

# Fraud Detection, Prevention & Reporting at Baylor College of Medicine (BCM)

Help Fight Fraud by Reporting It!!



***Fraud follows opportunity and attacks weakness. Know where you are vulnerable and how to take control***

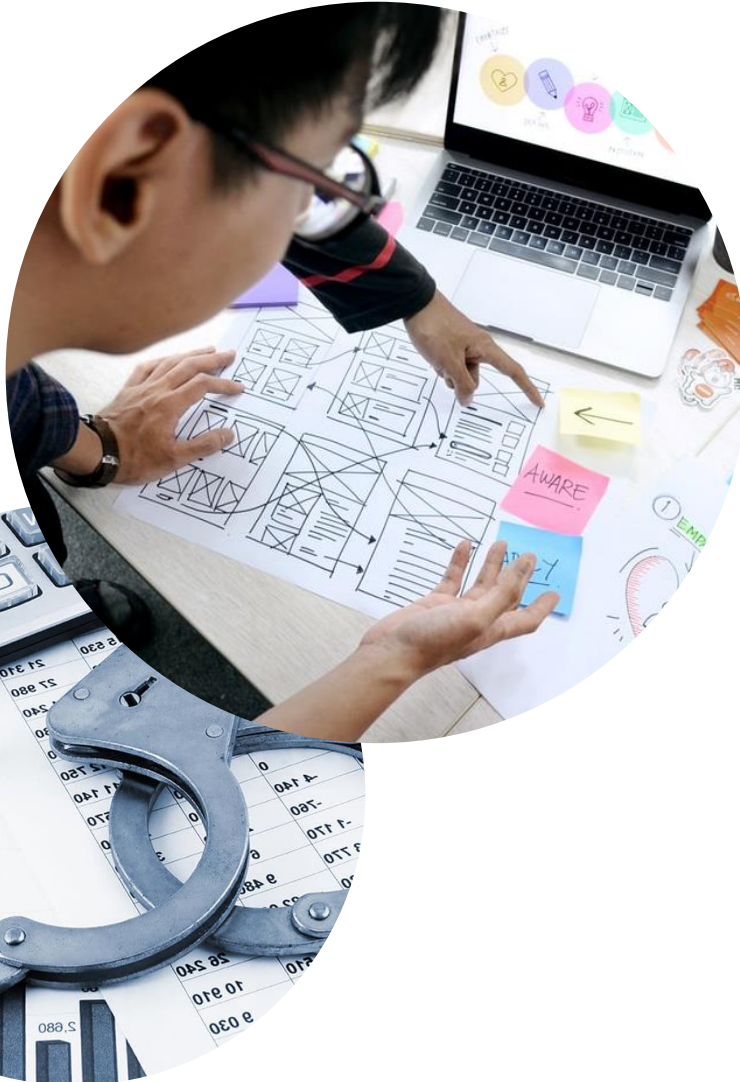


# Training Goals

- 1 *Understanding Fraud Risks*
- 2 *Fraud Risk Assessment (FRA)*
- 3 *Qualities of a good FRA*
- 4 *Techniques of FRA*
- 5 *Methodologies of FRA*
- 6 *Responding to Fraud Risk (FR)*
- 7 *Fraud Investigation*
- 8 *Fraud Mitigation*



# Fraud Risk



**1** Cressey's fraud triangle with elements of **Motive**, **Opportunity** and **ability to rationalize**

**2** Types of fraud risks being, inherent and residual

**3** **Inherent** is that which is present before management action

**4** **Residual** is that which remains after the action by management



# Fraud risk factors

The nature of the business operations



The business environment which has a direct bearing on the risk vulnerability index



The effectiveness of internal controls



The ethics and values of the company and its employees



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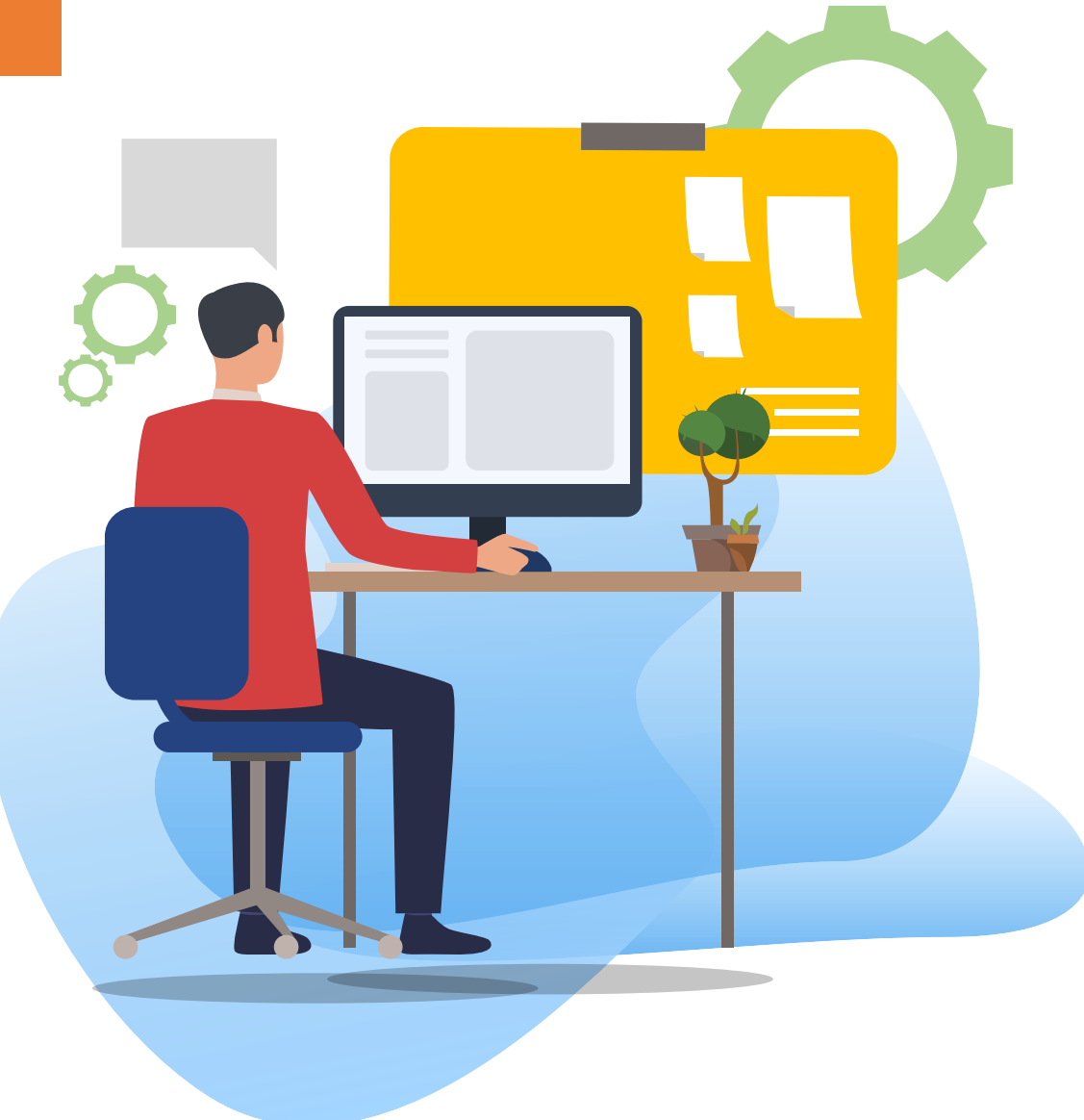


# Fraud Risk Assessment (FRA)

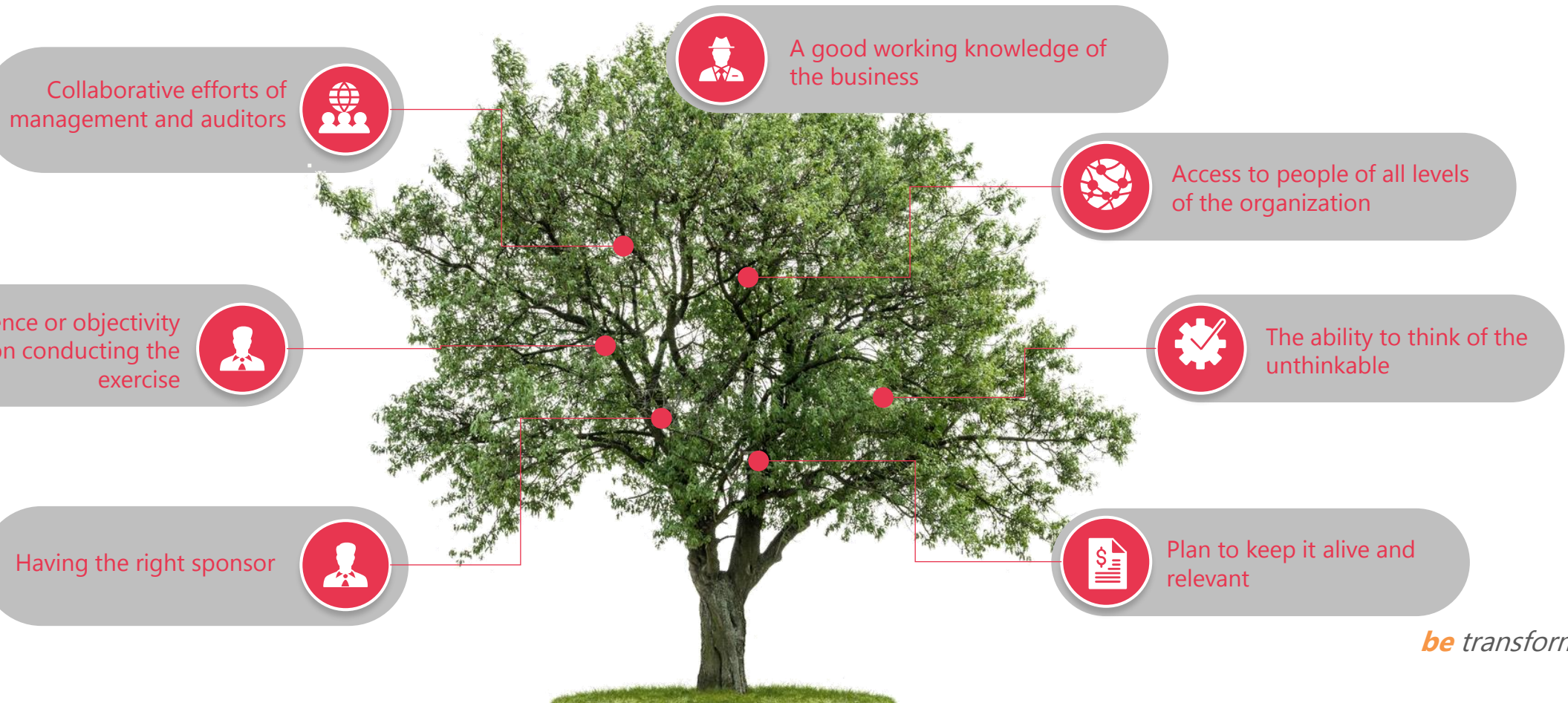
Process aimed at proactively identifying and addressing an organization's vulnerabilities to both internal and external fraud.

## Core objectives

- ❖ Improve communication and awareness
- ❖ Identify where the company is most vulnerable in terms of business operations
- ❖ Develop plans to mitigate the risk
- ❖ Develop techniques to investigate and determine the occurrence of fraud
- ❖ Assess the internal controls



# Qualities of a good FRA



# How to conduct FRA



Assemble the right team to lead and conduct the exercise



Determine the best techniques to use







Obtain the ToR (Terms of Reference)

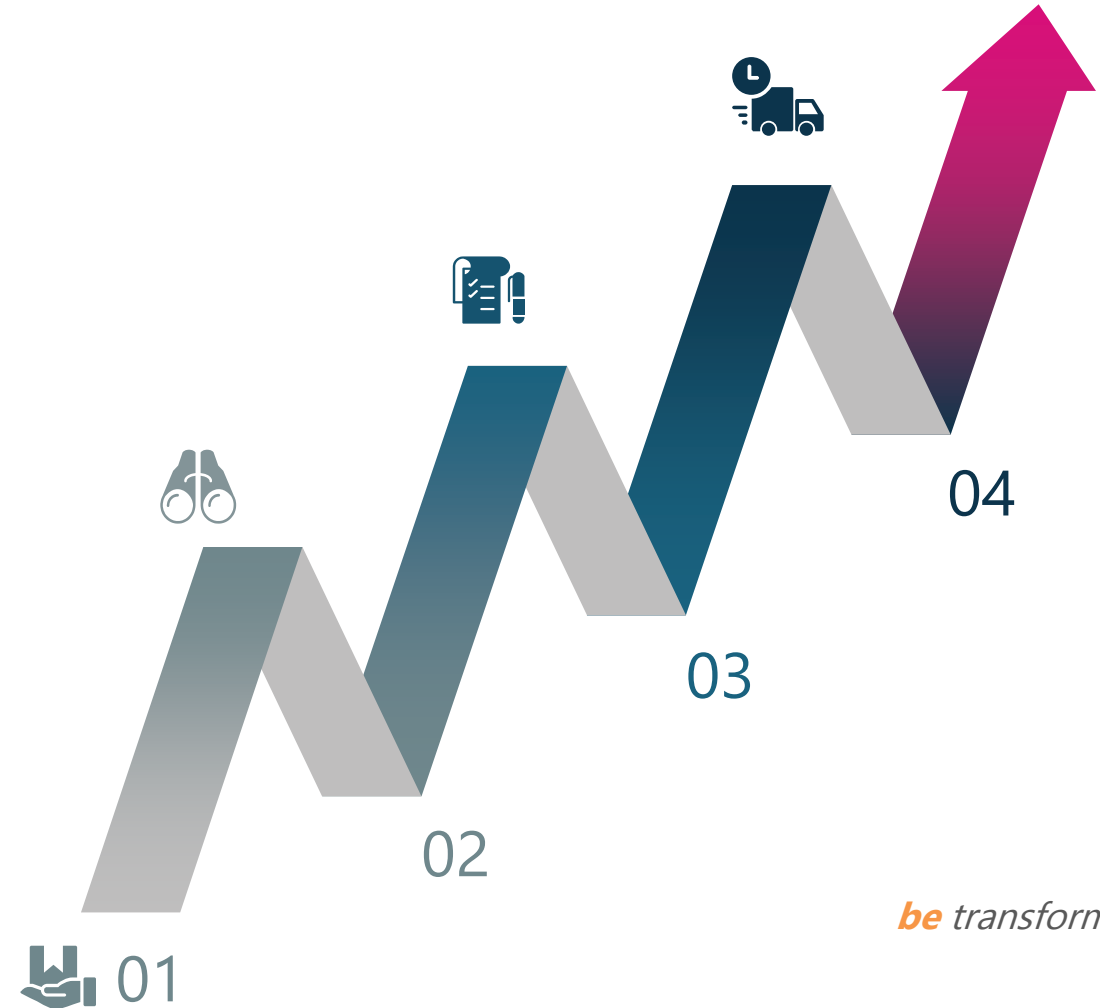


Educate the employees and openly promote the process



# Techniques of FRA

-  01 Interviews
-  02 Use of Focus groups
-  03 Surveys
-  04 Use of Anonymous feedback mechanisms. That is tips through whistle blowing (Refer to the Whistle blowers Protection Act 2010)



# FRA Methodologies/frameworks



## Framework #1

- Identify the potential inherent fraud risk
- Assess the likelihood of occurrence of the identified risks
- Assess the Fraud Risk significance
- Evaluate the people or departments likely to commit the fraud
- Identify and map existing preventive and detective controls
- Identify and evaluate residual fraud risks resulting from ineffective or nonexistent controls

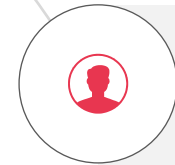


# Framework #1

Fraud Risk Assessment Framework <sup>2</sup>							
Identified Fraud Risks and Schemes	Likelihood	Significance	People and/or Departments	Existing Anti- Fraud Controls	Controls' Effectiveness Assessment	Residual Risks	Fraud Risk Response
Financial Statement Fraud:							
Asset Misappropriation:							

# Framework #2 – Fraud Risk Index

This is an overall assessment of fraud risk for the organisation based on:-



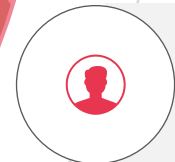
## Environment risk index

- Pressure on the business
- Internal controls quality
- Tone at the top



## Culture Quotient

- Levels of tolerance
- Entitlement levels
- Notification levels



## Prevent/Detect index

- Leadership styles
- Operating behaviors
- Decision making practices



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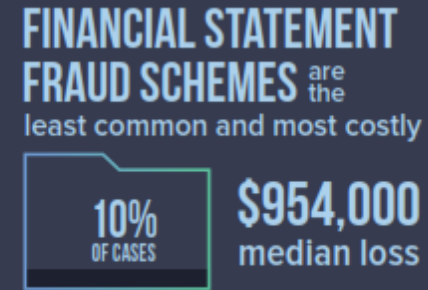
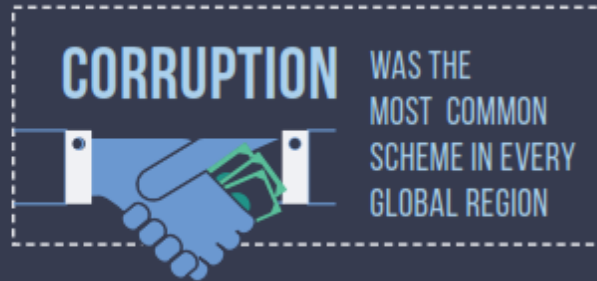


# Heat map

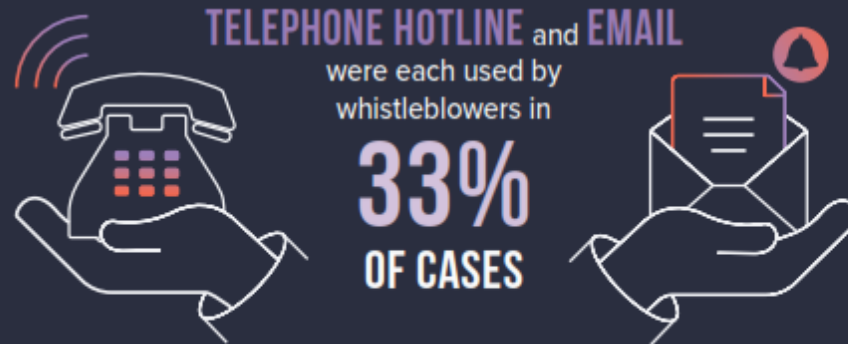
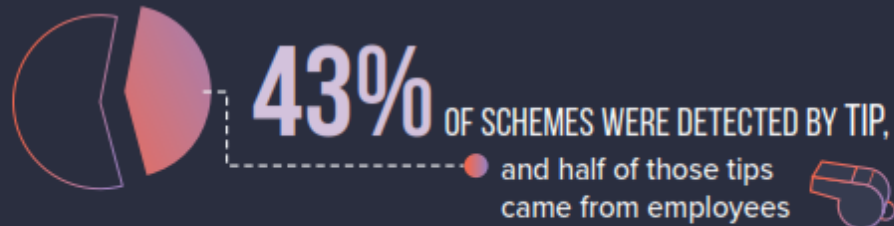
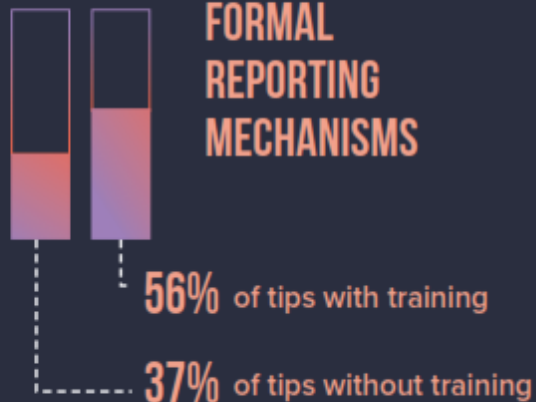




# ACFE 2020 Report to the nations



Organizations with **FRAUD AWARENESS TRAINING** for employees were **more likely** to gather tips through





# Responding to Fraud Risks



Avoid



Transfer



Mitigate



Assume



Combination approach  
(transfer 50% & mitigate 50%)



# Fraud Examination Approach



STEP  
**1**

Analyzing  
available data

STEP  
**2**

Creating a  
hypothesis

STEP  
**3**

Testing the  
hypothesis

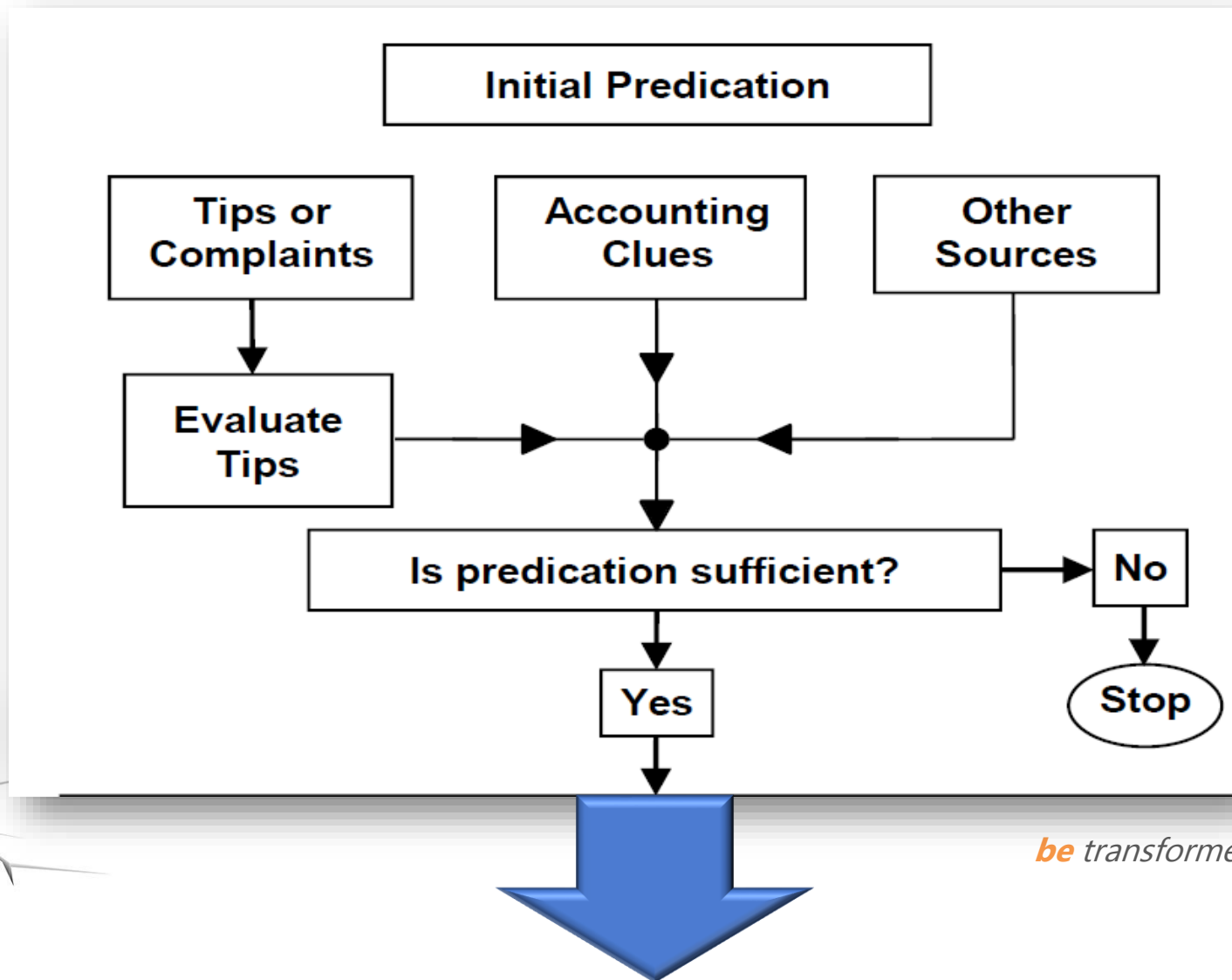
STEP  
**4**

Refining and amending  
the hypothesis

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# Fraud Investigation Approach



INCIDENT  
INVESTIGATION



# Fraud Investigation Approach Cont...

Yes

Stop

## **Develop fraud theory:**

- Who might be involved?
- What might have happened?
- Why might the allegation be true?
- Where are the possible concealment places or methods?
- When did this take place (past or present)?
- How is the fraud being perpetrated?

## **Determine where the evidence is likely to be:**

- On-book versus off-book
- Internal or external
- Potential witnesses

## **What evidence is necessary to prove intent?**

- Number of occurrences
- Other areas of impropriety
- Witnesses





# Fraud Investigation Approach Cont...

**Revise fraud theory.**

**Prepare chart linking people and evidence.**

**Determine possible defenses to allegations.**

**Is evidence sufficient to proceed?**

**No**

**Yes**

**Discontinue**

**Complete the investigation through:**

- Interviews
- Document examination
- Observations

# Fraud mitigation mechanisms



Know Your Employees



Make Employees aware/Set Up Reporting System(whistle blowing mechanisms)



Implement Internal Controls



Hire Experts – Partnership



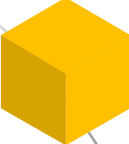
Live the Corporate Culture i.e. with organizational structure, written policies and procedures and fair employment practices.



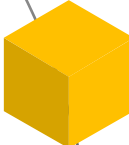
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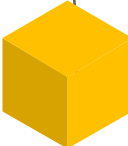
# Fraud mitigation mechanisms




Use the open-door policy




Foster an ethical, "Tone At The Top"



Break down silos



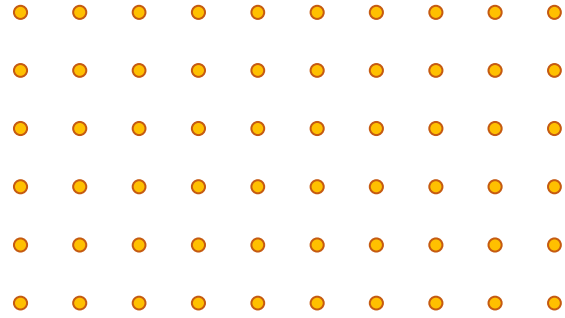
Provide "regular" and "relevant" anti-fraud/ethics training for your employees.



Implement effective anti-fraud technology

# Q & A

Training Presentations



# summitTRAINING

## Be Transformed

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