

Combating Financial Fraud in Higher Education



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Who is perpetrating fraud in academe?

- Administrators
- Faculty
- Students
- Staff
- Vendors



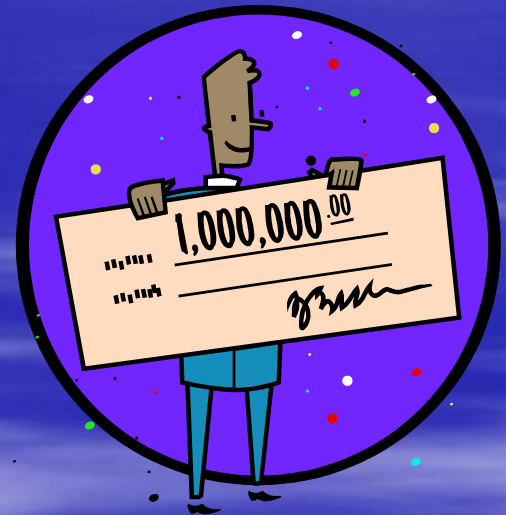
What

type of fraud
is committed
in academe?

Misappropriation or misuse of
University resources, such as
funds, supplies or other assets

What type of fraud?

Expense
reimbursement
schemes



What type of fraud?

Payroll and overtime abuse



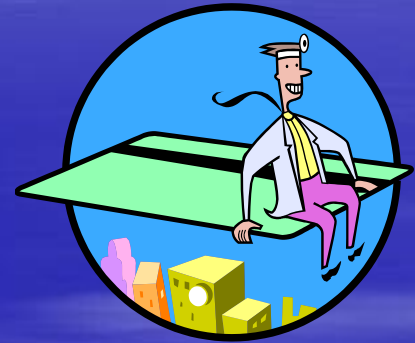
What

type of fraud?

- Procurement fraud
- Fictitious vendors
- Contract bid rigging

What types of fraud?

- Grant fraud
- Purchase Card abuse
- Using college endowment funds in violation of the gift provisions
- Reselling review copies of textbooks



How

are the frauds
perpetrated?

Creating or altering
documents or
computer files with the
intent to defraud





HOW?

Management override of
internal controls

How?

College-related entities

- College Foundations
- Student Associations
- Auxiliary Enterprises





Recent Examples

Forged Endorsements at the University of Vermont Extension Program

In July 2012, a former administrative assistant
plead guilty to depositing \$46,000 into her
personal account.¹

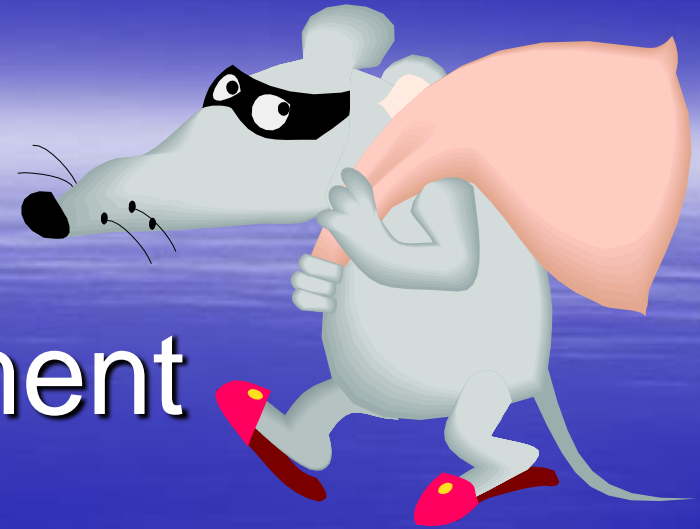
¹Boston.com (US), 'Former UVM Extension Worker Sentenced', 14 July 2012

Skimming

The University of Montana lost more than \$300,000 when a former dormitory staff member stole student rent payments made in cash.²



²*The Missoulian* (US), 'Former Employee Pleads Guilty to Embezzling \$300,000 from University of Montana', 10 August 2011.



Embezzlement

November 2011 – South Korea's Sungwha College closed as a result of embezzlement by its founder.³

³*Korean Herald* (South Korea), 'Two Korean Universities Ordered to Close', 8 November 2011.



Shell Company

April 2011- New York's Vassar College suffered a \$1.9 million loss from a shell company scheme perpetrated by its project manager.⁴

⁴Mid-Hudson News Network (US), 'Former Vassar College Employee, Wife Charged with Stealing \$1.9 Million from School', 4 April 2011.



Fraudulent Disbursements

January 2010 – An Arizona woman plead guilty to defrauding the U.S. federal government of approximately \$500,000 in student financial aid money at Rio Salado College.⁵

⁵AZCentral.com (US), '65 Indicted in Student Loan Fraud against Rio Salado College', 25 June 2009.

Closer to home ...

St. John's University



Sept. 2010 – Fundraiser Charged with \$1 Million Embezzlement⁶

T&E expenses for non work-related items included:

- casino expenses,
- shopping at Victoria's Secret,
- St. John's Law School tuition for her son, and
- subscriptions to dating websites.

She also wrongfully appropriated \$250,000 by creating a not-for-profit entity, the Global Development Initiative Foundation.

⁶ New York Times, 'Fallen Dean's Life, Contradictory to Its Grisly End,' Dec. 10, 2012



Asset Misappropriation

March 2011- New York's Iona College lost \$850,000 when its VP of Finance issued college checks for her own use, made personal purchases on the college credit card, and submitted fake invoices for reimbursement.⁵

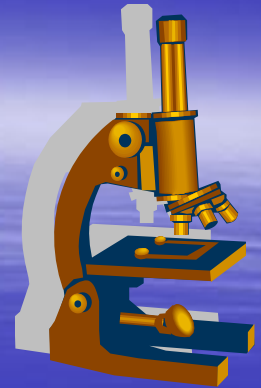
⁵Reuters (UK), 'Gambling Nun Blames "Childhood Demons" for Embezzlement', 8 November 2011.

How are these frauds detected?

- Employee tip to supervisor/internal auditor/external auditor
- Accident
- Anonymous whistleblower hotline
- Internal Audit
- External Audit
- Exit interviews
- Technology - continuous monitoring



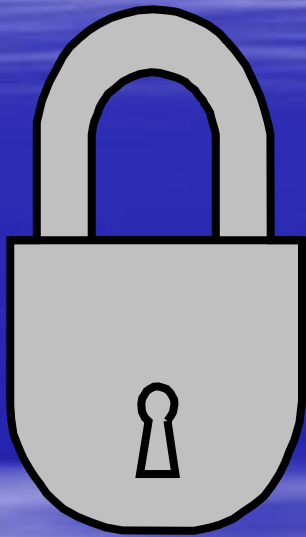
Investigation Techniques



- Interviews
- Public database searches (commonly used for procurement fraud)
- Analyzing documents for fraud red flags (e.g., payroll fraud)
- Tracing funds (e.g., cancelled checks, wire advices)
- E-discovery (e.g., email review, electronic document review)

Why

are universities
susceptible to fraud?



Weak control environment

- Budget cuts creating little or no segregation of duties.
- Supervisors having many responsibilities that are not always performed diligently and giving “rubber stamp” approvals
- Little to no asset management



Why?

- Lower salaries in education
- Long tenures
- Policies and procedures not communicated or enforced
- Silo-ed reporting structure



Why?

- Nepotism
- Low risk of detection
- Low risk of prosecution
- Concentration of power
(President, VPs,
Deans, tenured profs)

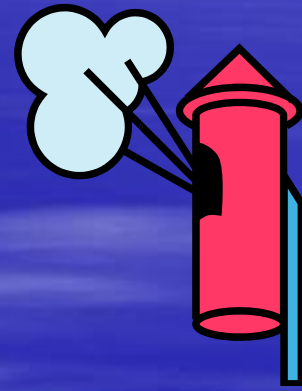


Enhancing Deterrence

- Tone at the top
- Fraud education (training)
- Code of conduct
- Enforcement of sanctions against perpetrators



Reducing Opportunities for Fraud to Occur



The “Perception of Detection”

- Whistleblower hotline
- Internal controls
- Surprise audits
- Background checks (criminal and financial)



Lessons Learned

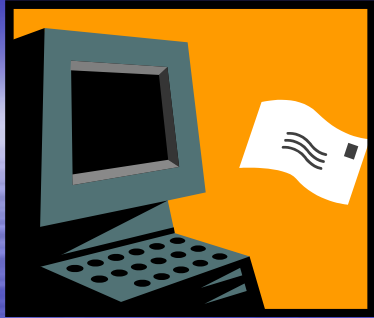
- Red flags were present, however, fraud continued for many years because no one was looking for them
- Decentralized nature of Universities may mean that similar frauds are occurring at various colleges
- Allegations and investigation of university fraud may become public through the media



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