



Is There Still FRAUD?

Based on the Association of Certified Fraud Examiners (ACFE) 2010 Report to the Nations on Occupational Fraud & Abuse

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Not a day goes by it seems that we don't read or hear about fraud especially during this weak economic and uncertain period. Fraud is happening in companies of all sizes and types ... and what is concerning ... is there doesn't seem to be a let up.

Every two years the Association of Certified Fraud Examiners (ACFE) conducts a survey among its members on occupational fraud that he or she had investigated during the preceding two-year period. The most recent survey covered the period between January 2008 and December 2009. It shows that fraud occurs in all types of organizations (e.g., over 42% occurred in private companies, over 32% in public companies, over 16% in government and over 9% in not-for-profit). Here are some facts from this most recent study, which contained over 1,840 cases.

1. **It is estimated that the typical organization loses 5% of its annual revenue to fraud.** If we apply that to the estimated 2009 Gross World Product of \$58.07 trillion, this translates to a potential total fraud loss of over \$2.9 trillion. Fraud losses come directly off the bottom-line so you need to think about how much in additional sales your company would need to get back that 5%.
2. **In the ACFE study, over 23% of the frauds investigated by its members involved losses of at least \$1 million.** More than 68% involved a loss under \$500,000. These are only the frauds that were identified and investigated – what else was going on in these organizations that was not detected?
3. **Asset misappropriation in the US (theft or misuse of an organization's assets) is the most common type of occupational fraud and abuse representing over 89% of the study's reported cases.**
4. **Corruption**, where an individual uses his/her influence in a business transaction to obtain a benefit for themselves contrary to that person's duty to his/her employer, **represented just over 21%, in the US and fraudulent financial statements is over 4% in the US.**
5. **Within a given occupational fraud scheme, the perpetrator(s) will often engage in several different forms of illegal conduct.** Asset appropriation is divided into nine subcategories (e.g., skimming, cash larceny, billing, expense reimbursements, check tampering, payroll, cash register disbursements, cash on hand misappropriations and non-cash misappropriations). Keep this in mind when investigating a known fraud - look for additional schemes that may also be underway. A typical example is an employee who accepts kickbacks or other bribes from a vendor in order to process invoices for fictitious goods and services.

6. Of the cases examined in the study, more than 40% were in privately owned businesses, over 32% in public companies, over 9% in not-for-profit organizations and over 16% in government organizations.
7. **The single biggest method of fraud detection in a company is through tips, accounting for over 40% of the frauds detected.** Of the cases in the study where fraud was detected by a tip over 47% were received via a hotline in organizations with hotlines and over 33% in organizations without hotlines. It is important to note that tip “hotlines” should be open to non-employees including customers and vendors, and the existence of the hotline can be communicated to them via purchase orders, invoices, requests for proposals, etc.
8. **Management review and internal audits accounted for over 29% of frauds detected.** Internal audit, management review, surprise audits, job rotations/mandatory vacations and hotlines were ranked very important as a control in detecting or limiting fraud.
9. **A lack of internal controls was one of the primary internal control weaknesses cited by those who participated in the study.** And segregation of duties was cited as the biggest deficiency in 38% of the cases. In response to discovery of fraud, more than 80% of the organizations in the study implemented or modified internal controls.
10. **Owners and executives were the least likely perpetrators of occupational fraud, but when they were the principal perpetrators the median loss was \$723,000.** This is over three times greater than the losses caused by managers and more than nine times higher than the median loss caused by employees. Perpetrators with long tenure at an organization, as well as older perpetrators also increased the size of the loss. Education level had the same effect – employees with a postgraduate degree generated the highest median loss.
11. **Fraud schemes by perpetrators employed in the executives and upper level-management employees resulted in the greatest median loss of \$829,000;** fraud schemes by Board of Directors were second with a median loss of \$800,000.; third, legal department with a median loss of \$566,000; and fourth the purchasing department had median losses at \$500,000.
12. **Over 85% of perpetrators in this study had never been charged or convicted of a crime.** This low rate of prior convictions suggests that criminal background checks may have some effect in preventing fraud, but the effect is probably limited. Many employers are reluctant to share negative information about past employees for fear of potential legal liability.

For additional information, or to download the 2010 Report to the Nations on Occupational Fraud & Abuse from ACFE, use this link: <http://www.acfe.com/RTTN/2010-rttn.asp>

