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Collusion at the University

BY AMY BLOCK JOY

Collusion is defined as: “Improper secret agreement between two or more entities, to defraud or deprive others of their property or rightful share, or to otherwise indulge in a forbidden, illegal or illegitimate activity.”¹ What does collusion look like? In a television mini-series, it might play like this:

Collusion at the University: A mini-series

SCENE 1: *Cynthia, an administrative assistant (mid-30s, attractive), waves to receptionist as she enters the executive office of the departmental chair. She shuts the door and sits on his leather couch. Malcolm, (50-ish, tall), chair of the Chemistry Department at a prestigious university, sits next to her. Cynthia is holding two folders.*

Malcolm: “Is the office renovation work order ready for the dean’s approval?”

Cynthia (*hands him the folder*): “Yep. I changed the account number, just like you said. We’re using the grant account to pay for the work.”



Malcolm: “Good. Do you have Faith’s copy?”

Cynthia: “Yes. Your financial officer used your departmental account. I’ll shred it.”

Malcolm: “No. File Faith’s version. She won’t know. I’ve sent her on an extended vacation.”

Cynthia *(smiling)*: “What a relief!”

Malcolm: “Yep. If anyone gets nosy, it will look like a number mix-up.”

Cynthia: “Okay.”

Malcolm: “I’ve made you the interim financial officer, so you sign it. Now, off to the dean’s office.”

Cynthia *(signs the work order and hands Malcolm a big folder)*: “My travel expenses need your signature.”

Malcolm *(absentmindedly signs the papers)*: “On your way, pick up my lab equipment orders. They’re on Faith’s desk. Use the same grant account number, then sign them. Might as well spend down that unused grant money to be as close to zero as possible.”

Cynthia: “Will do!”

Red flags of collusion

In this hypothetical television scene, collusion takes place behind closed doors. With little documentation, missing paperwork, verbal authorizations, and shoddy accountability, collusion evades detection and renders anti-fraud controls ineffective.

The employee, Cynthia, and the powerful chairman, Malcolm, have a close-knit bond, making deals behind closed doors. There is nothing wrong about renovating offices for the department chair. Their secret plan is to change the account number from a legitimate source (departmental funds) to some unspent grant money.

Malcolm gives Cynthia a new assignment, so Cynthia can approve work and purchase orders. By putting Faith (the legitimate officer in charge of internal control) on a forced vacation, the colluders eliminate a barrier to their scheme.

Although Malcolm rationalizes his action as an effective strategy (using unspent grant funds), he also knows the government has regulations for what can and cannot be charged. In this hypothetical scenario, and in many collusion cases, the offenders aren’t concerned about the rules.

Cynthia gets rewarded for following Malcolm’s directives when he approves her travel expenses without any proper review.

ACCOUNTABILITY RED FLAGS

inappropriate approval hierarchy ▪ no separation of duties ▪ misuse of signature authority
circumventing the control environment ▪ no paper trail



SCENE 2: *Cynthia stops to chat with Malcolm's receptionist who works in a tiny cubicle right outside his door.*

Cynthia: "How's the baby?"

Receptionist: "He's a handful! Can't wait to get a good night's sleep!"

Cynthia: "Being a single mom is hard! But I do have some good news for you!"

Receptionist (brightens): "Tell me!"

Cynthia: "As the interim financial officer, I've recommended a new office for you."

Receptionist (looking around her cluttered space): "Office? Ahh ... thank you. Where's Faith?"

Cynthia (whispers): "Faith? Haven't you heard? She's on an extended medical leave. Poor woman is headed for a breakdown."

Receptionist is silent.

Cynthia: "The Chair asked me to take Faith's equipment folder to the dean's office. I need you to open her office."

Receptionist picks up the telephone to call Malcolm.

Cynthia (harshly): "No need to call the Chair. It's time you took some initiative. Malcolm hates pointless questions."

Receptionist: "Okay, but hurry." *(She opens her drawer and gives Cynthia the key. Cynthia walks down the hall, unlocks her door, grabs the folder, and returns the key.)*

The collusive bond

Cynthia uses her relationship with Malcolm and a hint of a new office to get the receptionist to hand her the financial officer's key. The receptionist knows it's wrong, but she's afraid of Cynthia.

In fact, like many collusion cases, co-workers have suspicions that something's not right. In this hypothetical scenario, co-workers are observing favoritism. They might also notice that Faith, the financial officer, is kept in the dark. By spreading malicious rumors that Faith is on medical leave, Cynthia has isolated her, creating the desired effect of keeping others away and reducing the risk of discovery.

SCENE 3: *The receptionist calls a co-worker. Turning around so that no one can hear, she anxiously waits to talk to her friend.*

Receptionist (*whispers*): “Guess who was meeting privately with Malcolm?”

Friend: “Who?”

Receptionist: “Cynthia. Her regular visits are getting on my nerves. Malcolm continues to sign her fake travel expenses. No one’s paying attention. News flash! Malcolm made Cynthia the interim financial officer.”

Friend: “What? Faith is our financial officer! Cynthia has no business being in her position. She has no training or expertise!”

Receptionist: “Yep. Turns out expertise isn’t required. Cynthia said that Faith’s on medical leave. Don’t tell anyone.”

Friend: “Mum’s the word. Some advice?”

Receptionist: “Please!”

Friend: “Don’t get involved. Do your work and keep quiet. Cynthia wants Faith’s position. She’ll destroy anyone who gets in her way.”

Receptionist: “I know. There’s nothing I can do. Malcolm *really* likes Cynthia. Everyone knows that her travel expenses are fake. Tomorrow I’m going to my second interview in another department. I can’t wait to get outta here.”



Behavioral collusion clues

Cynthia’s regular visits, fake travel expenses, and special assignments (interim financial officer) are observed by co-workers. Malcolm is approving Cynthia’s fabricated expenses, and everyone is fearful of losing their job. Escaping this dysfunctional workplace is the only safe option for low-level employees.

SOME BEHAVIORAL CLUES

- a questionable employee-supervisor bond
- special treatment/assignments
- lax oversight and monitoring
- low employee morale, rumors, and gossip
- a hostile workplace

Collusion may be rationalized by the colluders as a forward-thinking action for institutional benefit. In this case, the chairman rationalizes that spending down the unused grant money is an effective business strategy for using funds that would normally be returned unspent. By having Cynthia change the account number and sign the work order, Malcolm can claim ignorance. In fact,

both colluders (Malcolm and Cynthia) could scapegoat the financial officer, either pointing out her extended vacation (“Things needed to get done while you were out.”) or claiming she’s incompetent. In these scenes, everything is veiled in secrecy. And even if Faith had put fraud-detection controls in place, no one is using them.

COLLUSION INDICATORS

- high staff turn-over
- employee complaints about co-workers getting special treatment
- hostile workplace grievances

Collusion research

Research on collusion is scant. In a landmark study by Clinton Free and Pamela R. Murphy, characteristics of collusion include: loyalty, group influence, and distrust of others.² Colluders rationalize their actions. By believing in widespread corruption and poor monitoring, they have contempt for institutional rules. They perceive their actions are to benefit the institution.



Collusion is usually discovered years later, when the offenders think that no one is watching, and they start taking bigger risks.

In my university collusion case, a discovery of embezzlement stopped years of criminal activity.³ Collusion was identified by internal auditing: A high-level leader created a business environment that allowed a subordinate employee to commit fraud in exchange for inappropriate equipment purchases. Auditors found that the failure of the department head to establish a control environment allowed the fraud to continue for six years.

The best anti-fraud controls won’t stop collusion. Continuous monitoring and follow-through may be helpful in keeping in check those who have taken over the control environment, but monitoring alone cannot deter wrongdoing from taking place.

What’s needed

This collusion scenario illustrates:

- Collusion is a secret agreement between two or more persons;
- Collusive activities are deceptive, dishonest, and/or illegal;
- There is a strong bond of loyalty among members of the “inside” group;
- Colluders rationalize their actions as effective business practices; and
- Somebody, most likely the government, is getting ripped-off.

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The most important safeguard against collusion is a strong ethics culture. When the workforce loses confidence in the leadership, the result is poor employee morale, creating silence and distrust.

What's needed? It's the co-workers who detect collusion. To stop collusion from taking over the control environment, the institution must create a speak-up culture and safeguard those who report misconduct. When wrongdoing is substantiated, enforcing corrective action will send the message that misconduct is taken seriously.

Leadership must be the model of integrity and accountability. Improving staff morale by institutionalizing a robust ethics program can have the desired effect of reducing fraud, misconduct, and collusion. ■

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ENDNOTES

- 1 Business dictionary: <http://www.businessdictionary.com/definition/collusion.html>
- 2 Clinton Free and Pamela R. Murphy: "The ties that bind: The decision to co-offend in fraud" *Contemporary Accounting Research* 32(1):18-54, Spring 2015. <http://onlinelibrary.wiley.com/doi/10.1111/1911-3846.12063/full>
- 3 Amy Block Joy: *Blowback: The Unintended Consequences of Exposing a Fraud*. CreateSpace Independent Publishing Platform, 2017: ISBN: #978-1-542999663