5 Myths About Fraud

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What is Fraud?

Wrongful deception to gain personal benefit

A Few Facts About Occupational Fraud

- Asset misappropriation = 85% of cases
- Most frauds = at least 1.5 years
- Detection = most commonly by a tip

Cost of Occupational Fraud

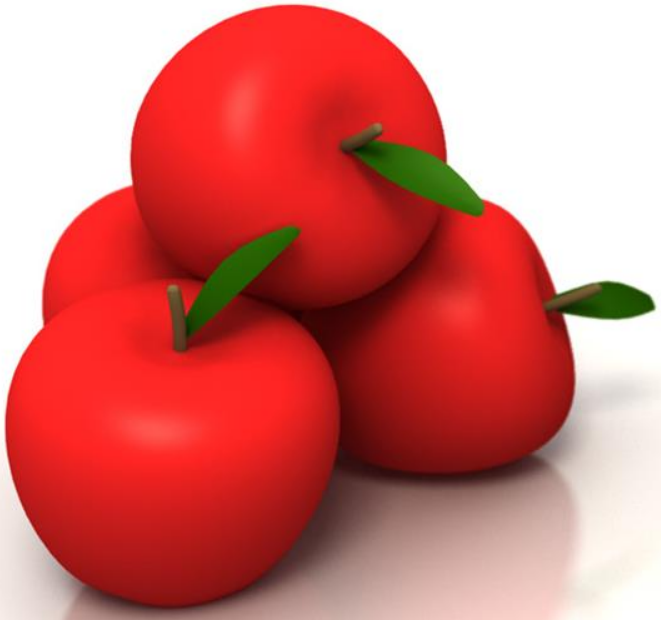
- Both ends of the monetary spectrum – 50% of cases = losses under $200,000. 20% of cases = losses of $1M & up.

- Both tips of the iceberg – Direct losses that are visible & losses that are never uncovered or reported.

5 Myths About Fraud

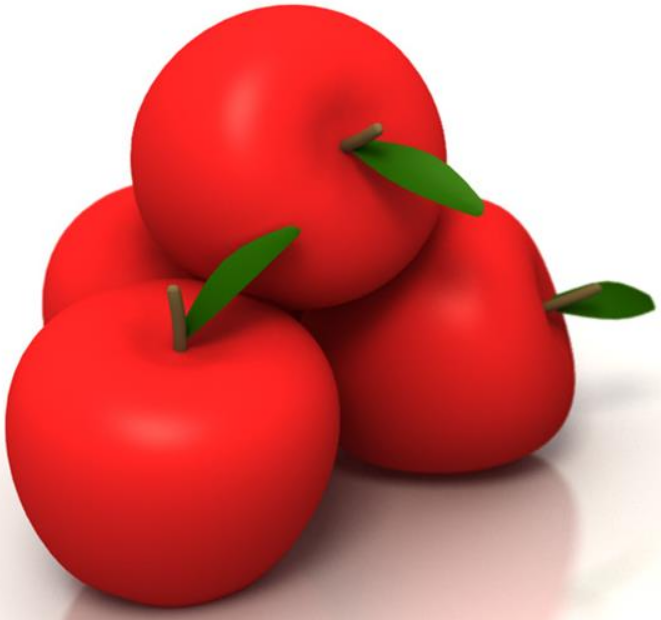
Myth #1-Fraud Affects Only Larger Businesses

- Small businesses are most common victims
- Fewer human resources & less duty segregation



Myth #2-Fraud Will Always Be Detected by Auditors

- Detection: Tips=44%, Mgmt. review=16%, Audits: Internal =14%, External = 3%, Account reconciliation = 6%, **7% = by accident**

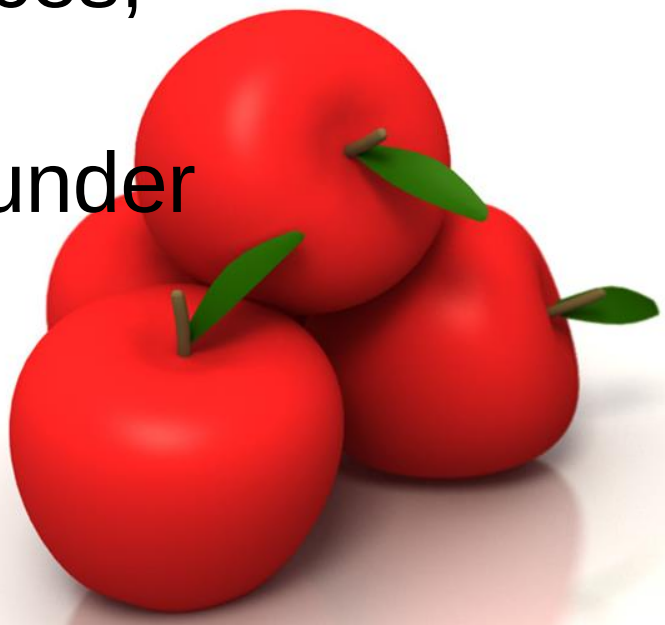


Myth #3-Most incidents Are Not Material Enough to Worry About

- “There are not immaterial frauds, only ones with insufficient time to grow.” – W. Steven Albrecht, BYU, ACFE

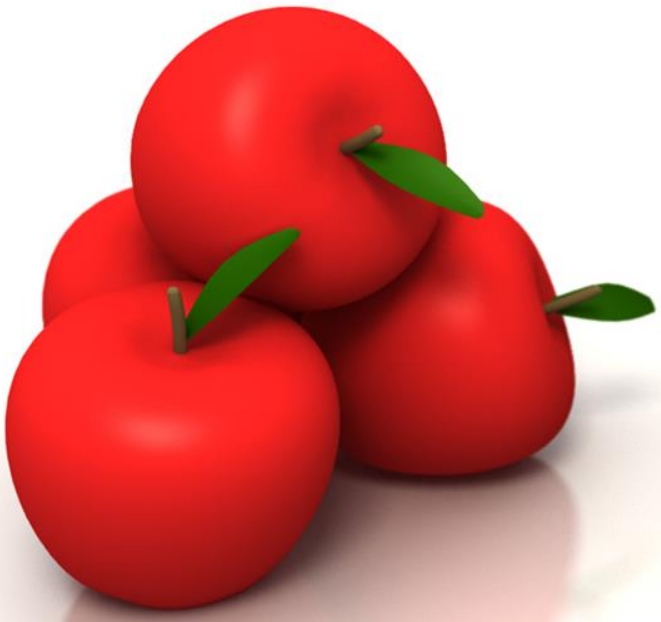
Myth #4-Only Certain Types of People Commit Fraud

- 87% occupational fraud = first-time offenders
- “Fraud perpetrators come from all walks of life, all economic circumstances, and all social classes.”
  - Joseph T. Wells, ACFE Founder



Myth #5-Long-Term EE's Won't Defraud You

- Cannot predict who will commit fraud.
- Outside pressures cause people to behave in ways they normally would not.
- Tenure: **1-5 yrs – 41%**
  6-10 yrs – 27%
  >10 yrs – 25%



The Fraud Triangle

Donald Cressey

- Like a three-legged stool, all 3 elements are usually present for fraud to occur.

Opportunity

Almost always relates to position.

Comes in many forms –

- **Weak or non-existent internal controls**
- **Lack of oversight by supervisors.**
- **Failure to discipline past perpetrators**
- **Lack of an audit trail**

Pressure

Examples -

- **Financial hardship**
- **Vices**
- **Keeping up with “the Joneses”**
- **Unattainable performance goals**
- **Work overload**
- **Pressure from family/friends to succeed**

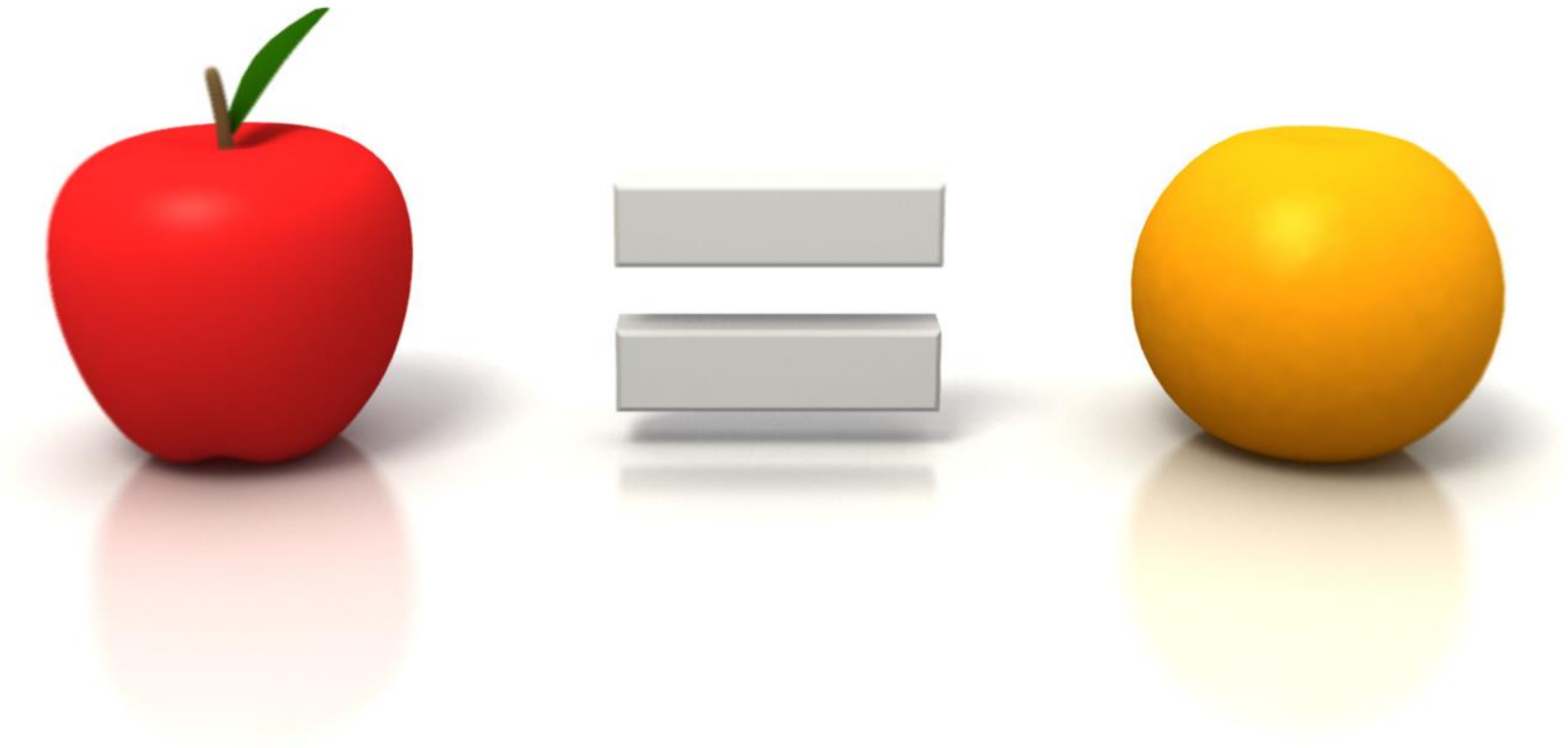
Rationalization

"Justification" for the fraudulent act.

Examples -

- **I am "borrowing" the $$ and will pay it back.**
- **The company "owes" me because I deserve more.**
- **My act is no worse than what (s)he did.**
- **This will be the only time I do it.**
- **The reason (ex. money for Dad's cancer treatment) is so important.**

Lack of adequate internal controls was most commonly cited as the factor that allowed fraud to occur.



Utah.gov Natalie Grange & 2014 Report to the Nation on Occupational Fraud and Abuse

What are Internal Controls?

Some Examples

Written policies and procedures

Management approval

Segregation of duties

Data monitoring (60% less costly; 50% shorter duration)

Supervisor review

Locking up assets

Restricted access to assets

Internal audits

Behavioral Red Flags

- In 92% of cases, the fraudster displayed one or more these behavioral red flags:
  - **Living Beyond Means – 43%**
  - **Financial Difficulties – 33%**
  - **Vendor/Customer relation too close – 21%**
  - **Control Issues/won’t share duties – 21%**
  - **Divorce/Family problems – 16%**
  - **Addiction problems – 11%**

Behavioral Red Flags (cont'd)

- **Lack of authority in workplace**
- **Refusal to take vacations**
- **Complaints of inadequate pay**
- **Past employment problems**
- **Past legal issues**
- **Wheeler-Dealer attitude**
- **Instability in life circumstances**

The Cost of Fraud

- (Not just) Financial cost
- Reputation of organization/office
- Time
- Trust

Your Best Defense Against Fraud

- Minimize the Opportunity/Perceived Opp
  - Tone/culture
  - Perception of detection
  - Internal Controls
  - Maintain documents
  - Perform independent checks
  - Focus on prevention

Sources of Information, Statistics, and Adaptations -

ACFE 2014 Report to the Nations

www.fraudauthor.wordpress.com Tracy Coenen

www.schools.utah.gov Natalie Grange, CPA CFE

Journal of Accountancy ISSN: 0021-8448 – Joseph T. Wells

Institute of Hospitality

The Fraud Triangle. BlumShapiro. M.D. Frenza, CPA/CFF,CFE

The Anatomy of Fraud and Corruption. Brytting, Minogue, Morino

AICPA, Antifraud and Corporate Responsibility Center, Understand Why Employees Commit Fraud