



Audit Hotspot

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**AUDIT HOTSPOT
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[Parr, C. \(2013\)](#)

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Greetings From the Internal Audit Staff

Hello, there, I am very excited to announce that the new release of the Internal Audit Newsletter has finally arrived! In this edition, we will dive in a little deeper about fraud issues. But first, I will introduce myself as another family member of the Internal Audit group. My name is Chrisnina Sutopo-Putri and I received my accounting and finance degrees from McNeese in 2013. I also had an amazing experience working in one of The big four public accounting firms in both an internship and full time staff auditor capacity for about a year and half in the audit practice. Currently, I am assisting the Director of Internal Audit, Victoria Roach, in assuring McNeese stays in compliance with the related regulations while I am pursuing my MBA degree. I hope I can make a difference to the McNeese family as a whole through the Internal Audit Department.



Brief Overview

In the previous Audit Hotspot (Vol. 6, Issue 2), we discussed the background of fraud issues, such as the description of fraud, including the fraudulent acts in detail to help people identify the issues around them. We also talked about the procedures to prevent and detect fraud by featuring some of the key internal control activities as well as the cause of fraud. It is part of the University employees' responsibilities to prevent, detect, and deter fraud regardless of level of employment.

In this edition, we will dive in a little deeper on how to identify the fraudsters around us and discuss some of the fraud cases in higher education. We will also address the ethics questions which relate to R.S 42:1121 regarding restrictions on post employment.

Finally, keeping yourselves informed with ways to prevent a crime from happening is always better than trying to recover from the loss when the crime has already happened. Like one says "prevention is better than cure."

So if you all are ready to get informed, let's roll!



"I think you know why you're here, Fender!"

[Jantoo \(2015\)](#)

What Are Some Characteristics of a Fraudster?

Across the state, higher education has suffered from devastating cuts to funding. The budget cuts do not only impact the education quality but also the quality of internal controls on campuses. Typically you will see an increase in fraud during tough times. The fraud triangle, which is a combination of motivation/incentive/pressure, opportunity, and rationalization, comes into play. The budget cuts could be a cause in an increase of thefts on campuses. With that in mind, increasing the awareness of fraudsters' characteristics is essential.

A fraud suspect may not be easy to pick out of a crowd, however, the Association of Certified Fraud Examiners has identified certain common traits and red flags to assist in identifying fraudsters. The study includes demographic information on more than 1,400 occupational fraudsters from more than 100 countries ([ACFE, 2014](#)) & ([ACFE \(2012\)](#)).

The study shows that:

- More than half of all cases in the study were committed by individuals between the ages of 31 and 45.
- The median loss increases

with the age of the perpetrator and tenure at an organization.

- Most of the fraudsters in the study had never been previously charged or convicted for a fraud-related offense.

So what are the warning signs and red flags?

- The study shows that 36% of the fraudsters live beyond their means. A great example to this is a case of Ronald Partee, a Goodwill vice president who was working in the agency accounting department and embezzled more than \$1 million. Part of it is from Goodwill retirees insurance premiums and Goodwill law school tuition reimbursements that he never attended. The embezzlement money was used to purchase a 2002 Porsche and support a "lavish lifestyle" ([Patrick, 2011](#)). Questions arose about how an employee making \$35,000 could afford such luxuries.
- Other studies show that

27% of fraudsters experienced financial difficulties. Take a look at a story about an ex-manager of Bank of America who managed to embezzle approximately \$200,000 because of fear of not being able to provide for the needs of her growing family ([Naple daily news, 2012](#)).

- 18% of fraud cases were due to control issues such as unwillingness to share duties. That is the reason why internal controls can be reinforced by establishing a policy for employees to take a mandatory vacation. This may help to identify weaknesses or even identify fraudulent activities.
- Only 6% of the violators had been previously convicted of a fraud offense. Take a look at a case of Mark Whitacre who was a president of Archer Daniels Midland, an American Global food-processing company. Mark was involved in a price fixing conspiracy and stole \$9 million. Whitacre spent nine years in jail due to this act. This conspiracy is considered one of the biggest frauds in history. ([Fitzpatrick, 2015](#))

"Even though I've been out of prison almost six years it still haunts me every day what I did to my family."

~Mark Whitacre

The Face of Fraudsters



Ronald Partee, 45 ([Patrick, 2011](#)).



Siri Siriphanthong, 33 ([Naple daily news, 2012](#)).

Most Frequent Fraud Committed in Higher Education

- Personal purchases on the P-card.
- Using original appropriate purchase receipts for personal reimbursements
- Theft of cash from deposits
- Incorrect submission of hours not actually worked
- Misappropriation of assets
- Conflict of interest (i.e. companies, admissions, hiring)
- Forgery

([Hill & Verdeyen, 2015](#))

A Case of Fraud in Higher Education



"Jody Farnham, a former University of Vermont employee, embezzled at least \$185,000 over a six-year period by diverting tuition checks from enrollees in workshops offered by the Vermont Institute for Artisan Cheese (VIAC). She also submitted expenses on purchasing card transactions, expense reports, and mileage claims without a documented business purpose. Farnham, who worked for UVM from 2003 until 2013, was the institute's only administrative coordinator. Her responsibility was receiving cash payment and making purchases for the workshops. This was not the only time that Jody had committed a crime. Previously, she stole \$3,000 while she was working for Burlington School District before she "resigned" from the job. Because Jody paid in full the amount stolen, the matter was never reported to the authorities. Therefore, VIAC was unaware of the situation when it hired Jody in the first place" ([Johnson, 2014](#)). The case of Jody Farnham is a great example of why it is essential to ensure that proper segregation of duties and other internal controls are in place. Universities need to ensure that the roles of authorizing, recording, and custody (ARC) are separated among personnel in order to prevent fraud and/or errors from occurring in the normal course of business operations. However, in a small institution, segregation of duties may be difficult to accomplish due to limited personnel, at which time other mitigating controls should be implemented.

Ethics RS 42:1121 on “Post Employment”

What does Revised Statute (RS) 42:1121 govern?

RS 42:1121 governs certain restrictions on employment of certain persons after termination of public service.

Section 1121B(1) of the Code of Governmental Ethics states, “No former public employee shall, for a period of two years following the termination of his public employment, assist another person, for compensation, in a transaction, or in an appearance in connection with a transaction in which such former public employee participated at any time during his public employment and involving the governmental entity by which was formerly employed, or for a period of two years following termination of his public employment, render, any service which such former public employee had rendered to the

agency during the term of his public employment on a contractual basis, regardless of the parties to the contract, to, for, or on behalf of the agency with which he was formerly employed”

This section restricts public employees from taking an assignment on the basis of contract from the former employer in the same capacity of their previous employment with the agency. It also prohibits a former employee from assisting another in any transaction in which that employee formerly participated in.

Example #1

You just left your public position with a state university where you worked as a database administrator in the Information Technology Department. You are hired on as a database administrator for an

information technology company that wants to contract with the university to outsource its database administrative responsibilities. Any participation in the establishment of the contract or performance of any duties associated with the contractual arrangement would be in violation of section 1121B(1) of the Code of Governmental Ethics.

Example #2

Six months ago, Jake was employed by the university to perform training through its Continuing Education Program, but was not classified as an agency head. Jake quit his public employment and now wants to contract with the university to provide those same services. In this case, Jake is prohibited from providing those services on a

contractual basis with the university for a two-year period because the contracted services to be provided are the same services that he provided as an employee of the university.

These two examples featured here are included with the hope that public employees stay in compliance with the Code of Governmental Ethics in the future.

Ethics Training Reminder

Pursuant to Act 315 of the 2007 regular session of the Louisiana Legislature, beginning Jan. 1, 2012, all public employees are required to receive a minimum of one hour of education and training on the Code of Governmental Ethics each calendar year of their employment. If you or any of your staff have not completed the training for 2015, please do so as soon as possible. Please note that this require-

ment applies to all full-time and part-time personnel as well as graduate assistants, visiting lecturers, and student workers.

Visit www.mcneese.edu/audit/ethics for instructions on how to complete the training online.



Updates on University Louisiana System Policies

All of these policies can be found by clicking the link below on the electronic version of the newsletter.

Uls Updated Policies	Effective Date
Litigation (B-I.F-1)/Guidelines/Litigation Referral Form	Dec 2014
Academic Program Discontinuance	Apr 2015
Internal Audit Charter	Jun 2014
Policy on University Foundations and Other Affiliate Organizations	Apr 2015
Employee Tuition and Fee Policy	Feb 2015
Athletics Travel Policy	Apr 2015
Preventing and Addressing Retaliation	Mar 2014
Hiring Without Regard to Retirement Status and Without Regard to Prior Complaints of Discrimination of Other Protected EEO Activity	Mar 2014
Guidelines for Compliance with Executive Order BJ 14-13	Oct 2014
Continuing Disclosure Undertakings Relative to Public Bond Offerings	Dec 2014



Did you know...

....that the following policies are new or have been revised?

All of these policies can be found by clicking the link below on the electronic version of the newsletter.

McNeese Updated Policies

	Date
<u>Accreditation Review Council</u>	Feb 2014
<u>Reporting the Misappropriation of Public Funds or Assets</u>	Feb 2014
<u>Anti-Bullying Policy</u>	Mar 2014
<u>Copyright Policy</u>	May 2014
<u>Graduate Assistantships</u>	May 2014
<u>Graduate Council and Graduate Faculty Membership</u>	May 2014
<u>International Student Employment Policy</u>	May 2014
<u>Student Employment</u>	May 2014
<u>Student Complaints Review</u>	Jul 2014
<u>Animals on Campus</u>	Aug 2014
<u>Student Injury and Sickness Insurance Plan</u>	Aug 2014
<u>Transfer Credit Limits for Certificate Programs</u>	Aug 2014
<u>Academic Advisory Council</u>	Sep 2014
<u>General Education Assessment Council</u>	Sep 2014
<u>Animals, Service, and Emotional Support</u>	Sep 2014
<u>University Syllabus Requirements and Template</u>	Sep 2014
<u>NCAA Certification</u>	Oct 2014
<u>Lab Instructor Credentialing Policy</u>	Oct 2014
<u>Promotions in Academics</u>	Nov 2014
<u>Collegiality</u>	Dec 2014
<u>Tenure and Promotion Guidelines</u>	Dec 2014
<u>Tobacco Use Policy</u>	Jan 2015
<u>Employee Evaluation</u>	Jan 2015
<u>Vehicle Use Policy</u>	Jan 2015
<u>Facilities Use Policy</u>	Feb 2015
<u>Academic Program Review</u>	Mar 2015
<u>Social Media/Web Policy and Guidelines</u>	Apr 2015
<u>Employee Tuition and Fee Policy</u>	May 2015

We're on the Web:
www.mcneese.edu/audit

Reference: (please click the link to access the hyperlink)

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