

**MaherDuessel**  
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**Fraud Facts**

**December 16, 2019**

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**Introduction**

- My career began with a local government fraud in 1993



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## What is Fraud?

- The term *fraud* refers to an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.
- The term *error* refers to unintentional misstatements of amounts or disclosures in financial statements.

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## Two Types of Fraud

- Two types of misstatements resulting from fraud are relevant to the auditor's consideration in a financial statement audit:
  - misstatements arising from fraudulent financial reporting
  - misstatements arising from misappropriation of assets

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## Fraud – Do not think it is not happening

creative ways to steal from your employer

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**So here are a few ideas to help you out.**

1. Check for unlocked inventory. Take a stretch and walk around the place a bit. ...
2. **Steal a few checks** and alter the signature. ...
3. Get paid directly. ...
4. Grab some petty cash. ...
5. Bribe a supplier. ...
6. Sell confidential information. ...
7. Tamper with **your** expenses. ...
8. Fake an injury.

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## Fraud – Do not think it is not happening

### How to commit fraud and get away with it: A Guide for CEOs

with 14 comments

#### Shorter Version

A strategy to maximise bonuses and avoid personal culpability:

- Don't commit the fraud yourself.
- Minimise information received about the actions of your employees.
- Control employees through automated, algorithmic systems based on plausible metrics like Value at Risk.
- Pay high bonuses to employees linked to "stretch" revenue/profit targets.
- Fire employees when targets are not met.
- .....Wait.

#### Longer Version

CEOs and senior managers of modern corporations possess the ability to engineer fraud on an organisational scale and capture the upside without running the risk of doing any jail time. In other words, they can reliably commit fraud and get away with it.

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## Your employees?



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## Twelve Days of Fraud

1. Taking Petty Cash
2. Pocketing cash from sale of scrap
3. Taking office supplies/fuel/tools
4. Claiming lap top was stolen
5. Double dipping expense reports
6. Overtime or Compensated Absence

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## Twelve Days of Fraud

7. Pocketing cash from donors at fundraiser
8. Expense report padding
9. Taking cash from receipts
10. Writing a check out to yourself
11. Credit Cards for personal use
12. Create fictitious vendor

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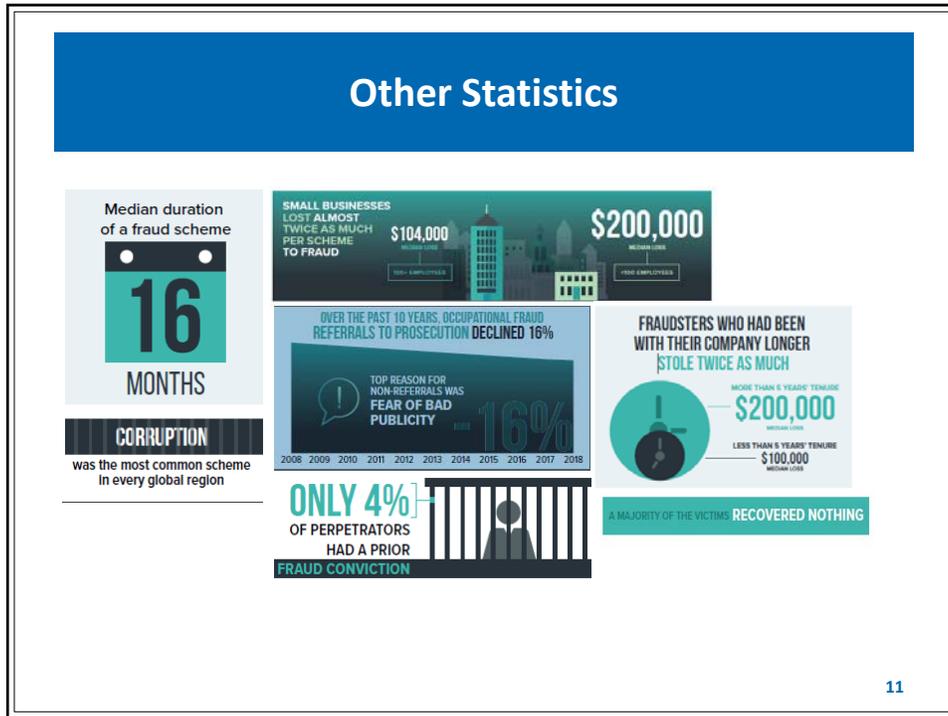
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## Association of Certified Fraud Examiners (ACFE)

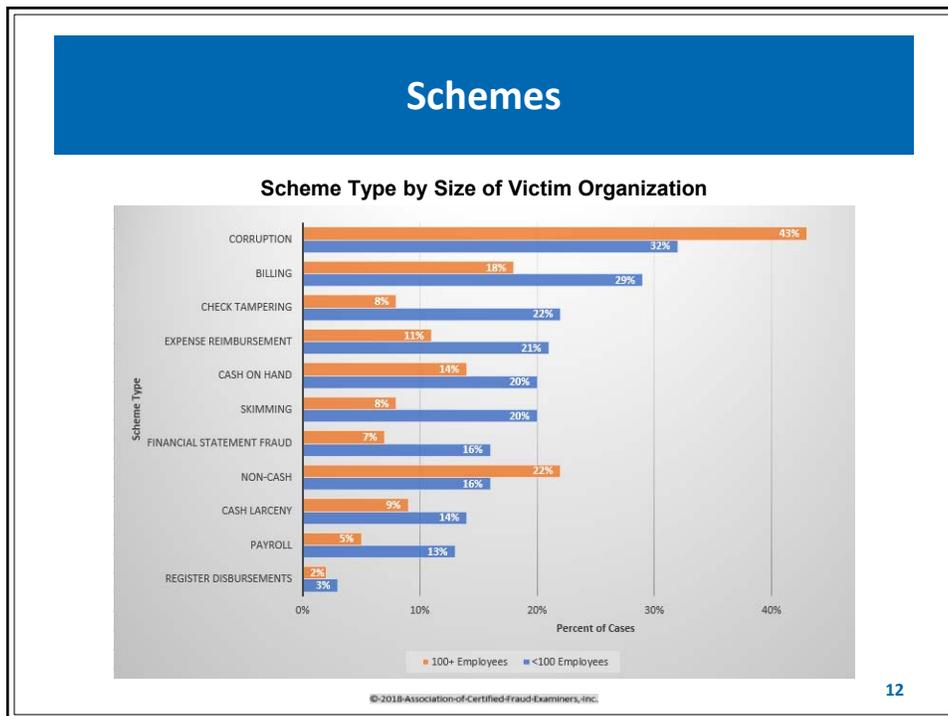
- **ACFE**
  - **2018 Report To The Nations**
  - **On Occupational Fraud and Abuse**
  - <https://www.acfe.com/report-to-the-nations/2018/#download>

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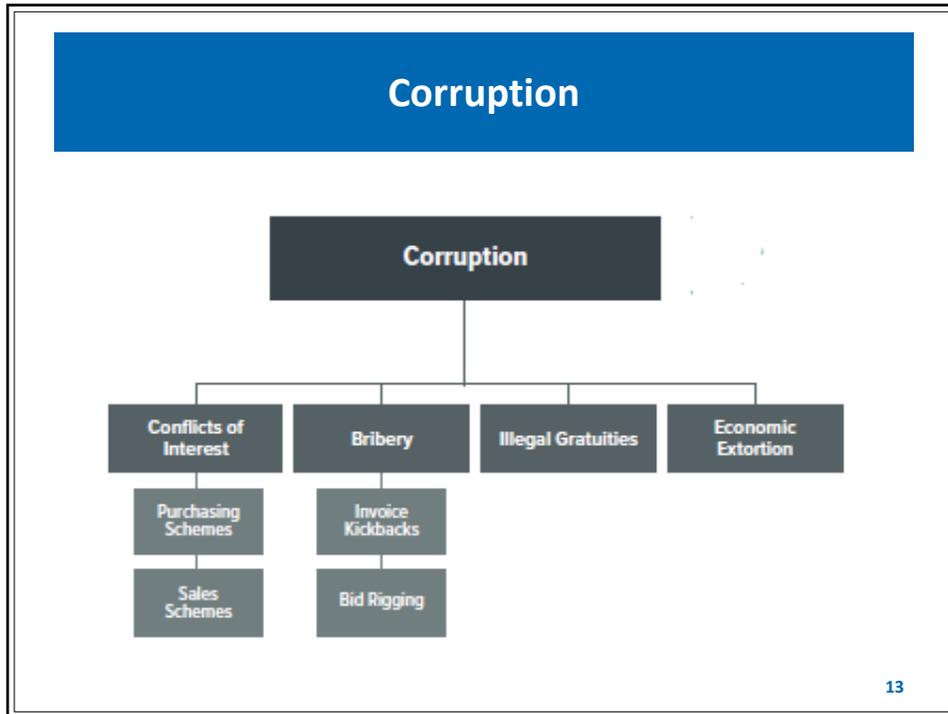
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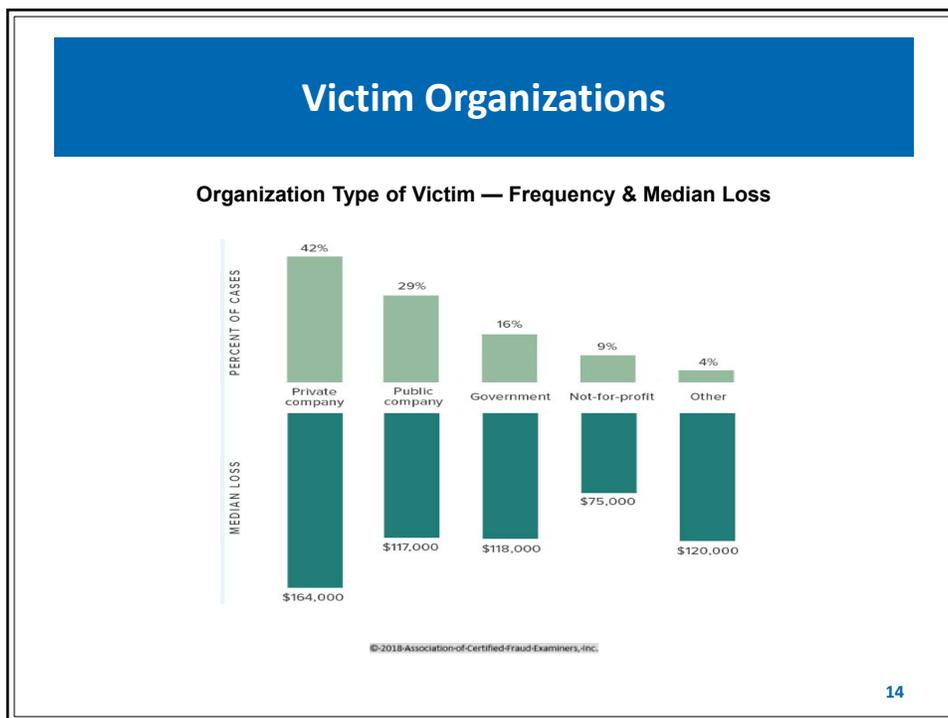
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## What are the most common occupational fraud schemes in various industries?

Industry	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	No cash	Payroll	Register disbursements	Skimming
Government and public administration	15%	11%	11%	9%	50%	11%	5%	22%	7%	2%	11%
Religious, charitable, or social services	40%	9%	22%	19%	34%	29%	10%	19%	22%	3%	17%
Arts, entertainment and recreation	14%	20%	36%	6%	32%	12%	8%	18%	4%	8%	28%

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## How Occupational Fraud is Committed

### Breakdown of All Occupational Fraud Schemes — % of Cases & Median Loss

Scheme	% of Cases	Median Loss
Billing	20%	\$100,000
Non-Cash Misappropriations	21%	98,000
Expense Reimbursements	14%	31,000
Skimming	11%	50,000
Misappropriation of Cash on Hand	15%	20,000
Check Tampering	12%	150,000
Payroll	7%	63,000
Cash Larceny	11%	75,000
Cash Register Disbursements	3%	29,000

Source: 2018 ACFE Report to the Nations on Occupational Fraud and Abuse

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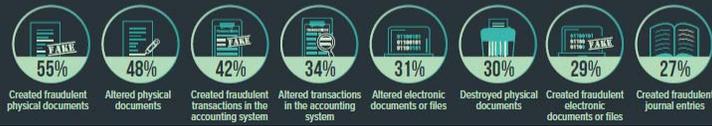
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## Concealment Methods by Scheme Type

### CONCEALING FRAUD

An act of fraud typically involves not only the commission of the scheme itself, but also efforts to conceal the misdeeds. Understanding the methods fraudsters use to cover their crimes can help organizations better design prevention mechanisms and detect the warning signs of fraud.

#### TOP 8 CONCEALMENT METHODS USED BY FRAUDSTERS

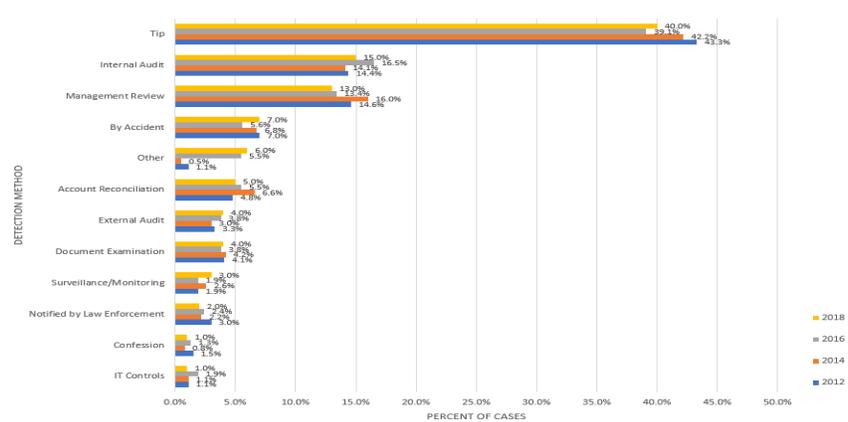


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## Initial Detection of Fraud



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## Perpetrators

**Men vs. Women:**

- Committed by men 69%
- Committed by women 31%
- Loss from fraud committed by men \$156,000
- Loss from fraud committed by women \$89,000

**Level of employment:**

- 44% - fraud committed by employees (\$50,000)
- 34% - fraud committed by managers (\$150,000)
- 19% - fraud committed by owner/executive (\$850,000)
- 3% - fraud committed by others (\$189,000)

Source: 2018 ACFE Report to the Nations on Occupational Fraud and Abuse

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## Perpetrators

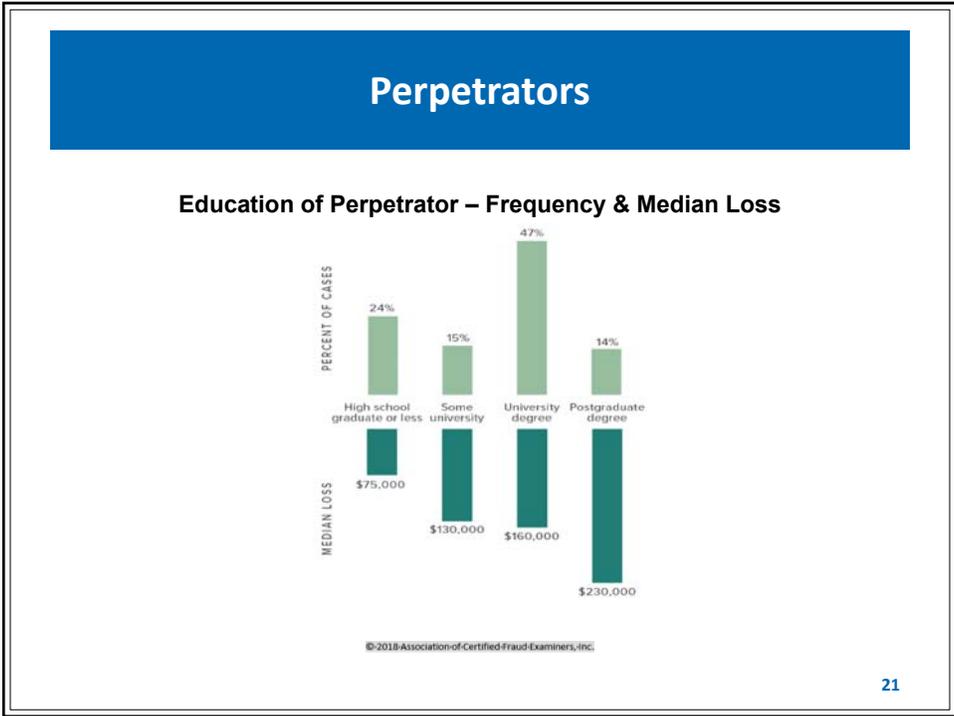
**Age of Perpetrator – Frequency & Median Loss**

Age Group	Percent of Cases	Median Loss
<26	5%	\$23,000
26-30	10%	\$40,000
31-35	15%	\$100,000
36-40	19%	\$100,000
41-45	19%	\$200,000
46-50	14%	\$250,000
51-55	9%	\$237,000
56-60	6%	\$480,000
>=60	3%	\$355,000

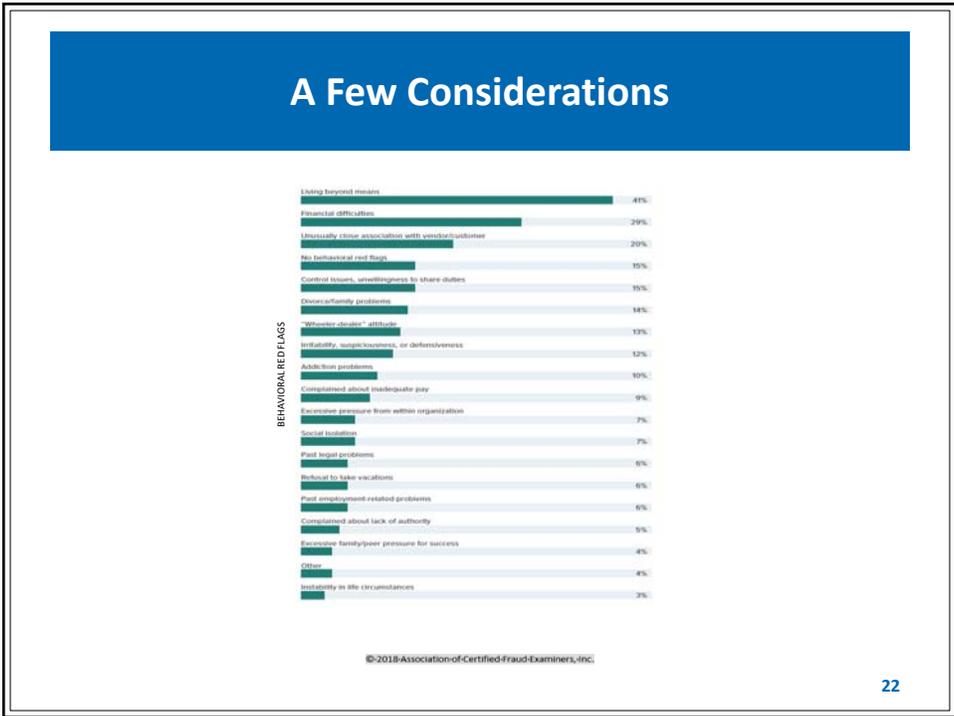
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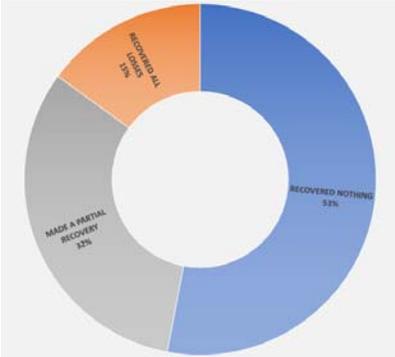


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## Recovering Fraud Losses



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- After a fraud has been detected, the victim might try to recover its losses from the fraudster or other sources. Our data show that victims are rarely made whole.
- The more victims lose, the less like they are to make a FULL RECOVERY.

Lost <\$10,000	– 30% Recover All Losses
Lost \$10,000-\$100,000	– 16% Recover All Losses
Lost \$100,001-\$1,000,000	– 13% Recover All Losses
Lost >\$1,000,000	– 13% Recover All Losses

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## What are the most common occupational fraud schemes in high-risk departments?

INDUSTRY	Cases	Billing	Cash lottery	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register reimbursements	Stealing
Accounting	290	29%	14%	17%	20%	23%	12%	13%	7%	14%	2%	19%
Operations	266	15%	8%	15%	8%	36%	11%	4%	20%	5%	2%	11%
Executive/upper management	223	35%	14%	16%	15%	62%	29%	30%	20%	12%	3%	9%
Sales	216	10%	12%	12%	6%	34%	13%	6%	25%	2%	5%	14%
Customer service	155	5%	16%	31%	8%	19%	4%	1%	15%	3%	5%	14%
Administrative support	147	33%	7%	21%	14%	26%	22%	8%	19%	13%	3%	14%
Finance	110	17%	15%	21%	16%	37%	13%	16%	15%	6%	2%	10%
Purchasing	94	18%	5%	6%	5%	77%	10%	3%	31%	3%	2%	4%



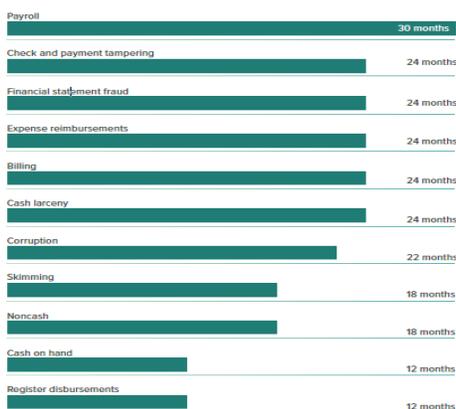
LESS RISK
MORE RISK

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## How long do different occupational fraud schemes last?



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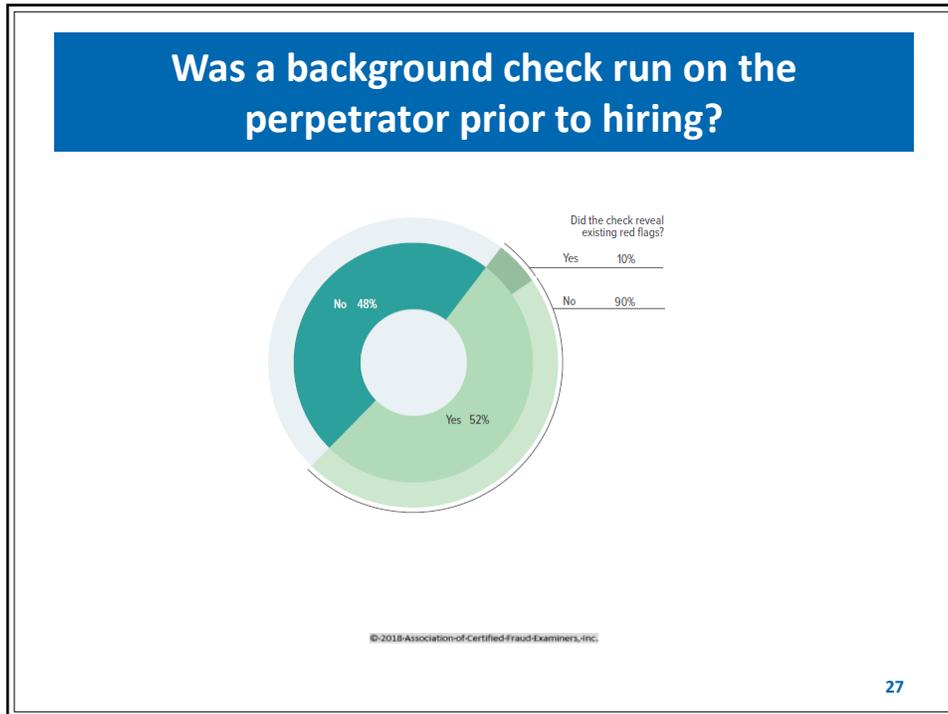
## How does the presence of anti-fraud controls relate to median loss?

Control	Percent of cases	Control in place	Control not in place	Percent reduction
Code of conduct	80%	\$110,000	\$250,000	56%
Proactive data monitoring/analysis	37%	\$80,000	\$165,000	52%
Surprise audits	37%	\$75,000	\$152,000	51%
External audit of internal controls over financial reporting	67%	\$100,000	\$200,000	50%
Management review	66%	\$100,000	\$200,000	50%
Hotline	63%	\$100,000	\$200,000	50%
Anti-fraud policy	54%	\$100,000	\$190,000	47%
Internal audit department	73%	\$108,000	\$200,000	46%
Management certification of financial statements	72%	\$109,000	\$192,000	43%
Fraud training for employees	53%	\$100,000	\$169,000	41%
Formal fraud risk assessments	41%	\$100,000	\$162,000	38%
Employee support programs	54%	\$100,000	\$160,000	38%
Fraud training for managers/executives	52%	\$100,000	\$153,000	35%
Dedicated fraud department, function, or team	41%	\$100,000	\$150,000	33%
External audit of financial statements	80%	\$120,000	\$170,000	29%
Job rotation/mandatory vacation	19%	\$100,000	\$130,000	23%
Independent audit committee	61%	\$120,000	\$150,000	20%
Rewards for whistleblowers	12%	\$110,000	\$125,000	12%

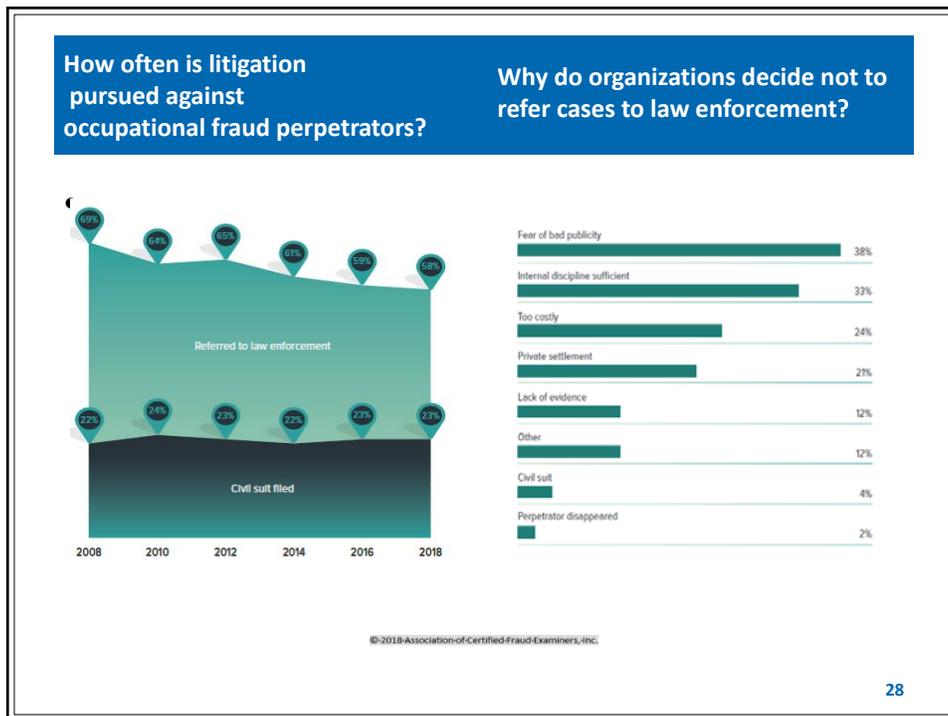
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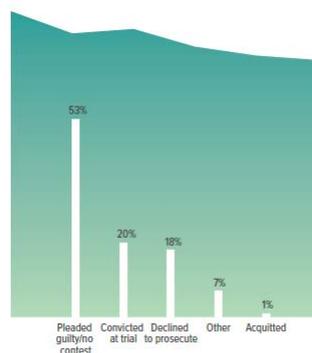


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## What were the results of criminal referrals?



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## Fraud Myths

Here are some common **MYTHS** about fraud:

- We don't have to worry about fraud because we have an audit?
  - As reported by the ACFE report only 3.8% of frauds are discovered by external auditors. External auditors are focused on material fraud and not looking at every transaction.
- People only steal cash and we don't touch cash so we don't have to worry?
  - The most common fraud schemes I have seen don't involve the theft of cash. Forgery, check tampering, credit card abuse and other types of disbursement frauds are much more common.

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## Fraud Myths (continued)

- We have two signatures required on checks so we don't worry about disbursements?
  - Financial institutions do not review checks for authorized signors. Checks can be easily forged or manipulated after they are signed by authorized signatures.
- We only have limited staff so there is nothing we can do?
  - Staff size limitations can promote an environment where fraud could occur. However, there are many practical steps an entity can take to mitigate a segregation of duties. An independent person receiving and reviewing an unopened bank statement (or reviewing online banking) is one of the best. Detailed review of financial statements and budget to actual reports. I am always happy to talk about fraud.

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## Fraud Myths (continued)

- It will not happen to us!
  - Frauds are common in all types and sizes of organizations. Most of the frauds I have been involved with have been committed by very "nice" people.
- We would miss the money because our budget is tight!
  - Biggest municipal fraud in U.S. History occurred in Dixon, Illinois. The embezzler took \$53.7 million over 20 years. The annual budget is approximately \$8.0 million a year.

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## Government Fraud

- Fringe Areas – don't just focus on your General Fund or main accounting system
  - Non centralized accounting systems
  - Swimming Pools
  - Scrap metal
  - Fuel stations – cameras/log books
  - Library's/VFC you are funding

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## Common warning signs:

- Unusual bank statement items – missing checks
- Change of lifestyle
- Missing documents or documentation
- Things out of the ordinary
- Complaints
- Employee tips
- Unavailable Records/Financial information

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## What can we do:

- The concept of having more than one person required to complete a task.
  - No one individual should have access to both physical assets and the related records, or to all phases of a transaction.
  - In a perfect system, no one person should handle: authorization, custody, record keeping, and reconciliation – ways to mitigate
- Look at financial information and ask questions – rely on support in agreeing information
- Compare year to year and ask questions but don't conversational audit
- Look at original source material – online banking, original un-opened bank statements

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## Partial List of things to do...

### 1) Credit cards

- Find out who has them.
- Make a Policy
- Make sure someone is looking at them that would say something
- Users generally will use for things they would not have asked for.....

### 2) Vendor selection process (very important)

- Front end controls work best
- Invoices can be made with any computer
- Financial Statement Audits will not catch this
- Non Accounting staff can get away with this!

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## Some other things to do....

### 3) Unopened bank statements (or online)

- In an environment that has segregations of duties
  - Independent person review for:
    - Electronic transactions were authorized
    - Payees and amounts on checks agreeing to accounting records
    - Unusual signatures on checks (banks don't review)
    - Payments made to employees
    - Transfers to other accounts
- Time sensitive (online checks get purged)
- Also pay attention to smaller accounts with less activity

### 4) Fraud Risk Assessment

- All levels
- Should ultimately dictate what you do

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## Contact Information

Timothy J. Morgus, CPA, CFE, CGFM

Partner

Phone: 412-535-5502

Email: [tmorgus@md-cpas.com](mailto:tmorgus@md-cpas.com)



- Began public accounting career in 1993
- Serves as Partner on audit engagements with counties, municipalities, local authorities, and various governmental agencies.
- Member of the Association of Certified Fraud Examiners
- GFOA Special Review Committee for Comprehensive Annual Financial Reports – Technical Reviewer
- Federal Bureau of Investigation Pittsburgh Division – 2015-XVI Citizens Academy Class Graduate
- Trustee of Butler Health Systems, Finance Committee Chair

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