Fraud prevention and detection are related but are not the same concepts. Prevention encompasses policies, procedures, training, and communication in efforts to stop fraud from occurring; whereas detection focuses on activities and techniques that promptly or timely recognize whether fraud has occurred or is occurring. The ability for individuals to detect fraud red flags and timely report your suspicions to the Office of Inspector General (OIG) assists the investigation process, as well as mitigates the damage done to our district.

To refresh our understanding of Fraud, Waste, and Abuse; simply defined:

**Fraud** is wrongful acts committed on an organization, or by the organization, or for the organization. Fraud may be committed by an internal or external source; is intentional and concealed; intended to deceive or falsify and may result in harm or monetary loss to the victim (directly or indirectly).

**Waste** involves inappropriate expenditures, or misuse of resources, which causes potential loss to the organization.

**Abuse** involves misuse of authority or position to benefit self or others, and may not necessarily be illegal, but damages the organization’s reputation.

The top three categories of occupational fraud in organizations are: Asset Misappropriation, Corruption and Financial Statement Fraud.

It is important to remember that:

- People commit frauds, not internal controls.
- No matter how strong the internal controls, fraud can, and will occur in any organization.
- When fraud occurs, the victim suffers a monetary loss (direct or indirectly).
- The key to locating fraud is to look where fraud occurs.
- Fraud is predictable to the extent of how it will occur in a specific situation, not necessarily in the actual occurrence.

**FRAUD AWARENESS AND DETECTION**

To detect fraud, one needs to know what to look for. Some of the common fraud red flags include:

- Activities that are not consistent with usual school business.
- A single individual handling all accounting matters (no segregation of duties).
- Larger cash deposits or purchases than would be expected.
- Withdrawals or checks inconsistent with the needs of the school.
- Bills or invoices that are larger or smaller than would be expected.
- Transactions being done in cash or in whole dollar amounts.
- Adjustments or duplicate payments in the general ledger.
- Attempts to avoid reporting requirements.
- Frequent deposits or purchases just under the reporting threshold.
- Unusual fund transfer activities.
- Excessive shortages of supplies or other inventory.
- Transactions where both parties appear to be related entities.
- Any financial information that is insufficient or suspicious.
- Transaction documentation that appears falsified or not legally correct.
- Reluctance to provide identifying information during an audit or investigation.
- Sudden disappearance of records or documents.
- Sudden changes in employees’ lifestyles.
- Reluctance to take leave (vacation) for fear of detection during work absence.
- Employees who ridicule the school district or cause regular problems.

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“**It takes less time to do a thing right, than explain why you did it wrong**”

Henry Wadsworth Longfellow

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These signs, among other peculiarities, may indicate that something is awry within an area. Anyone interested in assisting in the detection of fraud needs to assess the likelihood and significance of each potential fraud risk, not only in consideration of its monetary significance, but the impact it would have to our district’s operations, reputation and regulatory compliance requirements.

**WHY DO PEOPLE COMMIT FRAUD?**

Individuals who commit fraud are generally able to do so because there is **opportunity, pressure and rationalization**. This is best illustrated by what is called the ‘Fraud Triangle’ below.

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**The Fraud Triangle** by Donald R. Cressey

**Opportunity** generally arises through weaknesses in the internal control processes; such as inadequate or a lack of:

- Supervision and review
- Separation of duties
- Management approval
- System controls

**Pressure** can be imposed due to:

- Personal financial problems; e.g. creditors or collectors, family problems, etc.
- Personal vices such as gambling, drugs and alcohol addiction, extensive debt, etc.
- Unrealistic deadlines and performance goals.
**Rationalization** occurs when the individual develops a justification for their fraudulent activities. The rationalization varies by case and individual. Some examples include:

- “I am underpaid and overworked”
- “I am only borrowing the money”
- “I have not received a raise in years”
- “I just can’t afford to lose everything – my home, my car…”

**WHO IS RESPONSIBLE FOR DETECTING FRAUD?**

When fraud occurs, everyone pays; so everyone should assist in the detection of fraud. The key to fraud detection entails breaking the fraud triangle to remove one of the elements in the fraud triangle and **reduce the likelihood** of fraudulent activities. We should always be aware of the pressures that push people to commit fraud. “Everyone is ethical until they are not”. Of the three elements, removal of opportunity is most directly affected by a system of internal controls and generally provides the most actionable route to deterrence of fraud.

Anyone with suspicions or knowledge of fraud should report it to the OIG. Tips remain the most common method for fraud reporting; accounting for over 40% among fraud detection methods. However, reported observations or situations must be investigated. Untrained employees are generally not expected to detect and investigate fraud. Therefore, management controls, even when carried out with due professional care, do not guarantee that fraud will be detected. The OIG utilizes specialized investigative techniques to detect and investigate fraud. All employees are required to cooperate fully in any investigation. Investigative staff are trained to keep the matter as confidential as possible during an investigation. The results of an OIG investigation cannot be public or made known to the individual(s) who originally reported the matter. There are very strict laws on defamation that could be invoked by individuals alleged to be responsible for wrongdoing if their situations were made known or exposed to fellow staff members; especially if the matter results in unsubstantiated findings.

**Q&A**

**Why should I have to report fraud? Isn’t it better to “stay in my lane?”**

Fraud is a common risk that should not be ignored. Everyone has an obligation to report any suspicions or allegations of fraud, to protect the reputation and integrity of our district. Strong fraud prevention processes help increase the confidence of our stakeholders and the public, as well as increase the ability for our district to manage its fiduciary responsibilities.

**What happens if I report an alleged fraud?**

The Inspector General reviews the information received to determine if it is sufficient and significant enough to initiate an investigation. The matter is assigned to an investigator who may contact you to obtain more information and/or documents. The OIG utilizes various means in the process of investigating complaints received; which include: interviews, reviewing and/or analyzing documentation, requesting or confirming information with external parties, reviewing policies and procedures, as well as other sophisticated investigative techniques. Upon conclusion, an investigative report is prepared and distributed to parties on a need-to-know basis; with recommendations to administration for discipline, or to strengthen internal controls.

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**Detroit Public Schools Community District**

**Office of Inspector General**

Main Office phone: 313-870-5664

Call the Fraud Hotline: 313-870-3436

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**Fraud Detection**

**Know IT Before IT Knows YOU**