Thinking the unthinkable
Uncovering fraud in higher education
Introduction

Institutions of higher learning are often regarded as bastions of ethical thought and are widely admired for the important research and teaching that they promote. Universities and other institutions are also largely dependent on government funding and funds raised by the broader community. For this reason, the idea that they may also harbour fraudulent activity is unsettling and unwelcome. Nevertheless, fraud can and does take place even in institutions of academic research and learning.

According to Frank O’Toole, Deloitte Forensic’s Australian Financial Crime Leader, and specialist in risk and investigation services, universities are especially vulnerable to the effects of fraud precisely because of universities’ special role in society and their reputation for competence and probity.

“Universities are rightly concerned with protecting their reputations and fear that if a fraud is uncovered and donors get wind of it, they will suffer a decline in their fundraising ability. This makes universities particularly vulnerable to the effects of fraud,” said Frank O’Toole.

Uncovering fraud can be difficult in universities due to the decentralised functions and risk management processes meaning administrators are potentially unaware that a fraud could be taking place on their watch. Furthermore the weight of their academic workload, and the high amount of trust placed in university staff can potentially allow fraudsters to operate under the radar. Indeed, a typical fraud lasts an average of two years before being detected.*

Fraud takes place when opportunities and motive are present. Fraud controls that have not been regularly assessed together with significant financial resources managed at different levels and across multiple locations presents a very attractive target to those who are willing to contemplate fraud. Despite recent trends toward falling enrolments from international students, the higher education sector in Australia still has enormous revenues that are very attractive to fraudsters. The revenue of some of Australia’s universities is comparable to some of our largest corporate entities. To adequately address this risk, universities will have to be ever vigilant in continually monitoring risk-management processes to counter fraud and corruption. Higher educational institutions need to be especially vigilant to protect their revenues from abuse at a time when they face significant competition for students and the possibility that their revenues could erode from fewer student enrolments.

The structure of universities is often decentralised with responsibility to manage key areas of financial risk divested to a Faculty, Discipline and/or School level. With a continued focus on research and learning coupled with a possible reduced focus on detecting fraud, there is a very real risk that a fraud could be perpetrated and go unnoticed for an extended period of time.

*Source: ACFE’s2008 Report to the Nation on Occupational Fraud and Abuse
How does it occur?

Recent examples of frauds in universities include situations where trusted employees have exploited control weaknesses in things such as online banking, procurement procedures and delegation authorities. These examples are indicative of the different types of fraud that can occur within universities and show that higher education is facing similar risks to big business.

More than ever, those people responsible for managing and/or authorising expenses and allowances need to be armed with tools to better prevent, detect and respond to incidents of fraud. The publicity surrounding these events often impacts on the entire university, its reputation, and personnel in key roles, and can have a disruptive influence for years after the incident is exposed.

Consider the following scenario:
A highly regarded Professor renowned for her leading research employs a casual office assistant. The research is funded by government and private sector grants that are the professor’s responsibility to properly manage. As her focus is on research, she places a great deal of trust in the assistant to manage her travel arrangements with her corporate credit card. The professor asks the assistant to manage her expense claims at the end of each month on her behalf. She also provides an electronic signature for the assistant to use on official documents. After 18 months, the professor is advised by the university’s finance team that the assistant has been paid a suspiciously high amount of money as a casual employee working regular weekends and long days – all of which have been approved in her name. They also advise that a number of expense items the professor claimed are unusual and require further explanation.

As a consequence, the office assistant is found to have been falsifying time sheets by using the professor’s signature and that she has also used the corporate credit card to purchase hotels and flights for herself. The professor cannot initially believe that her trusted assistant could do such a thing, but investigations later confirmed a significant fraud. The consequences are wide reaching – the office assistant loses her job, the police become involved and the matter is fully investigated to include the actions or inactions of the professor. Her reputation, and that of the university, are brought into question; particularly the professor’s ability to manage government and private sector grants and funding.

The professor finds that she is forced to devote so much time to defending herself that her research is beginning to suffer and she experiences tremendous stress as a result. Fortunately, the assistant didn’t misappropriate any of the grant funds; however, the damage has already been done and the potential for the university to miss out on further funding is significantly increased.
What are the consequences

Fraud is pervasive in our society and the economic costs are significant. The Australian Institute of Criminology estimated in 2008 that fraud costs the Australian economy approximately $8 billion per year. More recently, we have seen significant instances of fraud in higher education that would indicate that fraud is costing the higher education sector in Australia millions of dollars each year.

A typical fraud could easily cost a university tens or hundreds of thousands of dollars, and many times that in potential reputational damage and fallout in the way of reduced fundraising. It can also destroy the careers and reputations of individual administrators and academics.

The consequences can include:
- Monetary loss
- Reputational damage to the university and highly regarded academics if they are compromised as a result of the fraud
- Risk of grant funding being reduced because of inability to properly manage risk of fraud
- Disruption to business as resources are diverted to deal with issues internally, including the investigation of staff potentially involved or affected by the fraud
- Ongoing issues of legal processes that may take years to finalise
- A feeling of being betrayed by close work colleagues
- Having the management ability of supervisors questioned as to how a fraud was able to be perpetrated.

Where to look?
Universities consist of many separate business and/or academic functions within multiple Faculties, Divisions and Schools. The increasing reliance on grants to support research and major projects creates additional and unique fraud risks that may have a serious impact on both the financial standing and reputation of universities.

Some of the functions that currently are exposed to fraud risk include the following:
- Property services
- Procurement functions (often facilitated at faculty level)
- IT services
- Financial services (including research accounting and project grant management)
- Research functions (including grant applications)
- Retail and commercial functions (including major project expenditure).

Profile of a fraud offender

Fraud perpetrators come in two types: Opportunistic offenders who commit one instance of fraud and long-term offenders committing several instances over an extended period of time.

The typical characteristics of each profile are as follows:

Opportunistic
- Immediate financial pressure requiring money now (e.g. they have a debt due today)
- Initially the intent is to perpetrate a one-off fraud
- Usually not a large amount on the first occasion
- May intend on repaying money when they get their pay or can better afford to repay it
- Understands the business
- Knows the controls
- Access to transaction process and/or authorisations (e.g. knows someone’s credit card details or passwords to the online banking system to approve payments).
This person will try it once and, if they get away with it, may just do it again and eventually become a long-term offender due to lack of controls detecting the fraud.

**Long term**
- Methodical planner
- Patient
- Understands the business
- Part of the team
- Unconcerned with potential consequences or overconfident in getting away with it
- Knows the controls
- Will start small so that, if detected, can explain it as a mistake
- Access to transaction process and/or authorisations (as above)
- Increases frequency over time
- Eventually, fraud becomes their income.

As you can see there are some common traits. The important thing is that the opportunistic offender can be dissuaded if there is a culture of zero tolerance to fraud with a clear understanding of what is considered to be unacceptable practice according to policies and procedures. Importantly, there should be a clear message regarding the consequences of breaching organisational policy.

**The following are examples of fraud risks currently facing universities in Australia**

**Invoicing and procurement fraud**
Invoicing fraud can involve fictitious or inflated invoices for services rendered or goods provided, whereas procurement fraud manipulates the tender/purchase process to bias one party over others. With a number of universities committed to major projects and expenditure beyond 2010 these ongoing investments may produce an environment of high invoice/procurement activity which is open to manipulation and fraud.

**Misuse of university assets**
A university’s asset base can quite easily exceed $1 billion (total assets) and comprise substantial amounts of cash (or cash equivalents), inventories, property, plant and equipment. The physical location and/or isolation of these assets, particularly from those with ultimate control or responsibility, can lead to higher risk of misappropriation or misuse of these assets for personal gain.

**Expenditure fraud**
Universities are now more than ever exposed to a diverse range of business functions which are decentralised through Faculties, Schools, Divisions and Institutes. This enables universities to control various expenditure types from numerous locations and provides Faculty Finance Managers, Heads of School, Deans and Financial Services staff with extra financial-monitoring responsibilities. With current and future budgets showing expected operating expenditure into the hundreds of millions of dollars, these levels of expenditure come with an elevated fraud risk due to the accompanied high volume of transactions. The expected number of transactions provides increased opportunity for manipulation of the application and/or authorisation process for expenditure.

**Academic risks**
The strategic plans and future development of universities is underpinned by strong growth in student enrolments including a large number of international placements and significant growth in overall research and academic capability, quality and quantity. An environment subject to growth and largely based on human input can provide inherent risks that must be considered in future risk planning. The risks that are likely to become prevalent in this environment are:
- Unlawful or unauthorised use of intellectual property or confidential information
- Unlawful or unauthorised use of grant research funds or sponsorships and
- Fabrication, falsification or plagiarism of research or scholarly work.

**Conflicts of interest**
Universities rely on the experience and reputation of leading academics and researchers to attract students and grant funding. It is not unusual for these leading academics to be attracted to outside earnings opportunities. Unfortunately, these arrangements can often place the individual in a position of an actual, potential or perceived conflict of interest. The possible ramifications for the individual and the university can directly impact reputations and future opportunities to attract considerable government and/or private sector funding in circumstances where the lines of ethical behaviour have become blurred.
International sanctions
The recent introduction of the Federal Autonomous
Sanctions Bill 2010 placed the onus on Australian
universities to monitor the source of student funding
and courses in which international students are
enrolled. Great care must be taken in relation to
students originating from some countries and receiving
funds from organisations that appear on sanctions
list published by the Australian Government or United

Spotlight: How well protected are you
against fraud?
Deloitte Forensic can provide an assessment
of your organisation’s fraud risk through
three steps:
1. Data Analytics – extraction of relevant data
   (e.g. accounts payable, GST, employee expenses)
   and sample analysis to detect potential
   fraudulent activity
2. Executive interviews – interviews with selected
   key executives to establish understanding of the
   organisation’s culture and fraud control framework
3. Executive workshop – Deloitte will feed back findings
   to validate and prioritise the key areas of concern
   identified in steps 1 and 2 and discuss.

According to Graham Newton, Partner at Deloitte
Forensic, early and regular intervention to detect fraud
can prevent not only significant financial losses, but
more importantly reputational damage.

He says, “For higher education institutions, their
reputations are incredibly valuable and anything
that tarnishes that reputation can cause incalculable
damage. Preventative forensic audits, coupled with
the resulting improved financial controls, provide
great peace of mind to administrators and sends a
signal to anyone considering fraudulent behaviour
that it is not worth the risk.”
Deloitte's experience

Deloitte partner Monish Paul describes the Deloitte approach to assisting universities:

“Deloitte Forensic understands the unique challenges facing universities and the sensitivities required in dealing with these issues. Our people provide deep investigations experience with an understanding of the unique fraud risks, protocols and structures within academia.”

The Australian higher education sector has made a significant contribution to society in the past – it is the current state of affairs and the future that present the greatest risk.

Turning some of Australia’s sharpest minds to these future challenges will also test the will and commitment to adapting the appropriate level of corporate know-how to the traditional university teaching and research model, which is something that has been difficult to date.

About Deloitte Forensic

Deloitte is a market leader with the capacity to advise on complex matters related to fraud and financial misstatement, conflict of interest, misconduct, bribery, intellectual property breaches, corruption, market manipulation, money laundering and economic and trade sanctions.

We have 85 Forensic practitioners who are specialists in fraud and financial crime. Our proactive approach insists in protecting clients from current and future threats and helps in securing reputation, brand and other financial considerations. Commercial realities are carefully considered and we take a collaborative approach with a focus on knowledge development and transfer.

Our expertise, technology and innovative approach enable us to quickly understand the circumstances of an event, raise awareness, mitigate the cost of fraud and misconduct, recover misappropriated assets and limit exposure to non-compliance issues and headline risks.

The Deloitte Financial Crime team is a market leader with the expertise and capacity to advise on and manage the most complex matters.
Contacts

For further details on how Deloitte Forensic can assist you in protecting your institution against fraud, please contact any of our higher education experts.

Frank O’Toole  
*Partner, Deloitte Forensic*  
Sydney  
Tel: +61 (0) 2 9322 7328  
Mobile: 0419 445 272  
email: frotoole@deloitte.com.au

Monish Paul  
*Partner, Deloitte Consulting*  
Perth  
Tel: +61 (0) 8 9365 7294  
Mobile: 0414 743 085  
email: mopaul@deloitte.com.au

Graham Newton  
*Partner, Deloitte Forensic*  
Brisbane  
Tel: +61 (0) 7 3308 7080  
Mobile: 0410 340 145  
email: grnewton@deloitte.com.au

Martin Langridge  
*Partner, Deloitte Forensic*  
Perth  
Tel: +61 (0) 8 9365 7130  
Mobile: 0416 096 003  
email: mlangridge@deloitte.com.au

Chris Noble  
*Partner, Deloitte Forensic*  
Brisbane  
Tel: +61 (0) 7 3308 7065  
Mobile: 0418 465 209  
email: cnoble@deloitte.com.au

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the “Deloitte Network”) is, by means of this publication, rendering professional advice or services.

Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte’s approximately 170,000 professionals are committed to becoming the standard of excellence.

About Deloitte Australia

In Australia, the member firm is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia’s leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 5,400 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit Deloitte’s web site at www.deloitte.com.au.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

© 2011 Deloitte Touche Tohmatsu.