



UNIVERSITY INTERNAL AUDIT

Newsletter Issue No. 5, April 2021

This newsletter is used to communicate news and items of interest to the campus. If you have any suggestions or topics you would like us to address in future issues, please contact us at InternalAudit@calstatela.edu with "Newsletter" as the subject.

In this issue:

- Understanding Fraud
- In the News

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REMINDERS

Notify University Internal Auditor if:

- ◆ There is an actual or suspected fiscal impropriety.
- ◆ You are contacted by an external agency of an audit or investigation.
- ◆ You see improper Governmental Activity and/or a Significant Threat to Health or Safety on campus.

UNDERSTANDING FRAUD

Every year billions of dollars are lost to fraud and corruption resulting in inefficiencies, aborted projects, financial challenges, organizational failure, etc. It is often a baffling question how fraud can happen in an organization. So how does fraud happen? What contributes to it?

Haywood Hunt and Associates Inc. wrote an excellent article on this topic. You can view it at <https://www.haywoodhunt.ca/understanding-why-fraud-occurs-the-fraud-triangle/>. The article is re-published with the permission of the author.

The Fraud Triangle model, developed by the well-known criminologist Donald R. Cressey, helps us understand the rationales and circumstances behind instances of occupational fraud. The triangle is composed of the following:



1. Opportunity

Nothing would happen if not presented with an opportunity. In fact, normally honest individuals can be seduced to commit fraud if there is an opportunity. Fraudsters take advantage of weak internal controls, low likelihood of detection, poor security, and lack of clear policy enforcement to abuse or use their position of trust to get some personal gain. All it takes is one weak moment and opportunity!

Effective **internal controls** can reduce **Opportunity** and likely prevent fraud and theft.

2. Pressure

Need and greed are common motivations for committing fraud. The temptation becomes too great when an opportunity presents itself as well. If pressured, an individual may commit fraud to cover needs to pay bills, sustain an addiction (such as gambling or drugs), meet productivity targets in one's work, and afford a better lifestyle, etc.

3. Rationalization

Even 'nice' people can commit fraud! It all boils down to what they tell themselves to be able to excuse such as act as 'acceptable'. Believe it or not, some very righteous individuals possess a character, attitude, and set of ethical values that allows them to commit dishonest acts intentionally. Fraudsters often have a very normal view of themselves and do not consider their actions as wrong, or even bordering on criminal. It is often the case that employees who steal from the company rationalize their acts by reasons such as not getting promoted, not getting a raise, feeling that they are being paid too little, or thinking that their employer 'deserves' to be fleeced.

IN THE NEWS

- In December 2020, California State University, Chico placed four of its employees in the College of Business on leave following a fraud investigation that found more than \$1-million of misappropriated spending of university money. - February 15, 2021
<https://krctv.com/news/local/chico-state-fraud-investigation-reveals-how-employees-tricked-school-out-of-1-million>
- The former comptroller for Bossier Parish Community College (BPCC), was sentenced for conspiracy to commit wire fraud and was ordered to pay restitution in the amount of \$286,987.08. - February 22, 2021
<https://www.justice.gov/usao-wdla/pr/former-bossier-parish-community-college-comptroller-sentenced-stealing-more-280000>
- Two employees stole \$307,000 from the University of Alabama at Birmingham (UAB) parking machines. - March 1, 2021
<https://abc3340.com/news/abc-3340-news-iteam/audit-finds-307000-stolen-from-uab-parking-machines>