

# At Issue

A RISK MANAGEMENT NEWSLETTER FOR  
COLLEGES AND UNIVERSITIES



## Employee Dishonesty – A Financial and Reputation Risk Issue

The Association of Certified Fraud Examiners' (ACFE) 2016 Report to the Nations on Occupational Fraud and Abuse provides interesting and useful information concerning employee fraud, including information specific to the education field.

- The average fraud case in education is \$62,000, less than the mean loss of \$150,000 but still substantial, especially for small private colleges or institutions that are struggling financially.
- According to the Report, billing and corruption schemes account for nearly two-thirds of all schemes in the education field. However, skimming (defined as a scheme where an incoming payment is stolen before it is recorded on the books) was more common in the education field than any other industry, representing 25% of all reported schemes.

- Fraudsters were mostly male first-time offenders. Employees between 36 and 40 years of age committed the most crimes. Employees over 60 perpetrated the largest losses. While most crimes were committed by a single employee, the largest losses involved collusion between two or more people.

The report also lists red flag behavior exhibited by perpetrators. While this type of behavior does not mean a person is committing fraud, the ACFE identified these behaviors as common behaviors among fraudsters in its study.

The six most common behavioral red flags were: (1) living beyond means; (2) financial difficulties; (3) unusually close association with a vendor or customer; (4) a general "wheeler-dealer" attitude involving shrewd or unscrupulous behavior; (5) excessive control issues or unwillingness to share duties; and (6) recent divorce or family problems.

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Approximately 79% of the perpetrators in the study displayed at least one of these six red flags during their schemes. Living beyond means was a red flag in more cases than any other indicator, regardless of whether the perpetrator was an employee or manager.<sup>1</sup>

In 2016, initial detection was by a tip, internal audit or management review. This is true whether the perpetrator was an employee or a manager.

**RISK ASSESSMENT**

Risk assessments help an organization identify hazards or exposures that increase the likelihood of a loss, in this case, fraud or employee theft. Perils that increase the likelihood of loss that can exist in an organization are:

<b>Opportunity</b>	Cash and certain types of equipment (e.g., supplies, IT devices, TVs) are fungible and can be easily sold or spent.
<b>New Operations, Systems or Activities</b>	New processes, procedures, new systems and IT upgrades are frequently implemented to fulfill a need or requirement. This is also true for new mandates or regulations. Internal controls often come after the process is established and implemented.
<b>Complexity</b>	Complex tasks increase the probability of an error.
<b>Changes in Personnel</b>	Inexperienced staff reduces the efficiency of internal controls.
<b>New Leadership</b>	In many cases, new leadership means new and different ways of accomplishing tasks. Compliance may mean less attention to policies and internal controls.

<sup>1</sup> The 2016 Report to the Nations on Occupational Fraud and Abuse can be found at <http://www.acfe.com/rtnn2016/schemes/occupational.aspx>

**INTERNAL CONTROLS**

Internal controls are actions, procedures and policies that reduce the possibility of fraud and make it easy for employees to report schemes that they are aware of in the workplace. While there are basic controls that apply to most entities, we strongly recommend following the advice of your institution's auditors, CFO or fraud manager. Basic controls include:

- **Hiring and Interviewing**  
Is there a code of ethics? Are background checks done and references verified? Is there a probationary period for all new employees that allows for the dismissal of employees who are exhibiting problematic behavior? When warranted (especially for applicants who will operate machinery or motor vehicles), are drug tests required?
  - **Expense Accounts and Payroll**  
Are employee expense accounts reviewed and approved by the employee's manager? Is there a policy for receipt verification? Are there periodic reviews done in the auditing process? Do time cards justify payroll?
  - **Separation of Duties**  
This is true in all accounting areas, but particularly important for check processing, printing and approval — and payroll approval.
  - **Inventory**  
Educational institutions have supplies and equipment that are fungible and have uses outside of the college or university. Paint, cleaning equipment, pesticides, tools, building supplies and food are some examples.
- Other components of internal control involve policies and practices:
- Audit reports are reviewed by the Board of Trustees.
  - There is mandatory anti-fraud training.
  - An easy method to report suspected fraud ("tip line") is in place.
  - An honest and ethical environment is supported with senior management setting the example.
  - Employee assistance programs are available for employees struggling with addiction issues.
  - The Chief Information Officer is monitoring IT software and systems to ensure robust controls to prohibit/reduce fraud perpetrated through IT systems or devices.



# Retaining An Armed Security Firm

One solution that colleges and universities are considering in wake of the tragic school shooting in Parkland, Florida is to retain armed security guards from a security contractor. Using armed security may add a level of protection and be a deterrent for people planning armed attacks. However, having armed security on premises increases the overall liability exposure to the institution. Generally, the college or university has a duty to provide a safe environment for students, visitors, staff and others. Improperly vetting, selecting and managing a security firm can create liability for the institution if there is an incident where the firm acts negligently and causes bodily injury or property damage.

We recommend working closely with legal counsel and your insurance representative if an armed firm is being retained. Besides requiring proof of the necessary credentials (such as licenses and/or certifications) and background checks on the individual guards performing the service, contracts should include favorable indemnification language and risk transfer language, requiring the contractor to maintain certain coverages and limits, **and list the college as an additional insured.**

## Required coverages typically include:

### Commercial General Liability Insurance

\$1,000,000 per occurrence / \$2,000,000 general and products / completed operations aggregates.

### Errors and Omissions Insurance

\$2,000,000 per occurrence and aggregate with coverage for defamation, assault and battery, invasion of privacy, false arrest, and detention



and imprisonment. If written on a claims-made basis, the retroactive date must precede the date of the contract or the inception of services, whichever is earlier.

### Automobile Liability

\$1,000,000 combined single limit for owned, hired and borrowed and non-owned motor vehicles.

### Excess Liability Insurance

On a follow-form basis over the liability coverages listed above.

### Workers Compensation

Statutory limits and coverages.

Consult with your insurance representation to ensure compliance with the insurance laws and practices in your state.

# Event Planning

By: **Scott Wells**, ALCM, CPP, Senior Risk Control Specialist – Western Region, Wright Specialty Insurance

Spring and summer activities on your campus present challenges for administrators that require preplanning and the careful execution of an adopted plan. Some examples of activities include: athletics (especially tournaments and rivalry competitions); formal dances; theater productions; graduation; concerts; fundraisers and summer camps. Start the planning process early in order to allow for the time necessary to develop your planning and operations teams. The purpose of this article is to assist administrators by providing information on the salient components of a good plan.

## PLANNING PROCESS

The planning process begins with the identification of the event (concert, graduation, etc.), the designation of an Incident Commander (IC), and a review of potential liability exposures. A senior-level college or university employee should be named as the IC — the person who is responsible for the overall management of the event. Potential liability exposures include: public accommodations (restrooms, parking spaces, facility access, etc.); injuries to attendees/participants; disruptive behavior; alcohol-related incidents; and vandalism.





## PLANNING AND OPERATIONS TEAMS

The IC, in collaboration with other college officials, will select a planning team. The composition of the team can vary by activity, and is usually comprised of an employee from the following departments/functions: administration; finance/business; IT; maintenance; athletics; student life; and security. Depending on the activity, the college or university may want to consider inviting outside partners, such as local law enforcement, to help with planning. The planning team is primarily responsible for: identifying and acquiring/allocating the necessary resources to carry out the activity/event; advertising the event; and adjusting the plan as required.

The operations team is responsible for executing the plan — under the supervision of the IC. The operations team is comprised of some or all of the planning team members, along with medical personnel and general staff employees.

## PLAN COMPONENTS

### PERSONNEL

Select event staff who know the campus and campus operations well. This typically includes: key administrators; maintenance; medical staff — nurses and athletic trainers; IT; security and law enforcement; and residence supervisors. Event staff should have good observation and communication skills, and should know the college's Emergency Management Plan (EMP) well.

### COMMUNICATIONS

Communications, both written and verbal, are perhaps the most critical component of a solid plan. Two-way portable radios are a best practice during events. Batteries should be fully charged before the event begins, and radios should have multichannel capability. There should be enough spare batteries for at least half the radios, and they should be fully charged as well. If the college or university has a security function, utilize that expertise, as they have everyday experience in radio usage. On event day, the IC (or designee) is responsible for a personnel roll call at least twice hourly. This is especially important for staff that are mobile during the event.

In addition to a portable radio, each operations member should have a cell phone (with a fully charged battery) available. Cell phones are a redundancy feature in the event of radio failure.

Written communications include e-mails, college/university website and social media posts. The website and social media can be helpful in getting the word out on event changes such as weather delays and traffic delays.

### EMERGENCY PLANNING

Existing emergency plans can be used, augmented by event specific plans. Examples of



specific plans are locations of first aid stations for outdoor events; an information center that is centrally located (outside events); and a lost and found location. Depending on the event, it might be prudent to have an ambulance on standby on campus grounds. Consideration should be given to inviting law enforcement, fire and EMS personnel to be in attendance during the event.

### SECURITY

Two to four security officers are often recommended for crowds of 10 to 50 people. This number would go up if alcohol is served. Utilize security staff first, as they know the property. Local law enforcement can supplement security officers.

The IC should assign an operations team member to monitor camera images during the event — this should be their only responsibility.

### TRANSPORTATION

For outdoor events, utilize golf carts and similar vehicles for quick access to the grounds and buildings. Colleges and universities that have security departments often use bicycles.

### OTHER

If contracted services are used during events, ensure that the contractor demonstrates adequate liability coverages and provides a Certificate of Insurance (COI) listing the college or university as an additional insured.

Colleges and universities should have policies that address prohibited items and behaviors. Colleges and universities should also have policies that address alcohol consumption.

Facilities should always be inspected before use.

# Winter Maintenance Tips

By: **Scott Wells**, ALCM, CPP, Senior Risk Control Specialist – Western Region, Wright Specialty Insurance

Winter may be drawing to an end in some parts of the country, but it is still in full force in other areas. Regardless of where you live, it is always a good time to perform maintenance on your cold weather and snow removal equipment and supplies. Some simple tips are listed below.

## SNOW BLOWER/THROWER

- Change the spark plug. This is an inexpensive way to keep the engine running properly.
- Inspect the belts for wear. Replace those that are worn or frayed.
- Check the auger paddles for wear and tear — they should touch the ground.
- Check the shave plate.
- The skid shoes will wear out. Flip them or replace them as necessary.
- Change the engine oil. This will extend the life of the engine.
- Check the shear pins. They can and do break. Keep several spares on hand.
- Always use fresh gas and add fuel stabilizer.
- Check the tire pressure. This is sometimes overlooked. Proper tire pressure is important to machine operation.

Many of the above tips are predicated on hours of use. Even late winter is a good time to perform maintenance — there is no down side to the above tips.

## ATVS WITH SNOW PLOW BLADES

Much of the maintenance you perform on your Snow Blower/Thrower applies to your ATV.

- Check the cutting edges that attach to the bottom of the plow blades. They will wear with use. Keep a spare available.
- Change the engine oil and use fresh gas with a fuel stabilizer.
- Check the tire pressure often.
- Make sure the winch cables are not worn or frayed. They see a lot of work when raising and lowering the plow blade.

## ICE MELT

Consider using ice melt for the areas of your property where snow and ice don't melt readily — usually the north side of buildings that don't get as much sun.



# News&Views

## Motor Vehicle Deaths Decreasing.

The National Safety Council indicates that motor vehicle deaths dropped slightly — 1% in 2017. <http://www.nsc.org/learn/NSC-Initiatives/Pages/Fatality-Estimates.aspx>



## Will the EEOC shift to a more pro-business stance?

EEOC likely to exercise restraint on litigation.

Business Insurance – December 2017



## 2017 Sets a New Record for Cumulative Damage from Weather and Climate Disasters

During 2017, the U.S. experienced a historic year of weather and climate disasters. In total, the U.S. was impacted by 16 separate billion-dollar disaster events tying 2011 for the record number of billion-dollar disasters for an entire calendar year. The cumulative cost of these events exceeded \$300 billion.

NOAA – National Center for Environmental Information

<https://www.ncdc.noaa.gov/billions/>



## Flu Season Winding Down?

Maybe, says the Centers for Disease Control and Prevention (CDC). But a second wave of flu can hit in late winter and early spring.

CDC, Friday, February 23, 2018

# ResourceCenter

**Training or information about today's risk management-related subjects can be found in the Wright Specialty E-Learning or Title IX Learning Centers online.**

Wright Specialty is host to a number of online risk management resources. Take advantage of the free safety education courses available on Wright's 24/7 web-based training center. Visit our Title IX Resource Center to keep up with changing developments or browse our seasonal Risk Alerts to stay up-to-date on college-based risk management and safety issues. With years of experience insuring academic risks, Wright Specialty Insurance provides valuable guidance for administrators to help reduce injuries to students, staff and visitors, and to prevent damage to property. You can access our national Employment Liability Hotline for help with every day employment-related issues. The Hotline is available Monday - Friday from 8:30 a.m. to 6:00 p.m. eastern time. Call 866-758-6874.

**For easy registration at our e-Training Center and for access to the Resource Center, contact Amy Kielb to receive your access code at: 516-750-9457 or [akielb@wrightinsurance.com](mailto:akielb@wrightinsurance.com)**



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