Introduction to Fraud and Controls

University of Alabama System
Office of Internal Audit
Agenda

- Headlines
- Examples of Fraud
- Why Fraud Occurs
- Preventing Fraud
- Controls
- Fraud Feud
DALLAS — Dr. Kern Wildenthal spent more than 30 years in leadership positions at UT Southwestern Medical Center. He was medical school dean and then president of the facility.

Auditors said he made 20 trips outside the United States between June 2005 and December 2010 to places like Spain, France, New Zealand, and England, adding that he "routinely mingled his personal and business expenses."
Former Penn State professor charged in $3 million federal research grant fraud

Published: Tuesday, January 31, 2012, 4:26 PM    Updated: Tuesday, January 31, 2012, 4:27 PM

U.S. Attorney Peter J. Smith in Harrisburg said today that former Penn State Professor Craig Grimes, 55, defrauded the National Institutes of Health of $3 million in federal research grant money between June 30, 2006 and Feb. 1, 2011.
Chief U.S. District Judge Jack T. Camp has sentenced a Marietta, Ga., woman who used to work at Georgia Tech to two years and eight months in federal prison and pay $316,800 in restitution for a scheme to defraud the school and the National Science Foundation.

Donna Renee Gamble, 43, pleaded guilty in May to 22 counts of mail fraud for using Georgia Tech procurement credit cards to make personal purchases totaling more than $316,874.
Morgan State University professor convicted of fraud scheme

April 02, 2014 | By Carrie Wells, The Baltimore Sun

A Morgan State University professor was convicted Tuesday in connection with a scheme to defraud the National Science Foundation and his students.
How an Iowa hospital worker got caught stealing and selling computers

April 24, 2014 Posted by Shellie Nelson

A state audit explains how a former employee got caught selling and giving away computers that belonged to the University of Iowa Hospitals and Clinics.

Brian Manary was charged in 2013 with theft and ongoing criminal conduct. Manary was accused of keeping money he made selling dozens of computers that belonged to the hospital, while he worked in the UIHC information technology department.
Examples of Fraud

- Cash Receipts
  - Cash is stolen before or after it is recorded

- Cash Disbursements
  - Bill for service not rendered
  - Fraudulent expense reports
  - Time not worked

- Non-Cash
Why Fraud Occurs
### The Fraud Triangle

**Opportunity**
- Weak internal controls

**Pressure**
- Personal finances

**Rationalization**
- “I’ll pay it back”
- “I deserve it”

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<th>Opportunity</th>
<th>Pressure</th>
<th>Rationalization</th>
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<tr>
<td>Weak internal controls</td>
<td>Personal finances</td>
<td>“I’ll pay it back”</td>
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<tr>
<td>Trusted employees</td>
<td>Vices</td>
<td>“I deserve it”</td>
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Preventing Fraud

- Controls
  - Preventive
  - Detective
  - Other

- Tone at the top
Controls – Financial

 Preventive
  - Proper segregation of duties
  - Approvals and authorizations
  - Adequate documentation
  - Physical control over assets
  - Supervision
  - Mandatory vacations
Controls– Financial

- **Detective**
  - Reconcile transactions to financial records
  - Variance analysis
  - Perform physical inventories
  - Perform analytical reviews to identify unexpected trends and unusual transactions

- **Other**
  - Fraud awareness training and consistent enforcement
  - Provide employees way to report concerns
  - Employment and education verification
  - Background and reference checks
Layers of ITGCs and their relative risk

Infrastructure (INF)
Host Server (HS)
Application (APP)
Database (DB)
Layers within ITGCs Which may be Prone to Higher Fraud Risks

Infrastructure (INF)
Host Server (HS)
Application (APP)
Database (DB)
Fraud Feud
Tone at the Top

- Do I lead by example?

- For my team members:
  - Do I ensure my team receives adequate training?
  - Do I ensure that my team has adequate resources?

- Would I be embarrassed by my actions if it was reported on the front page of local paper or in national news?
Questions?

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