Fraud and Professional Ethics in Higher Education

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WHY YOU ARE HERE TODAY?

*Image courtesy of Association of Certified Fraud Examiners*
AGENDA

- Fraud and ethical pressures in our Industry
- Ethical Decision Making Exercise
- Discussion on Generational Ethics
- Fraud Examples
- Fraud Prevention
THE FRAUD TRIANGLE

*Image courtesy of Association of Certified Fraud Examiners
TYPES OF FRAUD

- Asset Misappropriation
- Corruption
- Fraudulent Statements

CACUBO
FRAUD & ETHICAL PRESSURES IN OUR INDUSTRY
ECONOMIC LANDSCAPE

- **Tuition Dependency**
  - Increasing pressure on discounting
  - Flat to moderately declining population of High School Graduates entering higher education
  - Communicating the Value of a Degree
  - Drastic reductions in non-traditional students pursuing degrees

- **Regulatory Burden**
  - Focus on cost of Higher Education
  - Student Loan “bubble”
  - Financial responsibility metrics
  - Uniformed Guidance
ECONOMIC LANDSCAPE

- Other Funding Sources
  - State Appropriations & performance based funding
  - Desire for transparency and accountability
  - Outcomes
  - Donor intentions

- Cost Pressures
  - Age of Facilities
  - Looming Retirements & Lack Thereof
WHAT DOES THIS MEAN?
ETHICAL DECISION MAKING EXERCISE
Example 1

- Organization needs to hire a marketing & promotions firm to assist with the public outreach of a new program service
- Costs paid to the firm are expected to exceed $100,000 in the first year of the contract
- Organization has a $5,000,000 annual operating budget
- Organization hires Firm ABC to provide the service
- Firm ABC is wholly owned by a member of the Organization’s Board of Directors
- Member makes substantial annual contributions to the Organization
- Organization obtained 3 competitive bids for the contract
- Firm ABC was not the lowest priced but had the best credentials and work plan to execute the contract
- Board approved the contract prior to any exchange of compensation
- Conflicted board member recused from decision
**ETHICAL DECISION MAKING EXERCISE**

**Example 2**

- Organization needs to hire a marketing & promotions firm to assist with the public outreach of a new program service
- Costs are expected to exceed $100,000 in the first year of the contract
- Organization has a $5,000,000 annual operating budget
- Organization hires Firm ABC to provide the service
- Firm ABC is wholly owned by a member of the Organization’s Board of Directors
- Member makes substantial annual contributions to the Organization
- Organization obtained 3 competitive bids for the contract
- Firm ABC was not the lowest priced; **other vendors had similar credentials and work plan**
- **Contract is funded by a Federal Grant**
ETHICAL DECISION MAKING EXERCISE

Example 3

- Organization needs to hire a marketing & promotions firm to assist with the public outreach of a new program service
- Costs are expected to exceed $100,000 in the first year of the contract
- Organization has a $5,000,000 annual operating budget
- Organization hires Firm ABC to provide the service
- Firm ABC is wholly owned by a member of the Organization’s Board of Directors
- Organization did not obtain competitive bids
- The Organization’s senior management team and the conflicted Board member were the only parties aware of the transaction before and after compensation was provided
Fraud Examples
RECENT EXAMPLES

- PI Reporting of Outcomes
- Employee Expense Reimbursement
- Theft of Assets
- Excessive Conflict of Commitment
- Athletic Event Tickets
- Diversion of Student Payment to PayPal Account
- External Cyber Related Breaches
- Acceptance of Deferred Tuition Immediately Prior to Known Bankruptcy/Insolvency
- Bribes & disallowed payments related to NCAA activities
- Lack of adherence to donor intent
FRAUD EXAMPLES

- Asset Misappropriation
- Corruption
- Fraudulent Statements
FRAUD PREVENTION CHECKLIST

The most cost-effective way to limit fraud losses is to prevent fraud from occurring. This checklist is designed to help organizations test the effectiveness of their fraud prevention measures.

Source: 2010 Report to the Nations on Occupational Fraud and Abuse © 2010 by the Association of Certified Fraud Examiners, Inc.
FRAUD PREVENTION CHECKLIST

1. Is ongoing anti-fraud training provided to all employees of the organization?
   - Do employees understand what constitutes fraud?
   - Have the costs of fraud to the institution and everyone in it — including lost profits, adverse publicity, job loss and decreased morale and productivity — been made clear to employees?
   - Do employees know where to seek advice when faced with uncertain ethical decisions, and do they believe that they can speak freely?
   - Has a policy of zero-tolerance for fraud been communicated to employees through words and actions?

Source: 2010 Report to the Nations on Occupational Fraud and Abuse © 2010 by the Association of Certified Fraud Examiners, Inc.
**Fraud Prevention Checklist**

2. **Is an effective fraud reporting mechanism in place?**
   - Have employees been taught how to communicate concerns about known or potential wrongdoing?
   - Is there an anonymous reporting channel available to employees, such as a third-party hotline?
   - Do employees trust that they can report suspicious activity anonymously and/or confidentially and without fear of reprisal?
   - Has it been made clear to employees that reports of suspicious activity will be promptly and thoroughly evaluated?

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FRAUD PREVENTION CHECKLIST

3. To increase employees’ perception of detection, are the following proactive measures taken and publicized to employees?

- Is possible fraudulent conduct aggressively sought out, rather than dealt with passively?
- Does the organization send the message that it actively seeks out fraudulent conduct through fraud assessment questioning by auditors?
- Are surprise fraud audits performed in addition to regularly scheduled fraud audits?
- Is continuous auditing software used to detect fraud and, if so, has the use of such software been made known throughout the organization?

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FRAUD PREVENTION CHECKLIST

4. Is the management climate/tone at the top of honesty and integrity?

- Are employees surveyed to determine the extent to which they believe management acts with honesty and integrity?
- Are performance goals realistic?
- Have fraud prevention goals been incorporated into the performance measures against which managers are evaluated and which are used to determine performance-related compensation?
- Has the organization established, implemented and tested a process for oversight of fraud risks by the board of directors or others charged with governance (e.g., the audit committee)?

Source: 2010 Report to the Nation on Occupational Fraud and Abuse © 2010 by the Association of Certified Fraud Examiners, Inc.
Fraud Prevention Checklist

5. Are fraud risk assessments performed to proactively identify and mitigate the institution’s vulnerabilities to internal and external fraud?

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FRAUD PREVENTION CHECKLIST

6. Are strong anti-fraud controls in place and operating effectively, including the following?
   - Proper separation of duties
   - Use of authorizations
   - Physical safeguards
   - Job rotations
   - Mandatory vacations

Source: 2010 Report to the Nation on Occupational Fraud and Abuse © 2010 by the Association of Certified Fraud Examiners, Inc.
FRAUD PREVENTION CHECKLIST

7. Does the internal audit department, if one exists, have adequate resources and authority to operate effectively and without undue influence from senior management?

Source: 2010 Report to the Nations on Occupational Fraud and Abuse
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FRAUD PREVENTION CHECKLIST

8. Does the hiring policy include the following (where permitted by law)?
   - Past employment verification
   - Criminal and civil background checks
   - Credit checks
   - Drug screening
   - Education verification
   - References check

Source: 2010 Report to the Nation on Occupational Fraud and Abuse
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FRAUD PREVENTION CHECKLIST

9. Are employee support programs in place to assist employees struggling with addictions, mental/emotional health, family or financial problems?

10. Is an open-door policy in place that allows employees to speak freely about pressures, providing management the opportunity to alleviate such pressures before they become acute?

11. Are anonymous surveys conducted to assess employee morale?

Source: 2010 Report to the Nations on Occupational Fraud and Abuse
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GENERATIONAL IMPACT ON ETHICS
GENERATIONS IN THE WORKPLACE

- Traditionalist (born 1925-1945)
- Baby Boomers (born 1946-1964)
- Generation X (born 1965-1980)
- Millennial (born 1981-2000)
# Ethics and the Generations

<table>
<thead>
<tr>
<th>Overall</th>
<th>Millennials</th>
<th>Gen X</th>
<th>Baby Boomers</th>
<th>Traditionalists</th>
</tr>
</thead>
<tbody>
<tr>
<td>Felt Pressure</td>
<td>13%</td>
<td>13%</td>
<td>9%</td>
<td>22%</td>
</tr>
<tr>
<td>Observed Misconduct</td>
<td>45%</td>
<td>49%</td>
<td>**</td>
<td>44%</td>
</tr>
<tr>
<td>Reported Misconduct</td>
<td>65%</td>
<td>67%</td>
<td>69%</td>
<td>64%</td>
</tr>
<tr>
<td>Perceived Retaliation</td>
<td>22%</td>
<td>29%</td>
<td>21%</td>
<td>18%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Acceptable Behaviors</th>
<th>Millennials</th>
<th>Gen X’ers</th>
<th>Boomers</th>
<th>Traditionalists</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acceptable to blog/tweet negatively about company</td>
<td>14%</td>
<td>9%</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>Acceptable to buy personal items with company credit card</td>
<td>15%</td>
<td>9%</td>
<td>8%</td>
<td>5%</td>
</tr>
<tr>
<td>Acceptable to keep copies of confidential documents</td>
<td>22%</td>
<td>18%</td>
<td>13%</td>
<td>8%</td>
</tr>
<tr>
<td>Acceptable to work less to compensate for cuts in benefits or pay</td>
<td>18%</td>
<td>13%</td>
<td>8%</td>
<td>2%</td>
</tr>
<tr>
<td>Acceptable to “Friend” a client/customer on a social network</td>
<td>36%</td>
<td>32%</td>
<td>24%</td>
<td>15%</td>
</tr>
<tr>
<td>Acceptable to use social networking to find out about company’s competitors</td>
<td>37%</td>
<td>34%</td>
<td>27%</td>
<td>9%</td>
</tr>
<tr>
<td>Acceptable to upload personal photos on company network</td>
<td>26%</td>
<td>19%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>Acceptable to take a copy of work software home for personal use</td>
<td>13%</td>
<td>11%</td>
<td>5%</td>
<td>8%</td>
</tr>
</tbody>
</table>
### How Important are the Rules? (Continued)

<table>
<thead>
<tr>
<th>Would post the following on their personal social networking site:</th>
<th>Millennials</th>
<th>Gen X’er</th>
<th>Baby Boomers</th>
<th>Traditionalists</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotion to new job</td>
<td>62%</td>
<td>54%</td>
<td>47%</td>
<td>35%</td>
</tr>
<tr>
<td>Annoying habit of coworker</td>
<td>20%</td>
<td>14%</td>
<td>4%</td>
<td>3% <em>X,B</em></td>
</tr>
<tr>
<td>Bad joke told by the boss</td>
<td>26%</td>
<td>17%</td>
<td>9%</td>
<td>3% <em>X,B</em></td>
</tr>
<tr>
<td>Work on a project</td>
<td>26%</td>
<td>19%</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td>Feelings about job</td>
<td>40%</td>
<td>27%</td>
<td>18%</td>
<td>17% <em>X,B</em></td>
</tr>
<tr>
<td>Positive comments about coworkers</td>
<td>47%</td>
<td>41%</td>
<td>35%</td>
<td>37%</td>
</tr>
<tr>
<td>Positive comments about company</td>
<td>54%</td>
<td>49%</td>
<td>45%</td>
<td>53%</td>
</tr>
<tr>
<td>Picture of coworker drinking</td>
<td>22%</td>
<td>15%</td>
<td>4%</td>
<td>3% <em>X,B</em></td>
</tr>
<tr>
<td>Information about company’s competitors</td>
<td>19%</td>
<td>12%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Opinion about coworker’s politics</td>
<td>16%</td>
<td>11%</td>
<td>4%</td>
<td>3%</td>
</tr>
</tbody>
</table>

### How Important are the Rules? (Continued)

<table>
<thead>
<tr>
<th>Consider Telling</th>
<th>Millennials</th>
<th>Gen X’ers</th>
<th>Boomers</th>
<th>Traditionalists</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friends</td>
<td>65%</td>
<td>52%</td>
<td>41%</td>
<td>40% X,B</td>
</tr>
<tr>
<td>Family</td>
<td>65%</td>
<td>59%</td>
<td>51%</td>
<td>49%</td>
</tr>
<tr>
<td>Government</td>
<td>28%</td>
<td>24% M,T</td>
<td>14%</td>
<td>11% X,B</td>
</tr>
<tr>
<td>Social Networking site</td>
<td>21%</td>
<td>13%</td>
<td>4%</td>
<td>2% X,B</td>
</tr>
<tr>
<td>Traditional Media</td>
<td>17%</td>
<td>11% M,T</td>
<td>3%</td>
<td>2% X,B</td>
</tr>
<tr>
<td>Religious Leader</td>
<td>22%</td>
<td>16% M,T</td>
<td>9%</td>
<td>5% X,B</td>
</tr>
<tr>
<td>Legal Counsel</td>
<td>20%</td>
<td>21%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
<td>4%</td>
<td>8%</td>
<td>9%</td>
</tr>
</tbody>
</table>

RECOMMENDATIONS FOR MILLENNIALS

- Communicate in terms of people, relationships, integrity
- Messaging by colleagues and immediate supervisors
- Build opportunities to interact, discuss, give input, receive status updates
RECOMMENDATIONS FOR GEN X

- Make advice and standards easily accessible for review
- Inform that help is available when needed
RECOMMENDATIONS FOR BOOMERS

- Formal systems and reporting lines
- Provide way to share their experiences (with others) using the institution's standards or systems
- Employee reporting misconduct will be protected and informed