

Occupational Fraud

Association of Certified Fraud Examiners

- 2004 Report to the Nation on Occupation Fraud and Abuse
- Study covered 508 cases of fraud totaling over \$761 million in losses
- Participants in study were anti-fraud specialist with a median 16 years' experience
- Cases came from 16 different industries

Definition

- Occupational Fraud: The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets

Categories of Fraud

- Asset Misappropriation
 - Involves the theft or misuse of organization's assets
- Corruption
 - Fraudster wrongfully uses their influence in a business transaction to procure benefit for themselves
- Fraudulent Statements

Categories – cont.

- Asset misappropriation most common
 - 92.7% of cases reported in ACFE study
 - Smallest median loss to organization (\$93,000)
- Fraudulent financial statement least common
 - 7.9% of cases reported in ACFE study
 - Largest median loss to organization (\$1,000,000)

Types of Asset Misappropriation

- Fraudulent Disbursements
 - Billing Schemes
 - Payroll Schemes
 - Expense Reimbursement Schemes
 - Check Tampering
 - Register Disbursement Schemes
- Skimming
- Cash Larceny

Detection of Fraud

- Tip 39.6%
- Internal Audit 23.8%
- By Accident 21.3%
- Internal Controls 18.4%
- External Audit 10.9%
- Notified by Police 0.9%

Characteristics of Perpetrator

- Position in organization
- Annual Income
- Time on Job
- Gender
- Age
- Education
- Collusion
- Criminal History

Position and Median Loss

- Employee
 - 67.8%
 - \$62,000
- Manager
 - 34.0%
 - \$140,000
- Owner/Executive
 - 12.4%
 - \$900,000

Annual Income and Median Loss

- Less than \$50,000 – 51.2% (\$47,000)
- \$50,000 - \$99,999 – 28.5% (\$135,500)
- \$100,000 - \$149,000 – 11.2% (\$429,000)
- \$150,000 - \$199,999 – 4.4% (\$200,000)
- \$200,000 - \$499,999 – 3.6% (\$1,000,000)
- More than \$500,000 – 1.1% (\$2,010,000)

Time on Job and Median Loss

- Less than 1 yr – 6.7% (\$26,000)
- 1 – 2 years – 20.0% (\$50,000)
- 3 – 5 years – 27.0% (\$98,000)
- 6 – 10 years – 22.8% (\$120,000)
- More than 10 yrs – 23.5% (171,000)

Time on Job

- Direct correlation between the length of time on job and size of loss
 - Longer an employee works for organization, more likely he or she is to advance to higher level of authority
 - Longer an employee works for organization, the greater degree of trust he or she will tend to engender from supervisor and co-workers

Gender and Median Loss

- Men

- 52.9%
- Median loss - \$160,000

- Women

- 47.1%
- Median loss - \$60,000
- May reflect glass ceiling effect – men tend to occupy positions of high authority

Age and Median Loss

- Over 60 – 2.% (\$527,000)
- 51 – 60 – 15.1% (\$250,000)
- 41 – 50 – 32.0% (\$173,000)
- 36 – 40 – 16.2% (\$80,000)
- 31 – 35 – 18.0% (\$75,000)
- 26 – 30 – 10.7% (\$25,000)
- Less than 26 – 5.9% (\$18,000)

Education and Median Loss

- Postgraduate Degree
 - 9.1%
 - \$325,000
- Bachelor Degree
 - 41.5%
 - \$150,000
- High School or less
 - 49.5%
 - \$50,000

Collusion and Median Loss

- One perpetrator

- 65.1%
- \$58,500

- Two or More

- 34.9%
- \$200,000

Criminal History

- Never charged or convicted
 - 82.9%
- Had prior convictions
 - 11.6%
- Charged but not convicted
 - 5.5%

Why People Commit Fraud

- Three factors needed to commit fraud
 - Opportunity
 - Motive
 - Ability to rationalize behavior

Opportunity

- Knowledge of weak internal controls
- Accounting anomalies are not monitored
- Lack of supervision
- Unethical tone at the top
- Belief the employee won't get caught

Motive

- Pressure placed on managers to perform
- Unusually high personal debt
- Excessive gambling habit
- Undue family or peer pressure to succeed
- Alcohol or drug problems

Ability to Rationalize Behavior

- Employee believes he or she is not being adequately compensated for the work – the organization OWES them
- Feeling of insufficient recognition for job performance
- Personal need for more money
- Many employees who commit fraud fully intend to return the money

Red Flags

- Not taking vacations
- Not allowing someone else access to area of responsibility
- Prefers to be unsupervised by working after hours or taking work home
- Financial records sometimes disappearing
- Unexplained debt
- Unexpected change in behavior

Preventions

- Set the tone at the top
- Reconcile statements on regular basis
- Review work of employees
- Create strong internal controls
- Require employees to take vacations
- Treat unusual transactions with suspicion
- Trust you instincts