Fraud and Ethics

HED 2288

Joe Reed, University of Kentucky

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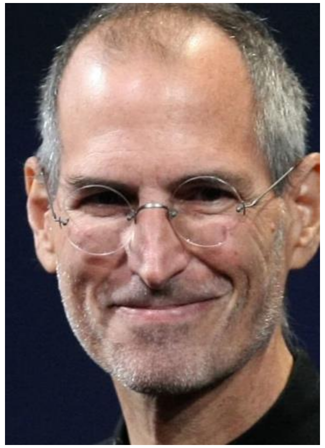
SOUTHERN ASSOCIATION OF COLLEGE AND UNIVERSITY BUSINESS OFFICERS

Auxiliary Services

Introduction

I. How does your current profession/occupation relate to *risk*?

II. What do these individuals represent to you?



Steve Jobs,
Former CEO of Apple

Sam Bankman-Fried,
Founder of FTX

MacKenzie Scott,
Author/philanthropist

Ron Vachris,
CEO of Costco

Raj Subramaniam,
CEO of FedEx

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Final Thoughts and Takeaways

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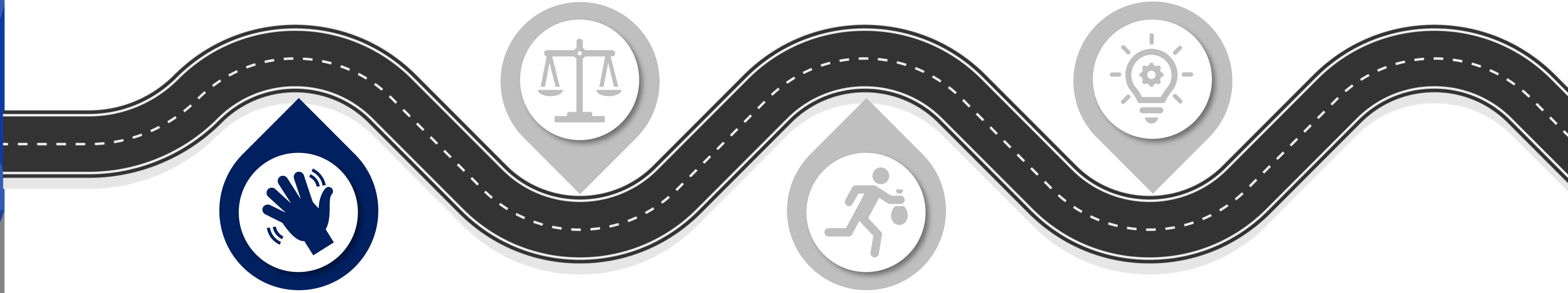

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Business of Higher Ed

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Industries in Higher Ed
Transportation and Logistics
Food and Dining
Construction Management
Information Security
Retail
Etc…

Not an exhaustive list.

Functional Responsibilities

Every department exists for a reason—
its **“functional responsibility.”**

All departments have the **authority and obligation** to **reduce the risks** associated with their functional responsibilities.

Functional Responsibility Examples

Human Resources

- Benefits
- Hiring
- Compensation
- Training and development

Budget Office

- Budgeting
- Forecasting
- Capital planning

Organizational Standards

Bill Belichick
Former New England Patriots head coach

Photo credit: Business Insider/Tommy Gilligan-USA TODAY Sports

> *Do your job.*

- Is it ethical to do someone else's job?
- Is it stealing (fraudulent) to intentionally do someone else's job?

Organizational Standards

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Nick Saban
Former Alabama Crimson Tide head coach

Photo credit: SI.com

> *Focus on the process.*

- Is it ethical to skip steps in a process?
- Is it deceptive (fraudulent) to knowingly skip steps?

Organizational Standards

Mike Tomlin
Former Pittsburgh Steelers head coach

Photo credit: CNN/Joe Sargent/Getty Images

> *"The standard is the standard.*

- Is it ethical to fall short of established standards?
- Is it wrong (fraudulent) to intentionally break standards?

Organizational Leadership

Leadership

Executives establish the tone at the top—the cultural and ethical climate of the organization.

All other employees, from management to frontline staff, are **also leaders** with the responsibility to fulfill their duties, positively influence others and model ethical behavior.

Performance Versus Leadership

Performance

- Short-term
- Daily activities
- Key performance indicators
- Standard Operating Procedures

Leadership

- Long-term
- Strategic planning
- Operational efficiency and effectiveness
- Regulatory adherence

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Ethics Introduction

True or False?

Unethical persons are fraudsters.

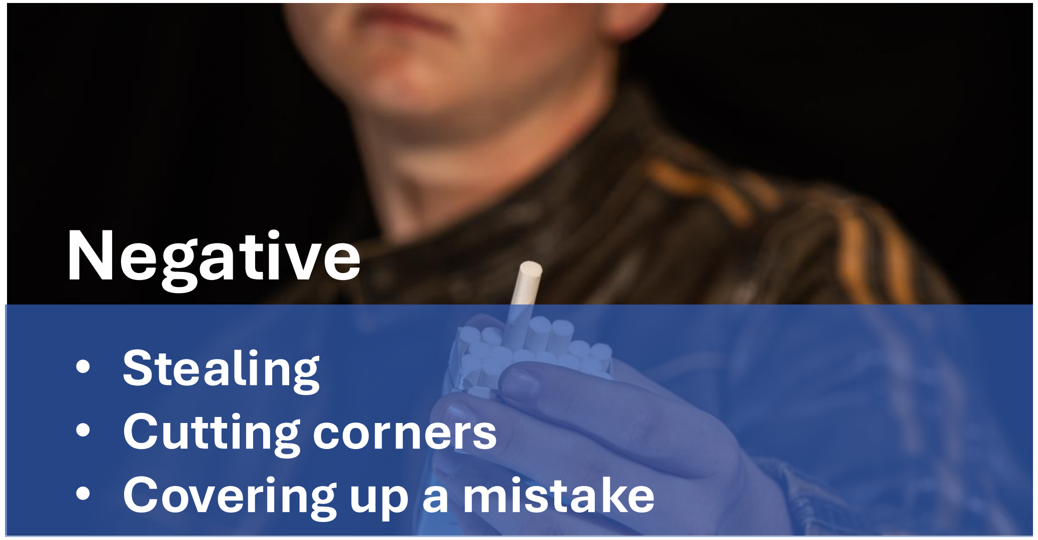
Ethics Definitions

Merriam-Webster Dictionary:
A set of moral principles : a theory or system of moral values; principles of conduct governing an individual or group.

International Code of Ethics for Professional Accountants:
The standard of expected behavior, comprising five principles: integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Work Environment: Peer Pressure

Peer pressure is the influence others have on your **decisions and values**. Despite the negative connotation, peer pressure can encourage **positive** *or* **negative** behaviors.



Negative

- Stealing
- Cutting corners
- Covering up a mistake

Positive

- Learning a new skill
- Volunteering
- Attending a staff lunch

Work Environment: Groupthink

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“Groupthink” occurs when individuals in a group **prioritize harmony and consensus over making the best choices**. It can **erode critical thinking** and **encourage blind obedience** to the group leader, resulting in:

Poor and/or Unethical Decisions

The pressure to conform reduces debate, creativity and problem-solving capabilities.

Self-Censorship

Individuals may hold back sharing ideas if they don’t align with popular opinion.

Lack of Preparation

Groups experiencing groupthink may be overconfident and unable to see potential negative outcomes.

Guardrails for Ethical Behavior

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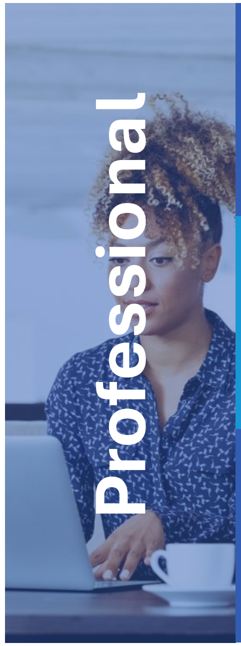
Our personal and professional codes of conduct establish **guardrails** for the way we are **expected to act**.

- Family
- Friends
- Social clubs/ religious affiliation



- Employer
- Colleagues
- Professional certifications/ associations

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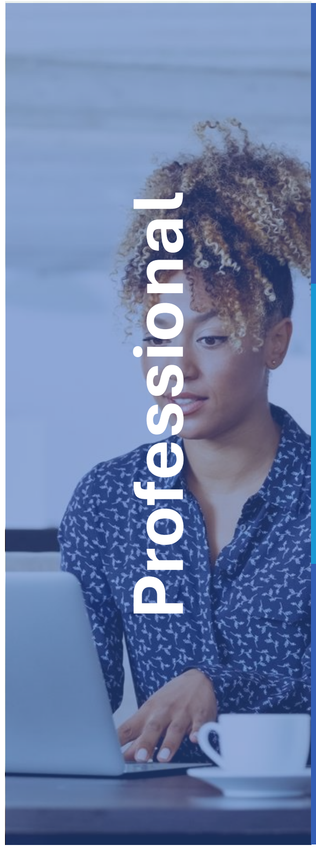
Guardrails for Ethical Behavior



Employer

Colleagues

Professional certifications/ associations

University codes of ethics establish **guiding principles** and **standards of conduct** for employees and others. They may cover topics such as **workplace behavior**, **confidentiality of information**, **conflicts of interest and commitment**, **resource stewardship** and **academic freedom**.

While our institutions are responsible for setting the **"tone at the top,"** staff can still influence the ethical climate. We are all the leaders of *some* area, and we have the **duty to demonstrate ethical behavior**.

Many of the professions within higher education institutions have **professional associations** that **establish ethical standards to guide personnel** as they perform their roles.

Guardrails for Ethical Behavior

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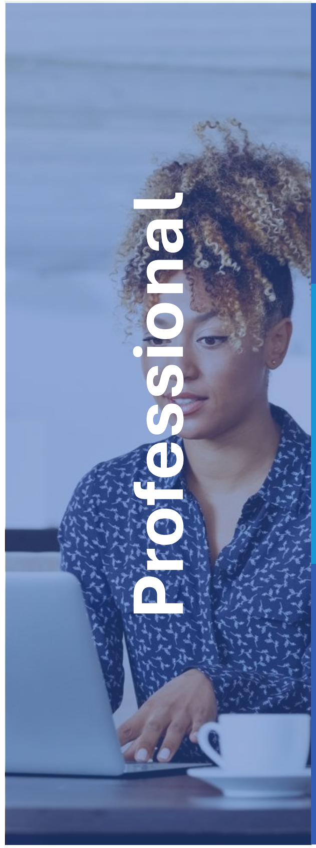

Employer

Colleagues

Professional certifications/ associations

To **build and maintain an ethical workplace**, these guardrails must work together to:

- Build trust and accountability
- Guide us through dilemmas
- Ensure we fulfill our duties

Ethical Journey

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Psychologist Lawrence Kohlberg theorized that our **moral development and reasoning** progress as our **social environments** expand. He argued that this development has six stages, each one more adept at navigating ethical dilemmas than the last.

Childhood → Adolescence → Young adult → Adult → Elder

Stages One and Two: Moral decisions are guided by **reward, punishment and self interest**.	**Stages Three and Four:** Moral decisions are guided by **conformance to social norms and laws.**	**Stages Five and Six:** Moral decisions are guided by **self-chosen, higher ethical principles and individual rights.**

McLeod, Saul. 2025. “Kohlberg’s Stages of Moral Development.” Simply Psychology. March 12, 2025.

Discipline and Structure

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Doing the right thing requires a combination of **individual self-discipline and a structured work environment.**

Ethical Decision-Making

Structured Work Environment

- Clear communication of ethical expectations and employee policies
- Mechanisms to deter and detect unethical behavior
- Transparent systems to report potential violations

Self-Discipline

- The ability to control your impulses, emotions and actions to achieve your goals
- Making moral choices even when no one is watching

Impact on Organization

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Leadership	✓	Ethical leadership drives employee engagement and sets the standard for acceptable behavior.
	✗	Leaders who behave unethically—bullying, accepting inappropriate gifts, giving special treatment—may implicitly encourage staff to do the same.
Work Culture	✓	A healthy work culture encourages employees to speak up when they see unethical behavior without fear of retaliation.
	✗	A poor work culture dissuades employees from speaking up, either due to fear of punishment or because they don't believe the organization will listen.
Goals	✓	Achieving a goal or meeting key performance indicators (KPIs) can motivate employees and align work with organizational objectives.
	✗	Fear of not achieving goals, or missing out on an incentive tied to KPIs, can encourage employees to cut corners or falsify data.

Governance

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Fraud prevention requires a **strong ethics program** to ensure employees understand the organization's **expectations** and are empowered with the **knowledge** to identify red flags for fraud and safe **ways to report** suspicious behavior.

Ethics Program

- **Code of Conduct:** A code of conduct provides clear expectations for employee behavior.
- **Training:** Training helps employees to identify potential misconduct and handle ethical dilemmas.
- **Reporting Mechanism:** A formal reporting mechanism allows employees (and others) to report misconduct anonymously without fear of retaliation.

Fraud Triangle

The **fraud triangle** is a model which hypothesizes that if three components are present—**pressure, opportunity and rationalization**—a person is **likely to pursue fraudulent activities**.

Association of Certified Fraud Examiners. “Fraud 101: What Is Fraud?” ACFE. 2023.

Fraud Triangle

Pressure

- Debt
- Lifestyle needs or wants
- Life pressures
- Vices (gambling, drugs, etc.)

Opportunity

- Poor or absent internal controls
- Unmonitored activity
- No separation of duties
- Too much trust

Rationalization

- “I don’t get paid enough.”
- “I’ll pay it back.”
- “No one will miss the money.”

Fraud Triangle

Rationalization ≠ rational thinking.

- Fraud **typically does not arise from evil intent** but from "a cascading interplay of internal and external forces."
- Core beliefs about **success, failure and personal worth**—in tandem with **overwhelming emotions** tied to personal and professional pressures—can **distort the fraudster's perception of reality** and **justify unethical actions**.
- Many fraudsters "**don't view themselves as criminals** but rather as **problem-solvers under duress**."

Fraud Triangle

Pavlo, Walter. "Fraud: How Good People Justify the Unthinkable." *Forbes*, November 14, 2025.

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Fraud Introduction

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True or False?

Fraudsters are unethical.

Fraud Definitions

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Merriam-Webster Dictionary:
An act, expression, omission, or concealment calculated to induce another to part with something of value or to surrender a legal right.

Institute of Internal Auditors:
Any intentional act characterized by deceit, concealment, dishonesty, misappropriation of assets or information, forgery, or violation of trust perpetrated by individuals or organizations to secure unjust or illegal personal or business advantage.

Association of Certified Fraud Examiners:
Any activity that relies on deception to achieve a gain.

Fraud Definitions

Fraud Categories

Individual Fraud

- When a **single person is targeted by a fraudster**, such as identity theft and phishing scams.

Organizational Fraud

This section will focus on occupational fraud.

- **Internal organizational fraud, also called "occupational fraud,"** is when an employee deceives the organization, such as embezzlement.
- **External organizational fraud** is when an organization is deceived from the outside, such as a vendor charging for work they did not do.

Association of Certified Fraud Examiners. "Fraud 101: What Is Fraud?" ACFE. 2023.

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Fraud Triangle

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Categories of Occupational Fraud

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	Asset misappropriation	Corruption	Financial statement fraud
Definition	Employee steals or misuses the employing organization's resources.	Employee misuses their influence in a way that violates their duty to their employer to gain some benefit.	Employee intentionally causes a misstatement or omission of material information in the organization's financial reports.
% of cases	**89%**	**48%**	**5%**
Median loss	**$120,000**	**$200,000**	**$766,000**

Association of Certified Fraud Examiners. "Occupational Fraud 2024: A Report to the Nations." ACFE.

Schemes by Fraud Category

Asset misappropriation

Cash
- Theft of cash on hand
- Theft of cash receipts
- Fraudulent disbursements

Inventory and Other Assets
- Misuse
- Larceny

Corruption

- Conflicts of interest
- Bribery
- Illegal gratuities
- Economic extortion

Financial statement fraud

- Net worth/income overstatement
- Net worth/income understatement

Association of Certified Fraud Examiners. “Occupational Fraud 2024: A Report to the Nations.” ACFE.

Common Fraud Schemes

Industry*	Institution
Agriculture: 53 cases	**Reimbursement:** Overstated expenses
Construction: 93 cases	**Payroll:** Time theft
Education: 83 cases	**Corruption:** Conflicts of interest
Food Service and Hospitality: 53 cases	**Billing Scheme:** Paying invoices from shell vendor
Arts, Entertainment and Recreation: 42 cases	**Larceny:** Purchasing and receiving

*Association of Certified Fraud Examiners. “Occupational Fraud 2024: A Report to the Nations.” ACFE.

Fraud Prevention: Internal Controls

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The internal controls below can help prevent *most* types of common fraud schemes. An effective internal control environment uses **multiple, complementary controls** to prevent and detect fraud.

Control	Purpose	Example
Separation of duties	Ensures that **one person cannot complete an entire transaction** on their own	An employee who requests a purchase cannot also approve the request.
Reconciliations	Identify when **financial records don't add up**	Comparison of ledger line items to purchasing documentation, ideally by someone not involved in the purchasing process.
Authorization workflows	Establish **checkpoints to verify whether transactions are appropriate**	Departmental purchases over $500 require pre-approval.

"Internal Controls to Prevent Fraud: A Practical Guide." 2025. Optro.ai.

Fraud Prevention: Internal Controls

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Fraud prevention requires a combination of:

Effective internal controls

- Internal controls are the "policies, procedures, and mechanisms designed to ensure accurate financial reporting, promote operational efficiency, and prevent fraud."[1]
- **Effective internal controls make fraud harder to commit and easier to detect.**

A strong ethics program

- 43% of occupational fraud cases were detected due to tips from whistleblowers, primarily employees.[2]
- **Employees must be empowered with the knowledge to identify red flags for fraud and safe ways to report suspicious behavior.**

[1]"Internal Controls to Prevent Fraud: A Practical Guide." 2025. Optro.ai.; [2]Association of Certified Fraud Examiners. "Occupational Fraud 2024: A Report to the Nations." ACFE.

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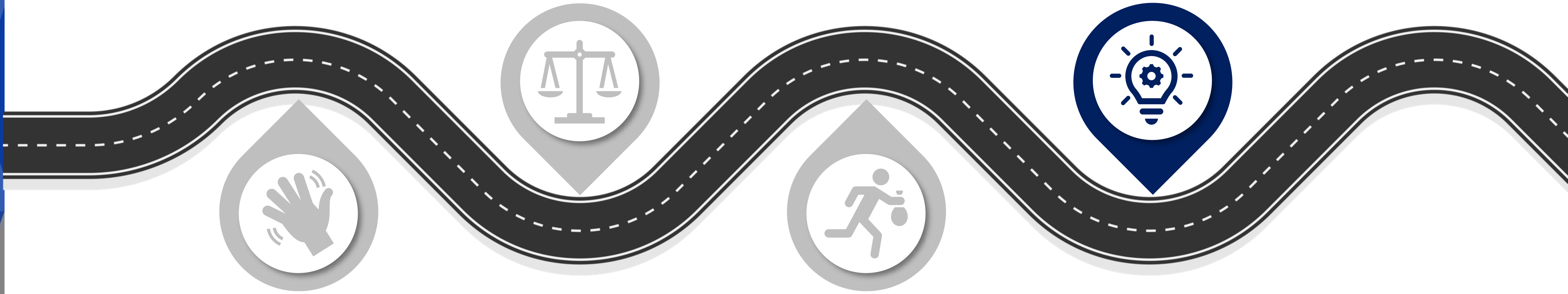

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Organizational Standards

Bill Belichick
Former New England Patriots head coach

Photo credit: Business Insider/Tommy Gilligan-USA TODAY Sports

> *Do your job.*

- **Is it ethical to do someone else's job?**

- It's morally correct but NOT ethical.
- This reflects an employee acting honorably to get the job done, but it does NOT address the underlying concern.

Organizational Standards

Bill Belichick
Former New England Patriots head coach

Photo credit: Business Insider/Tommy Gilligan-USA TODAY Sports

> *Do your job.*

- **Is it stealing (fraudulent) to intentionally do someone else's job?**

- This means an employee is accepting payment for a service not rendered.
- This is a result of the employee's job performance, either intentionally or unintentionally.

Organizational Standards

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Nick Saban
Former Alabama Crimson Tide head coach

Photo credit: SI.com

> *"Focus on the process.*

- **Is it ethical to skip steps in a process?**

- This reflects the person (employee) knowingly not following instruction, direction or established norms.
- Leadership and culture should address this concern.

Organizational Standards

Nick Saban
Former Alabama Crimson Tide head coach

Photo credit: SI.com

> *Focus on the process.*

- **Is it deceptive (fraudulent) to knowingly skip steps?**

- Was this act done to gain a financial advantage?
- Were others complicit?

Organizational Standards

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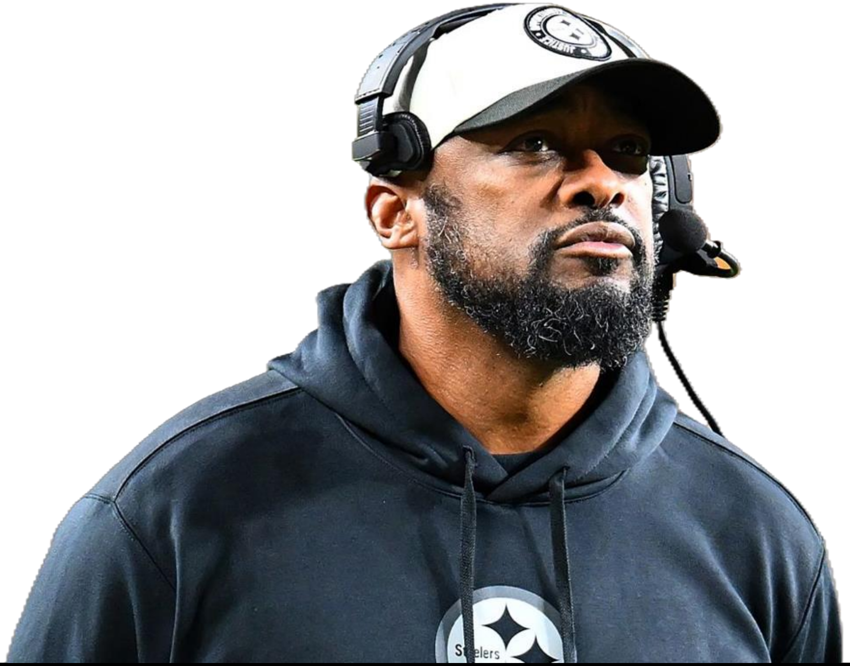


Mike Tomlin
Former Pittsburgh Steelers head coach

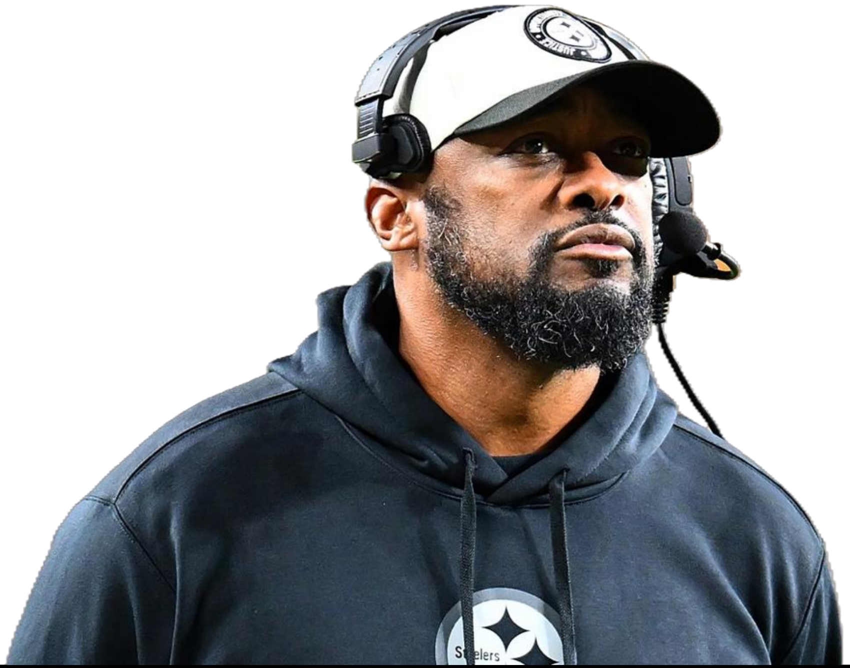
Photo credit: CNN/Joe Sargent/Getty Images

> *The standard is the standard.*

- **Is it ethical to fall short of established standards?**

- The employee missed the mark intentionally or unintentionally.
- What are the responsibilities of leadership and others?

Organizational Standards



Mike Tomlin

Former Pittsburgh Steelers head coach

Photo credit: CNN/Joe Sargent/Getty Images

> *The standard is the standard.*

- **Is it wrong (fraudulent) to intentionally break standards?**

- Employee chooses to work outside of established norms intentionally or unintentionally.
- Were appropriate trainings and guardrails in place?

True or False

Point 1: **Unethical persons are fraudsters.**

Point 2: **Fraudsters are unethical.**

Final Thoughts/Takeaways

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Ethics is…

1. *Personal*? **Yes: usually evolving with maturity/age.**
2. *Social*? **Yes: individuals usually conform or agree to connect with their peers/community.**
3. *Occupational*? **Yes: individuals adapt for appropriate job fit (Code of Conduct/Ethics).**

Fraud is…

1. *Disruptive*? **Yes: to both the unit and organization.**
2. *Transactional*? **No: it involves a series of actions leading to a payment(s).**
3. *Preventable*? **Yes and no: enhanced internal controls reduce the likelihood of an event.**