

2018

## UA25/3 Newsletter: The Fraud Issue, Issue 8

WKU Internal Auditor

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## FRAUD – AWARENESS & PREVENTION

The word “fraud” can make certain people cringe at the thought of it. It’s a word that certain people like to ignore. But it’s also a word that can be used with great emphasis when trying to prove a point. Sometimes just hearing the word can make executives shudder and participating individuals blush. There are numerous types of fraud, and some of those can cause major damage to an organization.

According to the Association of Certified Fraud Examiners (ACFE), occupational fraud is “the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the organization’s resources or assets”.

The ACFE estimates that organizations lose about 5% of annual revenues to fraud each year. Percentage wise, that doesn’t sound like much, but the actual dollar amount may surprise you. **At WKU, that could be about \$20 million annually!**

This is not to suggest that there is one massive fraud scheme on campus siphoning \$20 million dollars from the budget each year. Instead, there may be many smaller-dollar active schemes that misappropriate WKU resources for personal enrichment. Real life examples of these smaller-value schemes may include: purchasing items for personal use on a WKU procurement card, forging signatures to “approve” unauthorized expenses, accepting personal payment from third parties for services performed by WKU, or using WKU funds to purchase flights and other vacation accommodations for family members or friends. These smaller schemes add up over time and are multiplied by the number of people across the organization engaging in these unethical and/or illegal activities. But who would do such a thing to our beloved university? Could it be your office mate, your favorite professor, the nicest staff employee down the hall? In our “Ask an Auditor” segment you will learn that fraudsters do not always look like the typical villain.

To shed some light on this subject, the WKU Office of Internal Audit is launching a fraud awareness & prevention campaign. We want every employee at WKU to understand how fraud affects us all, learn tips on what to look for when identifying potential fraud, and know how to report (in good faith) suspected fraud anonymously. As part of the campaign, our staff is available to make presentations to your team about fraud awareness & prevention.

While audits may uncover misconduct or fraud in an organization, history shows that the most effective detection tool for unethical behavior is not internal audit or management reviews. **The most effective fraud detectors are employees!** Employees are often the first to notice unethical behaviors or suspicious transactions and are instrumental in keeping an organization aware of improprieties.

Remember that WKU’s Ethics and Compliance hotline allows employees to anonymously report any information without fear of retribution. The hotline is facilitated by a third party ethics reporting company to ensure complete anonymity. No identifying information is collected, including phone numbers or IP addresses, nor is it ever provided to the university. The collection system allows for anonymous electronic conversations between the reporter and the investigative team.

## Ethics & Compliance Hotline and Web Site Information

**Toll free: 1-877-318-9178**

**Web site: [www.wku.ethicspoint.com](http://www.wku.ethicspoint.com)**

**PLEASE CONTACT US TO REQUEST A FRAUD PRESENTATION BY INTERNAL AUDIT STAFF.**

## **FISCAL YEAR 2018 AUDIT PLAN**

An audit plan is drafted each year based on results of a risk assessment performed by the President's Cabinet in conjunction with Internal Audit. The audit plan for fiscal year 2018 is available by visiting the Office of Internal Audit website. [https://www.wku.edu/finadmin/ia/documents/fy18\\_internal\\_audit\\_plan.pdf](https://www.wku.edu/finadmin/ia/documents/fy18_internal_audit_plan.pdf)

## **ASK AN AUDITOR**

**Dear Auditor,**

**What is the profile of a person likely to commit fraud?**

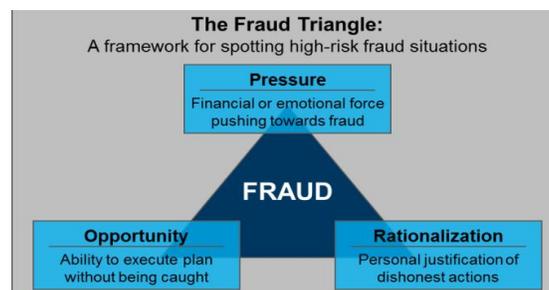


*If only real-life criminals were as easy to spot as Disney villains!*

Dear Reader,

That is an interesting question with a complex answer. The ACFE published a report in 2014 to provide insight into the people behind occupational fraud crimes. The report examined over 1,400 occupational fraud cases and summarized the following: 42% were staff level employees, 36% were mid-level managers, two-thirds were male, 47% had worked for the victim organization for less than six years, and 87% were first-time offenders.

Some characteristics of typical fraudsters include what fraud examiners call a “wheeler - dealer attitude”. They may brag about “outsmarting” others and may constantly try to challenge the system to influence the interpretation of policies and laws in a way that benefits them. They will not hesitate to exploit any gaps in policy or controls for their own personal gain. These so-called gaps are considered points of opportunity on the famous fraud triangle.



The fraud triangle is somewhat of an explanation of how honest people may become dishonest. Some perpetrators of occupational fraud were considered trusted, upstanding citizens in their communities. However, someone experiencing a difficult financial situation may feel pressure to exploit opportunities and rationalize misuse of an organization's resources to ease their financial problems. When these employees are discovered committing fraud, most of their coworkers are shocked. A recent example, the church secretary who embezzled nearly \$300,000 from a small Kentucky church to purchase clothes, vacations and salon visits. We'd like to think of perpetrators being similar to villains in Disney movies - it's fairly easy to spot them. If only reality was as simple as a Disney movie!

Thanks for your question! Please contact us for more information on fraud prevention at WKU.

**Contact Us**

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You can submit a question by emailing our staff. We will choose one question per quarter to answer in the newsletter. Please place the phrase “Ask an Auditor”, in the subject line.