Black's Law Dictionary* as:

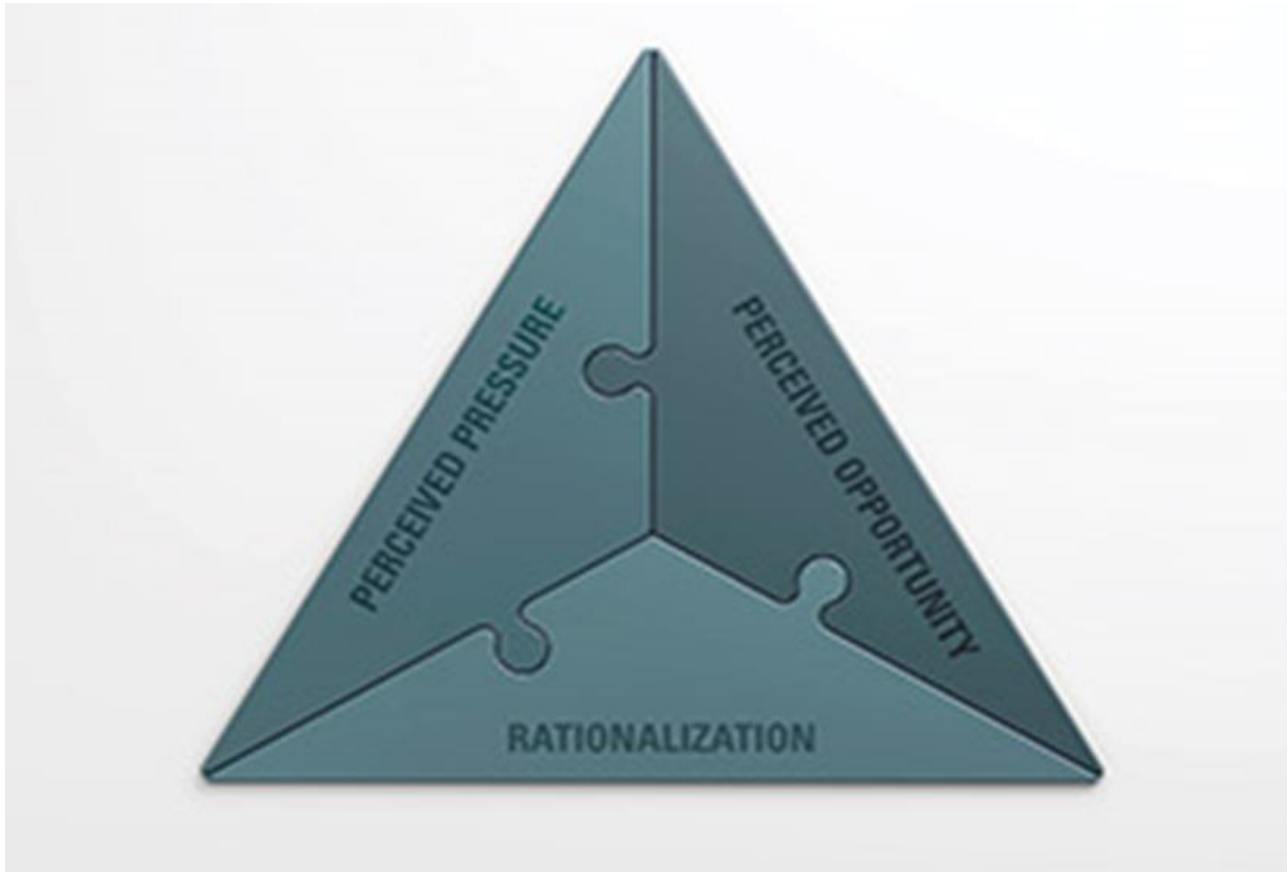
***A knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment.*¹**

Consequently, fraud includes any intentional or deliberate act to deprive another of property or money by guile, deception, or other unfair means.

Occupational Fraud vs. External Fraud



Fraud: A violation of trust



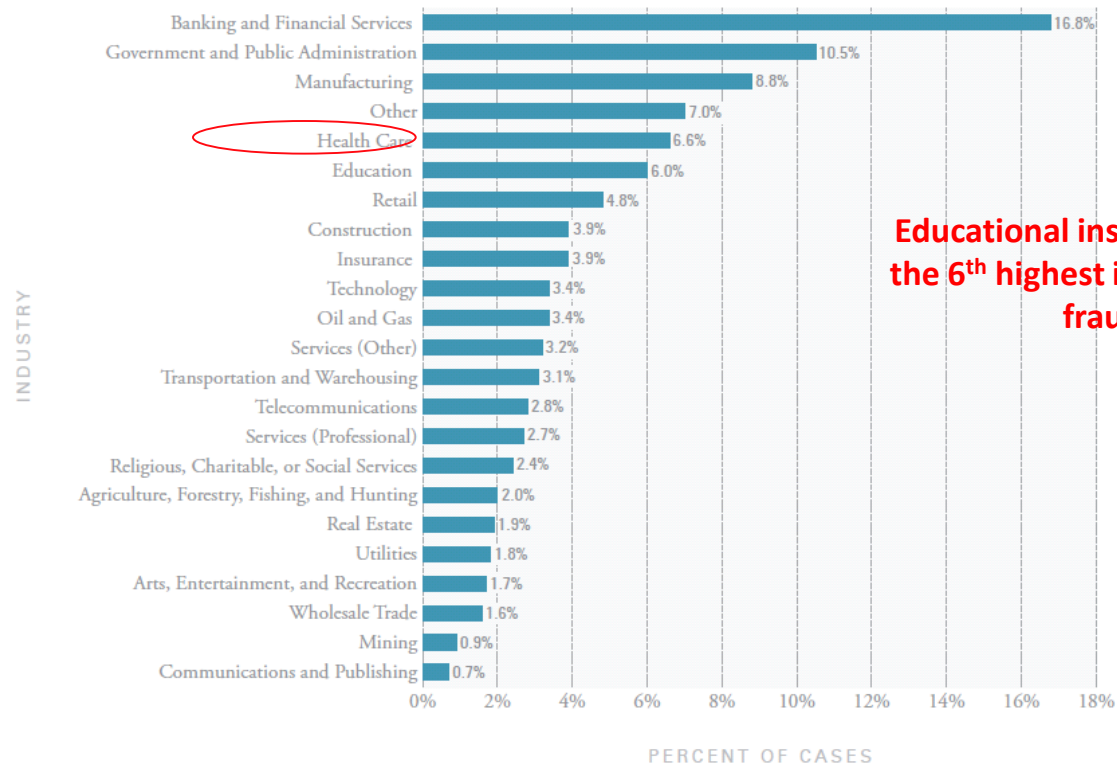
The Cressey Fraud Triangle

CFEs ESTIMATE THE TYPICAL ORGANIZATION LOSES 5% OF ANNUAL REVENUES TO FRAUD



Victim Organizations

Figure 43: Industry of Victim Organizations



Educational institutions rank the 6th highest in instances of fraud.

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Why Higher Education?

Diversity of operations

Geographical disbursement of activities

Delegated Authority

Lean Staffing



Characteristics of the Fraudster

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Characteristic	%
Male	67%
Between 31 and 45 years old	52%
Been at the organization 1-5 years	40.7%
Bachelor's degree	33.7%



Quiz

What percentage of employees have stolen at least twice from their employer?

- a) 0-10%
- b) 10-20%
- c) 20-30%
- d) More than 30%



Answer

d) More than 30%

It is estimated that 37.5% of employees have stolen at least twice from their employer.

Quiz

Which department(s) at institutions typically commit the most fraud?



Answer

More occupational frauds originated in the Accounting department (16.6%) than in any other business unit.

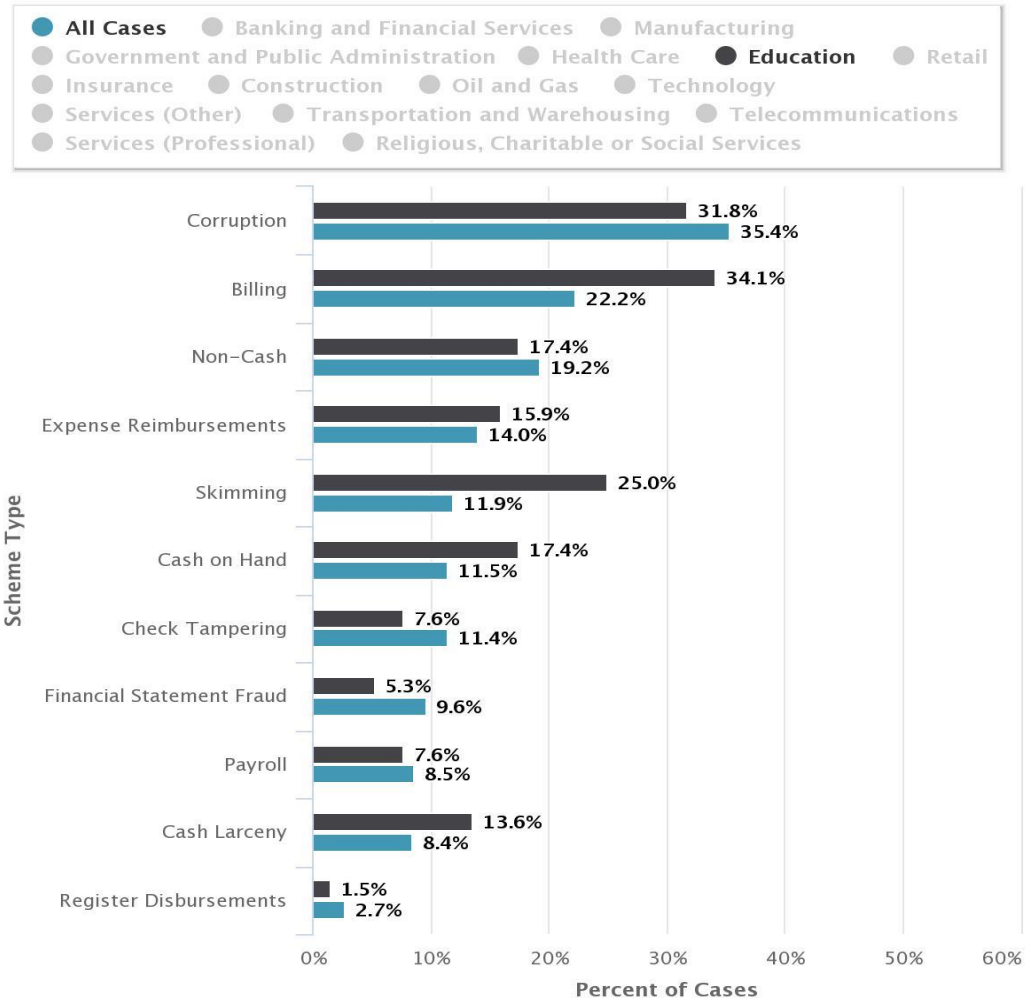
$\frac{3}{4}$ of the frauds studied by the ACFE were committed in 7 key departments:

- **Accounting**
- Operations
- Sales
- Executive management
- Customer service
- **Purchasing**
- **Finance**



Types of Fraud

Frequency of Fraud Schemes by Industry



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Fraud Headlines in Higher Education

CEO and Trustee embezzled \$1.5M

Losses of: \$463,636

Electronic funds transfers: \$4.5M over several months

Purchasing personal goods using university funds: \$267k

Created nonprofit, claimed affiliation, diverted contributions of \$1M



Case Study: Corruption

Facts:

- Adjunct instructor was recruiting students for his own courses
- Courses were being held offsite and these sections were not listed in the course catalogue
- Instructor would deliver the list of students, their grades and payments from student sponsors (which were foreign embassies) to the Registrar after each course was completed

What do you think was happening?



Case Study: Billing

Facts:

- Construction project manager had sole responsibility for managing construction projects
- Approved invoices to pay a fictitious vendor
- Fictitious vendor = project manager

Total Loss: \$2.5M over 5 years



Case Study: Non-Cash

Facts:

- Bookstore personnel cuts due to budget constraints
- Bookstore tech promoted to purchasing agent
- After several years of declining profits, director of auxiliary services was hired
- Textbooks were sold for personal profit

Total Loss: At least \$700k over 5 years



Case Study: Procurement Cards

Facts:

- Purchases included:
 - Car insurance
 - Cellphone bills
 - Tuition at another institution
 - Car repair
 - Sam's Club gift cards
 - Jewelry
 - \$4,000 in catering for a wedding reception

Total Loss: \$170k over 4 years



Case Study: Skimming+

Facts:

- Funneling student fees to instructor via Square
- Students performing construction work as part of their grade; instructor retaining profits
- Instructional videos being filmed onsite, sold by third party company

Total Loss: \$200k +



Detection

Figure 23: Detection Method by Region—United States

Detection Method	Percent of Cases
Tip	37.0%
Management Review	14.3%
Internal Audit	14.1%
By Accident	7.2%
Account Reconciliation	6.1%
Other	5.5%
Document Examination	4.8%
External Audit	4.0%
Notified by Law Enforcement	2.5%
Surveillance/Monitoring	1.9%
IT Controls	1.5%
Confession	1.2%

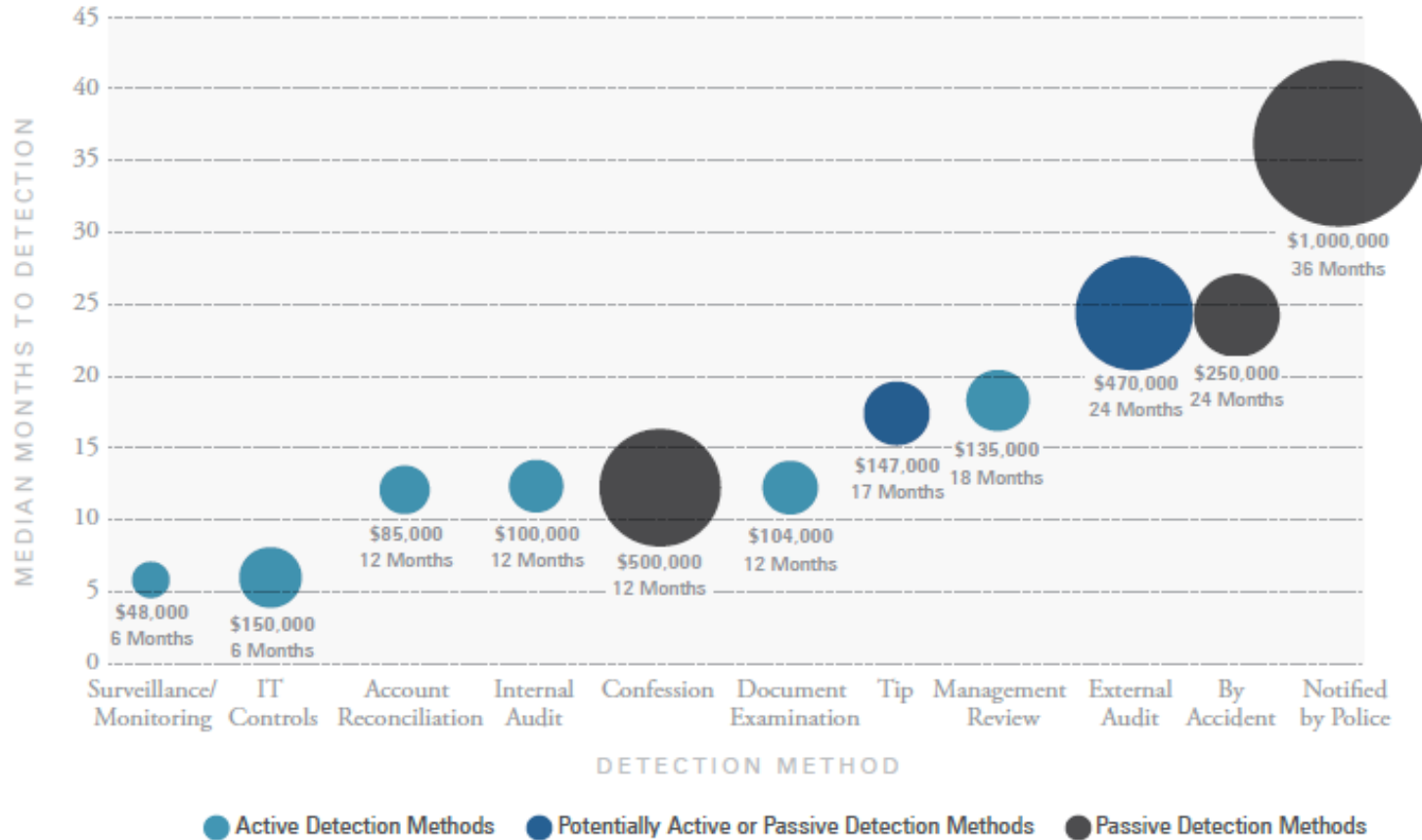
Note: A red bracket groups the top three categories (Tip, Management Review, Internal Audit) with a total of 65.4%.

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Losses by Detection Method

Figure 32: Median Loss and Median Duration by Detection Method



Source: ACFE Report to the Nations, 2016

Prevention: The final word

Basics: COSO Internal Control Framework

- Assess Risks – and respond!
- Solid internal controls
- Communicate
 - ◇ All employees should know their role in prevention
- Monitor effectiveness, make adjustments
- Tone at the Top
 - ◇ Zero tolerance
 - ◇ Prosecute
 - ◇ Take corrective action

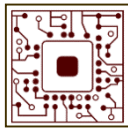


How we can help



INTERNAL AUDIT, RISK & INVESTIGATIONS

- Investigative Services
- Forensic Accounting
- Data Analytics
- Internal Audit Quality Assessment (QAR)
- Enterprise Risk Assessment/ERM
- Internal Controls Assessment
- Performance Audits
- Ethics / Fraud Training



INFORMATION TECHNOLOGY SERVICES

- Cybersecurity Vulnerability and Penetration Testing
- Cybersecurity Incident Response
- IT Planning, Budgeting & Forecasting
- System Selection Process
- System Conversion Support
- Vendor Evaluation
- Project Management
- ERP Application Implementation Management
- Information Security
- Privacy



OPERATIONS, COMPLIANCE & OUTSOURCING

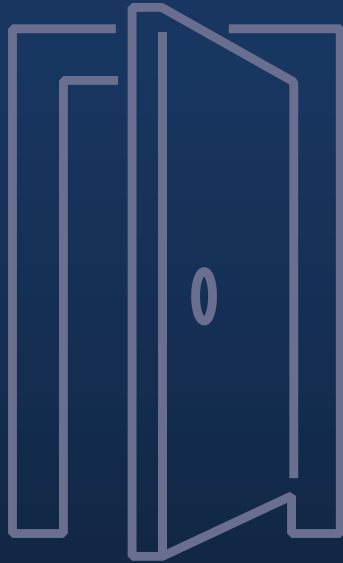
- Strategic Planning
- Interim or Outsourced CFO/Controller
- Business Continuity Planning
- Succession Planning
- CLA Intuition/Financial Modeling
- Policy & Procedure Analysis & Development
- Organizational Assessment/Staffing Analysis
- Investment Policy Evaluation & Design



ACCOUNTING, FINANCE & TAX OPERATIONS

- Analysis & Implementation of Accounting Standard Updates
- Budget & Resource Allocation Models
- Analysis of State Tax Reporting Issues
- UBIT Analysis
- International Tax Analysis
- Revenue Diversification Strategy
- ACA Compliance & Reporting
- Pension Plan Audit and Advisory
- Deferred Compensation Audit and Advisory
- Employee Benefit Plan Audit and Advisory





Chuck Kozlik, CPA, CFE, CGFM
Principal
Chuck.Kozlik@CLAconnect.com
630-368-3662

Charla Hollowell, CPA, CFE, CGMA
Manager
Charla.Hollowell@CLAconnect.com
309-495-8714

CLAconnect.com