

OFFICE OF INTERNAL AUDIT

FRAUD AWARENESS For Directors and Supervisors

All organizations are susceptible to fraud; and, while it is not possible to eliminate fraud entirely from an organization, the right prevention and detection measures can significantly mitigate the risk of fraud. Conditions that exist in order for fraud to occur are: (1) motivation – a pressure or incentive to commit fraud, (2) opportunity, and (3) rationalization – one's internal justification for committing fraud. These three conditions make up what is known as the "Fraud Triangle".

Management can provide the first line of defense through the implementation of internal controls designed to prevent the opportunity to commit fraud. The following are some conditions that can provide an opportunity for fraud to occur:

- Lack of segregation of duties – the ability of one person to initiate, record, and reconcile the resources and activities of an entire process;
- Inadequate feedback provided to staff on results of projects, programs, or operations;
- Lack of supervisory review and/or independent verification of the accuracy of records, transactions, and data;
- Vague and confusing procedures;
- Inadequate physical safeguards over resources;
- Inability of management and/ or staff to identify responsibility;
- Lack of adequate supervision;
- Failure to correct deficiencies identified by existing control procedures and systems;
- Changes in an employee's behavior (behavioral red flags)
 - personal financial difficulty
 - living beyond one's means
 - control issues or unwillingness to share duties
 - irritability or defensiveness
- Existence of complex, poorly understood transactions;
- Existence of unusual or related-party transactions;
- Failure to take appropriate disciplinary action when individuals commit ethics violations and/or departures from approved procedures.

TIP:
Effective preventive controls that are in place, working, and well-known to potential fraud perpetrators, serve as strong deterrents to those who might otherwise be tempted to commit fraud.

Communication

UCA Divisions can increase fraud prevention efforts through continuous communication and reinforcement:

- 1) Inform staff of how their job duties are designed to minimize fraud risks;
- 2) Get feedback from employees regarding situations that are questionable. Employees need to know that directors and/or supervisors are committed to combating fraud, waste, and abuse.
- 3) Let employees know that if something is going wrong, management wants to know about it and will have it corrected. Once a supervisor becomes aware of, or suspects, an irregularity, inform executive management and know that Internal Audit and UCA Police Department are available to assist in resolving the matter. (One of the strongest fraud deterrents is the awareness that controls are in place to not only prevent but also detect fraud);
- 4) Periodically communicate to all employees the University's Fraud Policy, **Board Policy No. 214**, and procedures for anonymously reporting complaints regarding ethics, accounting, auditing, and other matters on the [Fraud Hotline](#).

REMEMBER: We are here to help! Please feel free to contact us if you need additional information on fraud risks and fraud prevention controls specific to your area.

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