

Service Learning Fraud Awareness Report

Occupational Fraud

Accounting 505

May 13, 2009

Topic Presented

Our team chose to present on the topic of occupational fraud and how to recognize, prevent and detect such schemes. Occupational fraud is the *“use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.”*¹ We emphasized how occupational fraud affects everyone from employees to suppliers to customers and so on. We specifically focused on the hazards occupational fraud plays on the members of the professional business fraternity, Delta Sigma Pi.

Topic Rationale

The topic of occupational fraud was chosen because the target audience consisted of business students. Occupational fraud is costly and often has a detrimental impact on a business, so we developed our presentation to benefit future employees and business leaders. Most importantly, a firm can increase the prevention of fraudulent schemes by increasing awareness. One of the best ways a firm can prevent occupational fraud is by educating their employees regarding the costs and affects of fraud. While a firm can help protect itself against fraud by audits and internal controls, it ultimately relies on its personnel to help detect and report possible negative activity. When employees are aware of how to apply the corporate values of any business along with the ability to identify grey areas of ethics, firms are able to take a further step to protect against occupational fraud.

Audience Analysis

Our audience for this presentation consisted of twenty-four members of Delta Sigma Pi, all of which are Business, Economics, International Business, or Hospitality and Tourism Management majors. We chose this audience to present to because, as business students, they will most certainly be faced with the hazards of occupational fraud as

¹Wells, J. (2007). Principles of fraud examination. *John Wiley & Sons, Inc.*: New Jersey 2nd Ed., p.8

they enter into their careers. This presentation on occupational fraud would provide the students with a foundational knowledge that will benefit them in the future by showing these students how to prevent, detect, and correct fraudulent acts in the workplace. The diversity of the students' majors and educational backgrounds was somewhat evident in the survey results and provided a good basis on which material would be most relevant for the presentation. While many members of the audience were graduating seniors and would be entering into the workforce soon, many had not been given any instruction on any aspect of occupational fraud. This allowed our team to provide a broad presentation on the important characteristics of occupational fraud.

Chronology

We agreed as a team to choose a community group that would really benefit from a fraud awareness presentation. Although we had many options, we chose to present to the business fraternity, Delta Sigma Pi, because we felt they would have the most benefit, as these students would soon be entering the workforce, many for the first time. After selecting our target audience, we constructed a survey that would determine what our audience already knew about fraud and what areas we could focus our presentation on and provide additional information.

Casey presented the survey to his fellow fraternity members and requested they complete the questionnaire to the best of their knowledge. After we received the completed pre-surveys, we calculated basic statistical data on the answers, and determined where a majority of the errors were made. Once these mistakes were ranked by importance, we looked at what might have caused the group to make these mistakes. We took into consideration the responses to the ethical questions to gauge what the audience knew about ethics. We then created a presentation that focused on the basic facts of occupational fraud as well as methods to prevent, detect, and correct fraudulent schemes. We gave our presentation to the business fraternity during their

weekly seminar and they all seemed to be very engaged and excited about the information we were providing.

Immediately following the presentation, we gave the participants a post-survey that consisted of the same questions from the pre-survey. We calculated the statistical data as we did for the pre-survey and compared the results. From this data, we were able to measure the learning outcomes of our participants as well as the success of our group presentation.

Survey Design

The survey was designed to gauge the initial understanding of fraud awareness amongst college business students. Our team constructed the pre-survey using both broad and specific questions in order to gather initial fraud awareness information from our audience. The broad multiple-choice questions were designed to get a feel for what our audience knew about fraud prior to our presentation. We focused on occupational fraud and how it affects everyone. We also included detailed questions to assess what the participants knew before the presentation on a more specific level, as well as to evaluate our effectiveness in teaching the audience about fraud and ethics. Here we focused on the key elements of occupational fraud as well as how to prevent and detect such fraudulent actions. We decided to include two open-ended questions in order to measure and assess the audience's ethical values and integrity. We were curious to see how business students would react when presented with a conflict of interest. After all, the business environment, and accounting in particular, is built on integrity and ethical decision-making.

Summary of Results

In reviewing the answers to the pre-survey, the average score was 5.875 out of 10, with a median score of 6. Most participants correctly answered the high-level questions, but a majority had difficulties with some of the more specific questions such as the annual

cost of occupational fraud in the United States, and determining whether a particular action was considered a fraud or abuse.

The responses to the open-ended questions were quite surprising. The first question was designed to understand the audiences' viewpoint of ethical behavior and how they personally would react when faced with an ethical dilemma. The question dealt with a disagreement between two friends with different cultures and whether or not it was okay to pay bribes. Fifty-three percent of the survey participants indicated it is never ethical to pay bribes no matter what your culture is or what country you are from. Forty-seven percent stated that business practices are subjective to culture and what is ethical in one country may not be ethical in another country. However, if that is the way business is done in one country, that country should not have to change their ways because another culture views their practices as unethical.

Our second open-ended question was designed to gauge the audience's perspective on loyalty, honesty, and integrity. This question asked whether or not it was ethical to purchase computer software at a discount, given only to current SDSU students, for a friend that had recently graduated from SDSU and was no longer eligible for the discount. Eighty-four percent of the participants indicated they would buy the software for their friend. Many rationalized their action with the fact that their friend had recently graduated from SDSU and would have been eligible a few months ago anyway. The remaining 16% (3 students) indicated they would not adhere to their friend's request to purchase the computer software because it was dishonest and unethical. As shown by the survey results, the majority of participants chose loyalty to their friend over honesty. However, loyalty is the ethical value that should never take precedence over honesty and integrity.

The responses to the post-survey were favorable as the average rose to 8.875 and the median rose to 9. The participants were able to correctly answer the detailed questions

we included as a measure of how effective our group's presentation was. In analyzing the audience's responses, we feel the presentation was valuable and the audience actually learned how to prevent and detect fraud in the business world.

Reflections on the project

We found this project to be a very exciting learning experience. Not only did we get to share what we have learned over the semester with others, we also had the chance to make others aware of the rising problem of occupational fraud and what they can do individually to help detect and prevent it. Some of the takeaway's we experienced were:

- Surprising to see what business student's knew and didn't know about fraud prior to our presentation.
- Interesting to see how others view various situations as being ethical or unethical.
- Reassured that business students are aware, or if not aware were interested in the impact occupational fraud has on a business.
- Intrigued at the results and how the highest results in the initial survey were not necessarily from students who had any background in fraud prevention and internal control systems.

We have found this fraud examination class to be very beneficial, as every business student needs to be prepared for the challenges he/she will face in the business environment.

Appendix A – Sample Survey

Fraud Survey

Name (optional): _____

1) According to a study by the Association of Certified Fraud Examiners, the annual cost of occupational fraud in the United States alone is:

- a) \$60 billion
- b) \$600 million
- c) \$600 billion
- d) none of the above.

2) "The use of one's occupation for personal gain through the deliberate misuse or misapplication of the employing organization's resources or assets" is called _____.

- a) resource misappropriation
- b) a conflict of interest
- c) occupational fraud
- d) none of the above

3) People usually commit occupational fraud only once and then quit.

- True
- False

4) What is an element of occupational fraud?

- a) The activity is done in secret
- b) It violates the employee's duty of trust to the employer
- c) It is committed for the purpose of direct or indirect financial gain, and
- d) The employing organization loses assets, revenues, or reserves
- e) All of the above are elements of occupational fraud

5) Which of the kinds of people described below are NOT at risk to commit fraud against their organizations?

- a) rule-breakers
- b) big spenders
- c) employees with financial problems
- d) all above are at risk

6) Who is responsible for implementing the policies and procedures of a company's board of directors to prevent fraud?

- a) the independent CPAs
- b) anti-fraud specialists
- c) management
- d) the company's internal auditors

7) If employees in the company work together toward establishing an environment to discourage fraud, this is called _____.

- a) developing anti-fraud plan
- b) creating a culture of honesty
- c) making the company fraud-proof
- d) setting the standard of ethics

8) Occupational fraud costs every employee of the organization because:

- a) the company must charge higher prices to its customers
- b) lower profits from fraud mean lower wages for everyone
- c) it hurts morale and productivity
- d) all of the above

9) Adequate internal controls can prevent many types of fraud.

- True
- False

10) Identify if the following situations are Fraud or Abuse

- _____ Overstate company assets to show false profits
- _____ Claiming overtime when it is not due
- _____ Stealing office supplies such as postage, stationary, pencils, etc.
- _____ Forging a signature on a check written to someone other than yourself

11) Your best friend is from a country outside the United States. One day after a particularly stimulating lecture on the meaning of ethics by your instructor, you and your friend disagree about whether culture plays a role in ethical behavior. You state that good ethics is good ethics and it doesn't matter where you live and work. Your friend tells you that in her country, it is common to pay bribes to gain favor with important people.

What are your thoughts on both sides in this scenario? Who do you believe is right?

12) In the next few weeks, you will graduate from SDSU. The school offers a significant discount on computer software for Apple computers for students to purchase for private use. Your close friend that graduated last semester, and no longer qualifies for the discount, is asking you to purchase the software and let her use it. This discount can save your friend \$1,000.

What would you do? What would you tell your friend?

Appendix B – Summary of Survey Results

Survey Results

Pre-Survey Post-Survey

3	7
3	7
4	7
4	7
5	8
5	8
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7	10
8	10

5.875	8.875	AVERAGE
6	9	MEDIAN
6	10	MODE

Appendix C – Analysis of open-ended questions

Open-Ended Question Analysis

Question 1: Your best friend is from a country outside the United States. One day after a particularly stimulating lecture on the meaning of ethics by your instructor, you and your friend disagree about whether culture plays a role in ethical behavior. You state that good ethics are good ethics and it doesn't matter where you live and work. Your friend tells you that in her country, it is common to pay bribes to gain favor with important people. What are your thoughts on both sides of the scenario? What do you believe is right?

Responses	Buy software	Don't buy software	Comments
	1		Financial hardships are common in this economy; just helping a friend
	1		Friend was previously enrolled and just graduated. Would have been eligible a few months ago
	1		Buy it
	1		Buy it
		1	Dishonest; stealing
	1		Friend was previously enrolled and just graduated. Would have been eligible a few months ago
	1		Purchase because it would abuse large corporations. In favor of abusing apple
	1		Buy it
		1	Ask if discount was available to alumni
		1	Dishonest; took into account consequences
	1		No big deal as long as friend pays me back
	1		Previous sdsu student so it is ok
	1		Apple is overpriced. Student just graduated so they deserve it
	1		Just graduated, could have used it herself a few months earlier

	1	At least someone can take advantage of discount; I'm not profiting from it and its helping a friend
	1	Buy it
	1	I buy computer and give it to friend - it's private use so shouldn't matter what you do with it
	1	Give friend discount
	1	Offering discount to me and I don't need it
Total	16	3
Percentage	84%	16%

Question 2 In the next few weeks you will graduate from San Diego State University. The school offers a significant discount on computer software for Apple computers for students who purchase for private use. Your close friend that graduated last semester, and no longer qualifies for the discount, is asking you to purchase the software for her. This discount can save your friend \$1,000. What would you do? What would you tell your friend?

Responses	Unethical to accept bribe	Ethical to accept bribe	Comments
	1		Wrong to accept bribes
	1		Apply ethics evenly to all countries. International standards
	1		Bribes are wrong and unethical no matter the culture
		1	Business practices are subjective to culture
		1	Subjective - take culture into consideration
	1		Cultural differences are ok but ethics should be the same across countries
		1	Culture plays a part in ethics and business has been based on bribes for a long time in some countries
		1	If bribes allow for efficient business and doesn't hinder job creativity, then other countries ethics can't be forced.
		1	Bribes are not right, but the culture defines the ethics

	1	Respect other people's culture but abide by laws and regulations and ethics in the country you are in
	1	Culture skews views of what is acceptable in a society, may not be right but it's the norm
1		Ethics should prevail regardless of where you live and work
1		Bribery is unethical everywhere and should not be supported or allowed through culture
1		Bribes are never acceptable no matter the culture
1		Person must abide by ethics and laws in country they are in
1		Bribes are not ethical no matter where you are from
	1	Culture plays an important role in ethical behavior
	1	Bribes are not unethical in the other persons culture
	1	If bribes are acceptable in another country then its fine in that country
Total	10	9
Percentage	53%	47%