

OCCUPATIONAL FRAUD AND THE IMPACT ON ORGANIZATIONS



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Association of Certified Fraud Examiners' "2008 Report to the Nation"

Study based upon 959 cases of occupational fraud from '06 through '08. All information was provided by the Certified Fraud Examiners (CFEs) who investigated those cases.



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Introduction



The term "occupational fraud" may be defined as:

"The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets."



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Types of Fraud

- **Internal**
 - ✓ “Occupational Fraud” (our focus today)
 - Employees
 - Owners/Partners
- **External**
 - ✓ Vendors
 - ✓ Customers
 - ✓ Associates



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Key Findings of the Report

- ✓ *Businesses lose 7% of their annual revenues to fraud.*
- ✓ *Translates to \$994 billion when 7% applied to Gross Domestic Product*
- ✓ *The industries most commonly victimized by fraud in the study were banking and financial services, government and healthcare*
- ✓ *Median loss overall was \$175,000*



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The Cost of Occupational Fraud

- ✓ The average private company loss was \$278,000
- ✓ Occupational fraud schemes tend to be extremely costly
- ✓ Businesses with less than 100 employees experience the highest frequency of fraud and the largest losses
- ✓ Approximately 90% of all occupational frauds involve asset misappropriations



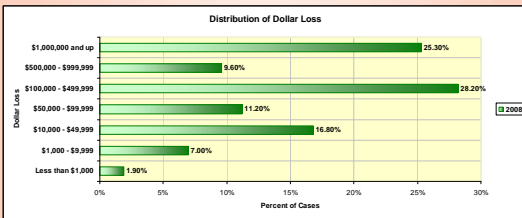
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The Fraud Environment



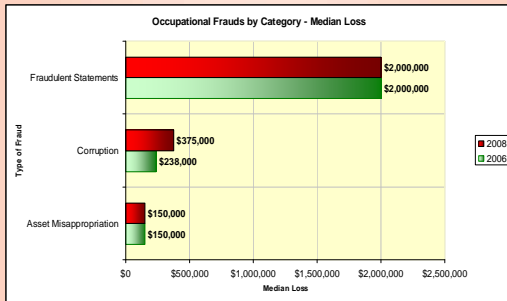
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2008 Distribution of Dollar Loss



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Occupational Frauds by Category — Median Loss



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Common Types of Asset Misappropriation Fraud

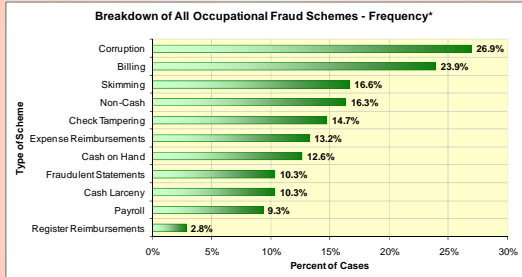
Asset Misappropriation Sub-Categories		
Category	Description	Examples
Cash on Hand Misappropriations	Any scheme in which the perpetrator misappropriates cash kept on hand at the victim organization's premises.	<ul style="list-style-type: none"> Employee steals cash from a company vault
Non-Cash Misappropriations	Any scheme in which an employee steals or misuses non-cash assets of the victim organization.	<ul style="list-style-type: none"> Employee steals inventory from a warehouse or store room Employee steals or misuses confidential customer financial information

*The sum of percentages in this table exceeds 100 percent because several cases involved multiple asset misappropriation schemes from more than one category.



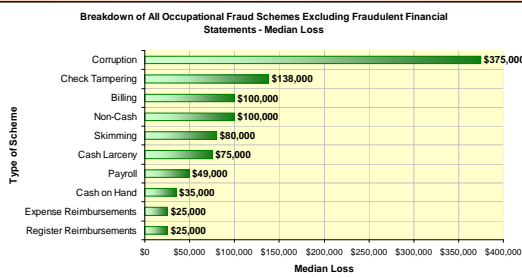
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Occupational Fraud Schemes - Frequency



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Average Loss Suffered



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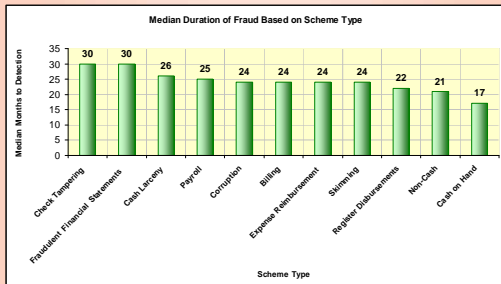
Duration of Fraud

- ✓ Occupational fraud schemes are generally ongoing crimes that can last for months or even years before they are detected
- ✓ The median length of time fraud goes undetected was 24 months



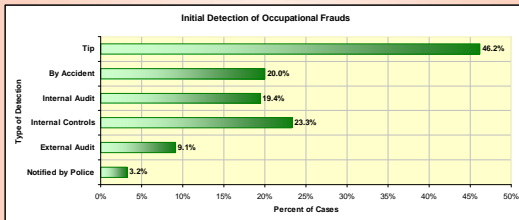
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Duration Before Detection



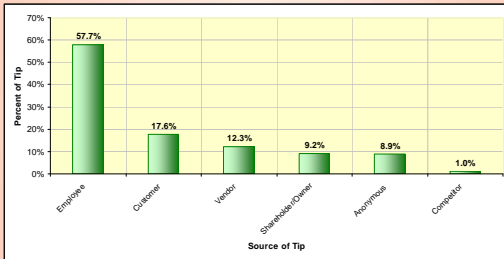
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Types of Detection



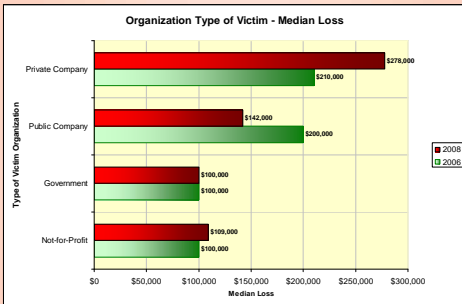
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Percent of Tips by Source



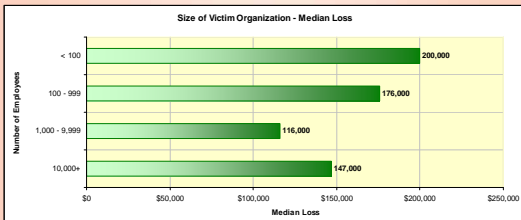
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Organization Type of Victim - Median Loss



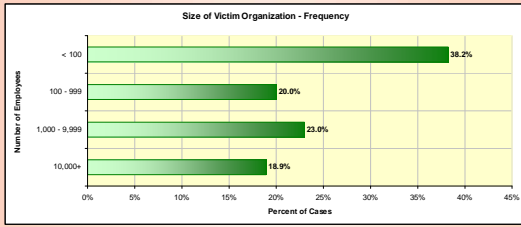
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Size of Victim Organization - Median Loss



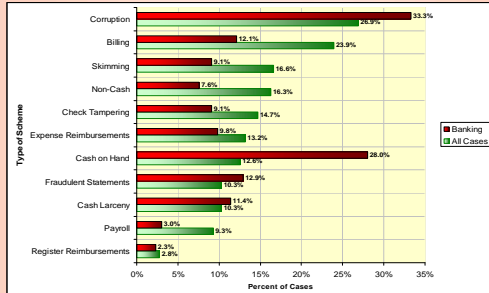
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Size of Victim Organization - Frequency



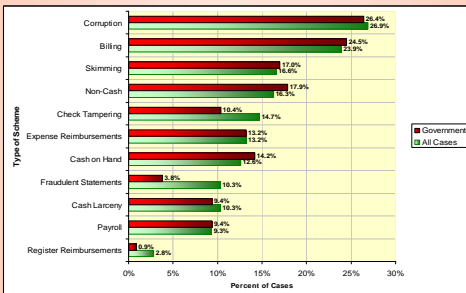
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Occupational Fraud Schemes in Banking and Financial Services Industry (132 cases)



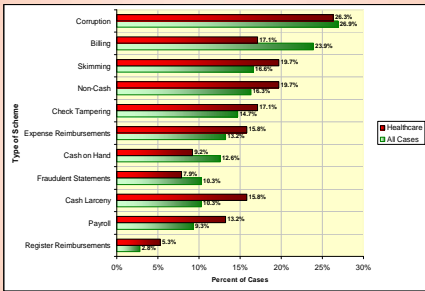
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Occupational Fraud Schemes in Government and Public Administration (106 cases)



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Occupational Fraud Schemes in the Healthcare Industry (76 cases)



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Ranking of Controls vs. Relative Effectiveness

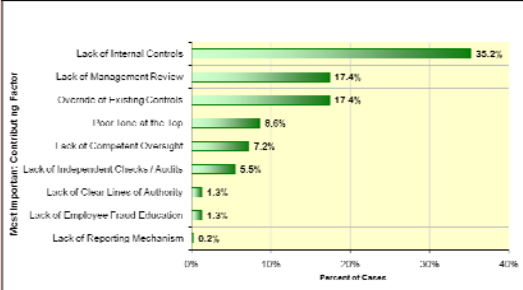
Control	Ranking*	Reduction in Median Losses
Internal Audit / FE Department	1	52.80%
Surprise Audits	2	66.20%
Management Review of IC	3	45.00%
Fraud Hotline	4	60.00%
Mandatory Job Rotation/Vacations	5	61.00%
Rewards for Whistleblowers	6	8.70%
Audit of ICOPFR	7	47.80%
Audit of FIS	8	40.00%

*Based on average score.



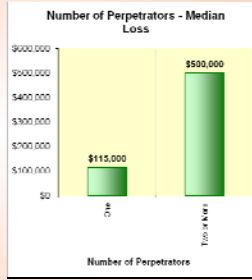
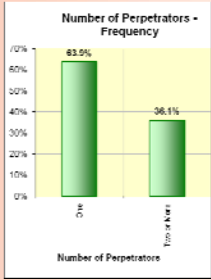
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Primary Internal Control Weakness Observed by CFE



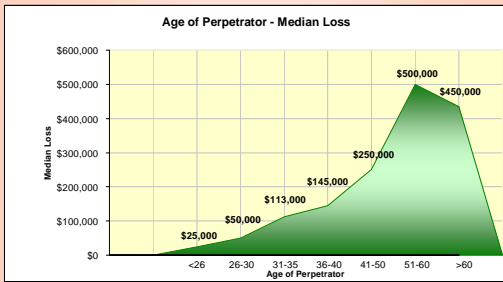
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Number of Perpetrators



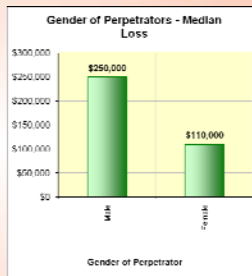
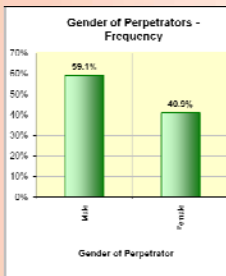
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Age of Perpetrator



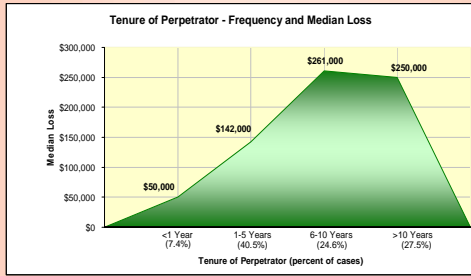
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Gender of Perpetrator



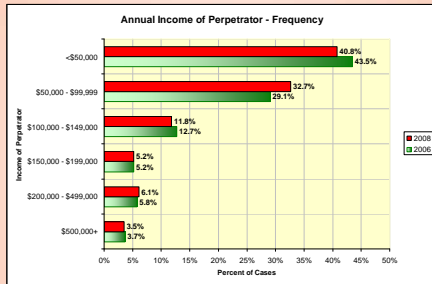
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Tenure of Perpetrator



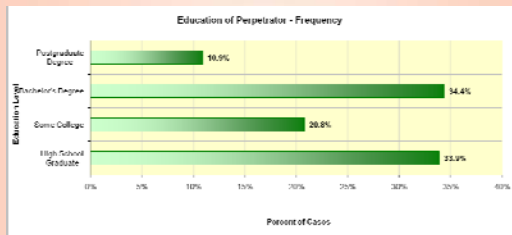
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Income of Perpetrator



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Education of Perpetrator



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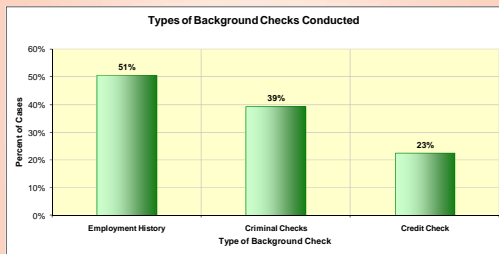
Preventing Fraud

- ✓ The implementation of anti-fraud controls appears to have a measurable impact on an organization's exposure to fraud.
- ✓ Lack of adequate internal controls was most commonly cited as the factor that allowed fraud to occur.
- ✓ 78% of victim organizations modified their anti-fraud controls after discovering that they had been defrauded.



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Background Checks



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Questions?

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