Occupational and Corporate Fraud

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Trail Map

- The Problem
- Schemes
- Detection
- Authority
- Controls
- Cases by region
- Measurement
- Detection strategies
- Psychology and fraud
Trail Map

- Vulnerability Assessment Workshop
- Red Flags Workshop

SUMMIT
GOAL!

Effective, 
Counter Fraud
Trail Map

- The Problem
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- Psychology and fraud
2018?

a) 1.5 Million
b) 12 Million
c) 3 Billion
d) 7 Billion
Cost of Fraud 2018

2018?

a) 1.5 Million
b) 12 Million
c) 3 Billion
d)
Average Loss per Case:

- a) $10,000
- b) $53,000
- c) $130,000
- d) $210,000
Average Loss per Case:

0

a) $10,000
b) $53,000
c)
d) $210,000
% of Cases in Excess of $1 Million

a) 9%
b) 16%
c) **22%**
d) 59%
% of Cases in Excess of $1 Million

a) 9%

b) 16%

c) 22%

d) 59%
Average Length of Fraud Scheme

a) 5 Months
b) 16 Months
c) 2 Years
d) 28 Months
Average Length of Fraud Scheme

a) 5 Months
b) 
c) 2 Years
d) 28 Months
<table>
<thead>
<tr>
<th>Rank</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>4%</td>
</tr>
<tr>
<td>2)</td>
<td>16%</td>
</tr>
<tr>
<td>3)</td>
<td>25%</td>
</tr>
<tr>
<td>4)</td>
<td>56%</td>
</tr>
</tbody>
</table>
% of Perpetrators that had a Prior Conviction

1) 4%
2) 16%
3) 25%
4) 56%
% of Perpetrators who showed at least one Behavioral Flag

1) 15%
2) 35%
3) 65%
4) 85%
% of Perpetrators who showed at least one
Behavioral Red Flag

1) 15%
2) 35%
3) 65%
4)
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THREE RED

Flags of Fraud

1. Here's your airplane. It's $1.2 billion. Just make the check out to me.

2. Meet our latest employee. He has the same address as I do.

3. They're used.

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12856
Most common and least costly?
Fraud Schemes

Most common and least costly?

Asset Misappropriation!
Least Common and Most costly?
Least Common and Most costly?
Financial Statement Fraud Schemes!
Corporate and Occupational Fraud Schemes

COMMITTED

<table>
<thead>
<tr>
<th>Type of Fraud</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption</td>
<td>49</td>
</tr>
<tr>
<td>Cash on hand</td>
<td>23</td>
</tr>
<tr>
<td>Non cash</td>
<td>19</td>
</tr>
<tr>
<td>Cash larceny</td>
<td>15</td>
</tr>
<tr>
<td>Billing</td>
<td>15</td>
</tr>
<tr>
<td>Skimming</td>
<td>13</td>
</tr>
<tr>
<td>Expense reimbursement</td>
<td>9</td>
</tr>
<tr>
<td>Check &amp; payment tamp</td>
<td>8</td>
</tr>
<tr>
<td>Financial statement fraud</td>
<td>4</td>
</tr>
<tr>
<td>Payroll</td>
<td>4</td>
</tr>
<tr>
<td>Regular disbursements</td>
<td>2</td>
</tr>
</tbody>
</table>

SO 45 40 35 30 25 20 15 10

%
Corporate and Occupational Fraud Schemes

- Corruption: 51%
- Non cash: 25%
- Expense reimbursement: 17%
- Billing: 14%
- Financial statement fraud: 13%
- Cash on hand: 13%
- Check & payment tamp: 8%
- Cash larceny: 8%
- Skimming: 7%
- Payroll: 4%
- Register disbursements: 3%

% Committed
Corporate and Occupational Fraud Schemes

Most Common Schemes - USA

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billing</td>
<td>30%</td>
</tr>
<tr>
<td>Non cash</td>
<td>26%</td>
</tr>
<tr>
<td>Expense reimbursement</td>
<td>21%</td>
</tr>
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</tr>
<tr>
<td>Financial statement fraud</td>
<td>14%</td>
</tr>
<tr>
<td>Payroll</td>
<td>11%</td>
</tr>
<tr>
<td>Regular disbursements</td>
<td>10%</td>
</tr>
<tr>
<td>Regular disbursements</td>
<td>9%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

Scheme
Corporate and Occupational Fraud Detection
Middle East

% DETECTED

Detection Method

- Tip: 0
- Internal audit: 2
- Management review: 2
- Other: 2
- Account reconciliation: 2
- Surveillance/monitoring: 2
- By accident: 5
- Document examination: 4
- Law enforcement: 2
- External audit: 2
Corporate and Occupational Fraud Detection

% Detected

Initially Detected
Fraud Detection

Initial Detection-USA

Method

Tip, Management Review, Internal Audit, By Accident, Account Reconciliation, Document Examination, External Audit, Law enforcement, Surveillance, Confession, IT Controls
Trail Map

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"Legal says we should be fine-provided no one left a paper trail."
Level of Authority and Fraud Committed

Mid East

0

% Committed

- Employee: 41%
- Manager: 33%
- Owner/Executive: 23%

- Employee
- Manager
- Owner/Executive
Level of Authority and Median Impact
Middle East

% Committed and Impact

- Employee: 41% Committed, $105,000
- Manager: 33% Committed, $175,000
- Owner/Executive: 23% Committed, $1,250,000

Legend:
- % Committed
- Dollar Amount
Level of Authority and Fraud Committed

% Committed

- Employee: 30%
- Manager: 41%
- Owner/Executive: 26%

- Employee  
- Manager  
- Owner/Executive
Level of Authority and Median Impact

**Average Loss**

- **Employee**: 30% with $58,000
- **Manager**: 41% with $323,333
- **Owner/Executive**: 26% with $1,000,000

Legend:
- Blue: % Committed
- Orange: Dollar Amount
## Most Common Type of Control

<table>
<thead>
<tr>
<th>Type of Control</th>
<th>% of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>External audit of financial statement</td>
<td>93</td>
</tr>
<tr>
<td>Internal audit department</td>
<td>85</td>
</tr>
<tr>
<td>Management certification of financial statement</td>
<td>81</td>
</tr>
<tr>
<td>Code of conduct</td>
<td>78</td>
</tr>
<tr>
<td>External audit of internal controls</td>
<td>69</td>
</tr>
<tr>
<td>Management review</td>
<td>68</td>
</tr>
<tr>
<td>Independent audit committee</td>
<td>67</td>
</tr>
<tr>
<td>Hotline</td>
<td>59</td>
</tr>
<tr>
<td>Surprise audits</td>
<td>59</td>
</tr>
<tr>
<td>Anti-fraud policy</td>
<td>54</td>
</tr>
<tr>
<td>Fraud training for managers/executives</td>
<td>47</td>
</tr>
<tr>
<td>Fraud training for employees</td>
<td>47</td>
</tr>
<tr>
<td>dedicated fraud team</td>
<td>44</td>
</tr>
<tr>
<td>Formal fraud risk assessment</td>
<td>40</td>
</tr>
<tr>
<td>Proactive monitoring</td>
<td>40</td>
</tr>
<tr>
<td>Employee support program</td>
<td>33</td>
</tr>
<tr>
<td>Job rotation/mandatory vacation</td>
<td>23</td>
</tr>
<tr>
<td>Reward for whistleblower</td>
<td>9</td>
</tr>
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Most Common Control - APAC
## Most Common Type of Control

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<td>79</td>
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<tr>
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<td>Formal risk assessment</td>
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<td>Surprise audit</td>
<td>34</td>
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<td>Proactive data monitoring</td>
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<tr>
<td>Job rotation/mandatory vacation</td>
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<tr>
<td>Reward for whistleblower</td>
<td>12</td>
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Most Common Control - ME

Most Common Type of Control
Mid\East

Corporate and Occupational Fraud Detection
Mid\East

% DETECTED
Most Common Control - APAC

Most Common Type of Control

Corporate and Occupational Fraud Detection

% Detected
Trail Map

- The Problem
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Criminology

- Scientific study of criminal behavior
- What causes crime?
Sociological Criminological Theory

- Strain/Ethological Theory
  - Frustration
  - Can't obtain goals through normal means
  - Resort to crime (fraud)

- Rational Choice
  - Classical
  - Cost-benefit analysis
  - Risk vs. reward

- Deterrence Theory
  - Punish and deter
  - Make crime unprofitable
  - Public awareness

- Routine Activities Theory
  - Suitable target
  - Capable guardian
  - Motivated offender
  - Fraud
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Vulnerability Assessment Workshop
Red Flags Workshop
THE RED FLAGS OF FRAUD

Understanding and recognizing the behavioral red flags displayed by fraud perpetrators can help organizations detect fraud and mitigate losses.

In 85% of cases, fraudsters displayed at least one behavioral red flag and in 50% of cases, they exhibited multiple red flags.

These 6 behavioral red flags have been the most common in every one of our studies dating back to 2008, with a remarkably consistent distribution:

- Unusually close association with vendor/customer
- Control issues, unwillingness to share duties
- "Wheeler-dealer" attitude
- Irritability, suspiciousness, or defensiveness
- Financial difficulties
- Complained about inadequate pay

Red flags varied by perpetrator's position:

- Owner/Executive:
  - Unusually close association with vendor/customer: 24%
  - Control issues, unwillingness to share duties: 21%
  - "Wheeler-dealer" attitude: 22%
  - Irritability, suspiciousness, or defensiveness: 18%
  - Financial difficulties: 23%
  - Complained about inadequate pay: 4%

- Employee:
  - Unusually close association with vendor/customer: 16%
  - Control issues, unwillingness to share duties: 8%
  - "Wheeler-dealer" attitude: 9%
  - Irritability, suspiciousness, or defensiveness: 10%
  - Financial difficulties: 35%

Red flags varied by perpetrator's gender:

- Male:
  - Financial difficulties: 24%
  - Divorce/family problems: 11%
  - Instability in life circumstances: 2%

- Female:
  - Financial difficulties: 38%
  - Divorce/family problems: 11%
  - Instability in life circumstances: 6%
  - Excessive pressure from within the organization: 3%
KEEP CALM AND STOP FRAUD
GOAL!

Effective, Inter-Fraud
Occupational and Corporate Fraud

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