Control Awareness Bulletin
The ACFE’s Report to the Nations on Occupational Fraud and Abuse - The Education Industry Perspective

Introduction
The objective of this edition of our bulletin is to present a summary of the survey results from the recently published Association of Certified Fraud Examiners’ (ACFE) 2010 Report to the Nations on Occupational Fraud and Abuse and how the College can derive value from the report.

The ACFE’s 2010 report was based on data compiled by Certified Fraud Examiners (CFEs) from 1,843 cases of occupational fraud from January 2008 to December 2009. The report analyzed the costs of frauds (losses), fraud schemes, victim organizations (types and geographical locations), perpetrators’ profile and methods of detection. According to the ACFE, the fraud report “has become the most authoritative and widely quoted research publication on occupational fraud”.

Study Findings on the Education Industry
The fraud cases in the study were classified into 22 sectors based on the industry of the victim organizations. A summary of the survey findings on the education industry are presented below:

1. The education industry had 5.0% of the reported cases (90 cases out of 1,843 cases) and ranked 7th out of the 22 industries in the survey. The banking/financial services industry had the highest number of frauds (298), accounting for 17% of the total cases.

2. In terms of median loss, the education industry ranked the lowest, 22nd of all the industry surveyed. It had a median fraud loss of $71,000.

3. Based on the frequency of fraud occurrence and the median loss findings in “1” and “2” above, the education industry appears to have experienced a relatively higher number of fraud cases but lower fraud loss per case.

4. Billing fraud scheme accounted for the largest number of fraud cases (42%) in the education industry. This scheme, according to the ACFE, is “any scheme in which a person causes his employer to issue a payment by submitting invoices for fictitious goods or services, inflated invoices or invoices for personal purchases”.

5. Six other fraud schemes had 10% or more frequency: Corruption – 24%, Skimming – 21%, Expense Reimbursements – 17%, Non-Cash – 12%, Larceny – 12% and Payroll – 10%.

Other Key Findings
In addition to the details above, the following are important general findings from the survey:

6. Lack of internal control was the highest and most important contributory factor that allowed the reported frauds to occur. Organizations that had controls in place had significantly lower losses and time-to-detection than organizations without the controls.
7. The median duration of the reported frauds before they were detected was 18 months and nearly one-quarter of the frauds involved losses of at least $1 million.

8. Occupational frauds are much more likely to be detected by tip than by any other means. This finding has been consistent since 2002 when the study began tracking data on fraud detection methods.

9. The most common behavioral red flags displayed by the perpetrators in the study were living beyond their means (43%) and experiencing financial difficulties (36%).

ICS Recommendations
Although the information described in the ACFE fraud report did not reflect reported events at Dartmouth, it contains relevant details about fraud risks and further supports the need to increase the awareness about the effects of fraud. Below are ICS recommendations of follow-up actions that can enable the College to derive value from the report.

a. Processes that are susceptible to the high risk fraud schemes listed in items 4 & 5 above should be assessed and strengthened with increased supervision and preventive controls (where applicable). The on-going process improvement projects at Dartmouth could also use the survey results in the design of the College’s new/revised processes by incorporating adequate controls in the processes while also achieving process efficiency and effectiveness.

b. Departments could use the Dartmouth Operations Self-Assessment (DOSA) tool designed by the Office of Risk and Internal Control Services to perform a self-assessment of their processes and identify areas of concerns that might require further attention. The tool is available on RICS’ website (www.dartmouth.edu/~rmil/) and members of our department can be reached for questions and comments.

c. The direct correlation between lack of internal controls and opportunity for fraud (as indicated in item 6 above) provides additional justification about the importance of effective controls. Process owners and departments’ managements should continue to ensure that relevant procedures and controls are implemented to support their operations.

d. Departments’ managements and supervisors should encourage their employees to communicate concerns to them and also improve their employees’ awareness about the use of the Dartmouth Business Ethics Helpline (www.dartmouth.edu/~businessethics/). These steps are important detective controls considering the study finding that a significant number of the reported frauds were detected through tips from employees.

The Office of Risk and Internal Controls Services’ Control Awareness Bulletin is one of the proactive advisory services provided by our office to the Dartmouth Community and we hope you find the contents of this edition to be helpful. Please email or call us if you have any questions and/or comments.

Thank you for your time and attention.

Adewale Soremekun
Internal Audit Analyst

Kate Lark
Director, RICS