

UHS Compliance: Understanding Fraud

A Reference Guide for University of Houston System Employees

The **University** of Houston System has an obligation to protect the resources entrusted to it by the citizens of Texas and to educate its faculty and staff on ways to prevent, identify, and report fraudulent activities.

Employees, in turn, are responsible for using System and University assets in accordance with applicable policies and reporting fraudulent use of those resources. The purpose of this reference guide is to assist faculty and staff in identifying fraud in the workplace and to inform them about ways to prevent and report fraudulent activities at the System and its component campuses.

What is fraud? Fraud occurs in the workplace (occupational fraud) when an employee misuses his or her position or System/University resources or assets for personal benefit.

What are the key elements of fraud in the workplace? An employee's action is fraudulent if it: (1) is done in secret, (2) violates the System's or University's trust in the employee, (3) benefits the employee financially, either directly or indirectly, and (4) leads to the System or University losing money or other resources. A fraudulent action can be one that actually misappropriates or takes assets or resources, or a false or misleading statement that results in the loss of money or resources.

What are the types of fraud? There are three types of fraud: Asset Misappropriation, Corruption, and Falsifying Financial Statements.

1. **ASSET MISAPPROPRIATION** is theft or misuse of UH System money or assets. The following are some examples of fraudulent activities through the misuse of cash, property and confidential information:
 - A. Stealing money before or after cash is recorded on the books; knowingly paying vendors or employees based on false invoices or documents; purchasing items on a P-card or voucher that are not for official University business; seeking or receiving reimbursement for expenses that were inflated or that were not incurred; receiving or making a payment to an employee based on a falsified timesheet or false entry in the payroll system; making an unauthorized transfer of funds; and making false entries on a cash register or not making the correct entry in order to hide removal of cash.
 - B. Taking or abusing equipment, supplies, services and information. The most common kinds of theft are the unauthorized taking of office supplies and misuse of telephones and computers.
 - C. Unauthorized use of confidential personal information, which may be used to commit identity theft; sharing proprietary research information with someone who is not authorized to receive that information; and misuse of stocks, bonds or other securities.
2. **CORRUPTION** occurs when a faculty or staff employee uses his or her System or University position or influence to gain money or other favors. Corruption may occur in the form of improper or unmanaged conflicts of interest, bribery, receiving gifts that are prohibited by state law and System/University policy, and even extortion. The following are examples of corruption:
 - A. *Conflict of Interest* — an employee has a direct or indirect personal interest in a matter over which he or she has official responsibility and fails to disclose that interest to the appropriate System or University official. For instance, an improper conflict of interest would exist if an employee orders

materials for the System or a campus from his or her personal or family business or awards a relative a scholarship.

- B. Bribery* — an employee makes an official decision or takes an official action in return for receiving money or a gift. For example, bribery occurs if an employee processes or pays an inflated invoice or provides confidential information to a vendor about a competing vendor's bid on a contract in exchange for money, a gift or a job with the vendor.
- C. Illegal Gratuities* — an employee accepts an inappropriate gift/reward for doing his or her job. For example an employee is offered and accepts cash or a gift after conducting official University business with a vendor or individual. For more information see <http://www.uh.edu/af/universityservices/policies/sam/2HumanResources/2A29.pdf>, Ethical Conduct of Employees.
- D. Extortion* — occurs when an employee improperly uses his or her position to coerce or influence someone to enter into a transaction with the System or University. For example, an employee engages in extortion if he or she refuses to order supplies from a vendor unless the vendor agrees to hire the employee's family member or friend.

3. **FALSIFYING FINANCIAL STATEMENTS** — occurs when an employee intentionally alters financial statements by: concealing liabilities; creating fictitious revenues; recording incorrect asset valuations in order to mislead; leaving out important information or required disclosures in order to mislead; or timing differences so revenue and corresponding expenses are recorded in different accounting periods.

Why does fraud occur? Fraud occurs when an employee has (1) a motive, (2) an opportunity, and (3) ethical values that rationalize dishonest conduct. These three conditions are known as the *Fraud Triangle*.

What are direct and indirect costs of fraud?

- Actual loss of money, supplies or equipment (direct)
- Bad publicity, loss of trust, injury to reputation (indirect)
- Loss of grants, gifts or donations due to bad publicity, lack of trust or damaged reputation (indirect)
- Decrease in enrollment and tuition due to bad publicity, lack of trust or damaged reputation (indirect)

How can the System and University and its employees reduce asset misappropriation?

- Create policies and procedures that reduce the opportunity for fraudulent behavior to be done in secret or without being detected, and create an environment that recognizes and rewards ethical decision-making and actions
- Restrict access to finance, payroll and information systems to those who need access to perform their responsibilities and restrict authority to approve transactions
- Structure and assign duties so that no single person is responsible for completing transactions from start to finish
- Lock rooms and filing cabinets, secure computers, and protect user IDs and passwords
- Investigate any discrepancies on cost center verifications immediately and develop policies or practices to reduce the reoccurrence of the discrepancy
- Review P-Card and Travel Card transactions and documentation to verify they are for official business only

- Perform a physical inventory of controlled and capital assets once a year and after any loss
- Perform unannounced and random counts of petty cash and change funds
- Follow up on any complaints or allegations of improper conduct and document the findings of the inquiry
- Verify terminated employees are immediately removed from the payroll and denied access or authority to use UHS systems
- Implement a fraud awareness and prevention program and educate employees about the program

How can the University and its employees reduce corruption?

- Require faculty and staff to disclose any outside employment or consulting activities before engaging in the employment or activity and annually thereafter
- Require competitive bidding unless there is a lawful and justifiable reason not to do so
- Review sole source justifications carefully
- Document and verify that scholarships are awarded in accordance with written criteria and procedures

What are some of the Red Flags which might indicate fraudulent activity?

- Employee refuses to take vacation (may be due to the need to cover up fraudulent activity)
- Lack of reconciliation to University records or failure to investigate reconciling items
- Missing documents or duplicate payments
- Lack of segregation of duties
- Sole source justifications to use same vendor repeatedly

How can University employees report fraud? (Utilize any of the following methods)

- Report to your supervisor
- Report to the Chief Audit Executive at 713-743-8000
- Report to the Fraud Hotline at www.mysafecampus.com or 1-800-716-9007 (can remain anonymous)
- Notify the State Auditor's Office at <http://sao.fraud.state.tx.us/> or 1-800-892-8348 (can remain anonymous)

For more information on fraud see:

- <http://www.uh.edu/af/universityservices/policies/sam/1GenAdmin/1C4.pdf> the UH System policy on Reporting and Investigation Fraudulent Acts
- <http://www.uh.edu/af/universityservices/policies/sam/2HumanResources/2A29.pdf> the UH System policy on Ethical Conduct of Employees