

How to fight fraud

Anyone can help fight fraud in their workplace if they know how to spot it and how to report it.



WIPFLI

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Fingers crossed? Take a stronger stance on fraud

Fraud costs businesses billions of dollars each year. But fraud doesn't come with a one-time cost at the time of the attack. Fraud can cause continual downstream and reputational losses long after the actual theft.

Wipfli is sharing this e-book with research from the Association of Certified Fraud Examiners to help reduce the impact of fraud on our clients and community.

This document provides education on fraud risk and a roadmap you can use to protect your organization.

After reading this e-book, we urge you to take action:

- Host employee education sessions
- Test internal fraud defenses
- Add fraud awareness to ongoing internal communication
- Shore up your fraud prevention plans

We encourage organizations to [connect with Wipfli's certified fraud examiners \(CFEs\)](#). A CFE can review your internal controls to prevent future fraud. If you're concerned your organization may have already been victimized, CFEs can lead the forensic investigations necessary to catch bad actors and help you bring them to justice.

32% of fraud cases aren't referred to law enforcement because companies fear bad publicity

45% of fraudsters have previously engaged in non fraud related misconduct, most frequently bullying or intimidation

40% of fraud cases in the U.S. and Canada are initially detected during management review

55% of organizations don't recover any money that was lost to fraud

Fraud 101

Everyone knows what fraud is, right? Or maybe not ...

While it seems like a simple concept on the surface, there are many layers to fraud. And it's often in those perceived shades of gray where fraudsters slip through or those who spot fraud hesitate to report it.

There are three types of occupational fraud

1

Asset misappropriation

Schemes in which an employee steals or misuses an organization's assets

Examples:

- Skimming payments received from customers
- Intercepting outgoing vendor payments
- Overstating reimbursable expenses

2

Corruption

Schemes involving employees wrongfully using their influence to obtain a personal benefit – for themselves, families or friends – in a business transaction

Examples:

- Failing to disclose conflicts of interest
- Accepting illegal gratuities
- Paying bribes for favorable business decisions

3

Financial statement fraud

Schemes involving the intentional misreporting of an organization's financial information with the intent to mislead others (e.g., investors, debtors or government authorities)

Examples:

- Creating fictitious revenues
- Hiding liabilities
- Concealing expenses

People behind fraud

Experts say people who commit workplace fraud have an interesting profile. Rather than being new hires who snag what they can and run, they're often seasoned employees.

Analysis by the Association of Certified Fraud Examiners (ACFE) paints this picture:

The majority of people who commit fraud are men. They often work in the operations team. They are often 36-40 years old, not in a management position and have worked at a company less than five years.

But that's just the majority measured by number of cases. When it comes to the biggest schemes and most costly losses, it's the owners/top executives and most senior employees who lead the pack.



Female

23%

Median loss of \$85,000

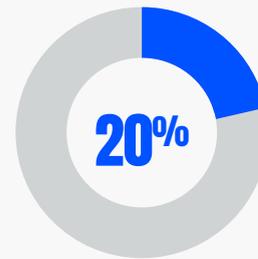


Male

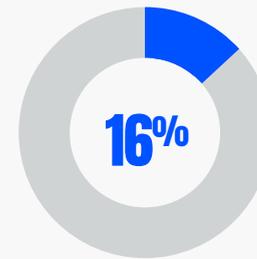
72%

Median loss of \$150,000

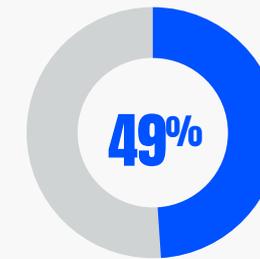
Education



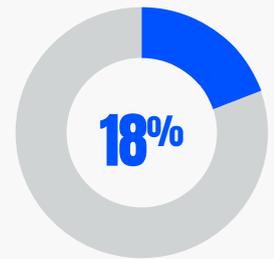
have a high school diploma or less



have some college education



have a four-year degree



have a post-graduate degree

Tenure

9%
Less than 1 year

46%
1-5 years

23%
Greater than 10 years

6+ years

Those with more than six years of experience caused twice the loss

5 years or less

Median loss is \$100,000

6 years or less

Median loss is \$200,000

The industries that reported the most fraud are not the ones that lose the most money. Financial institutions lead the pack in volume, but their median loss per case is just \$100,000. In contrast, real estate companies report significantly fewer cases, but their median loss is \$435,000.

| | | | | | |
|-----------------------------------------------------------|---------------------------------|---------------------|------------------------------------------|---------------------------------|---------------------|
| Agriculture, forestry, fishing and hunting | Median loss \$154,000 | 39 Cases | Manufacturing | Median loss \$177,000 | 194 Cases |
| Arts, entertainment and recreation | Median loss \$73,000 | 41 Cases | Mining | Median loss \$175,000 | 22 Cases |
| Banking and financial services | Median loss \$100,000 | 351 Cases | Real estate | Median loss \$435,000 | 41 Cases |
| Construction | Median loss \$203,000 | 78 Cases | Religious, charitable or social services | Median loss \$78,000 | 58 Cases |
| Education | Median loss \$56,000 | 69 Cases | Retail | Median loss \$65,000 | 91 Cases |
| Energy | Median loss \$100,000 | 97 Cases | Services (other) | Median loss \$100,000 | 32 Cases |
| Food service and hospitality | Median loss \$55,000 | 52 Cases | Services (professional) | Median loss \$125,000 | 41 Cases |
| Government and public administration | Median loss \$150,000 | 198 Cases | Technology | Median loss \$150,000 | 84 Cases |
| Healthcare | Median loss \$56,000 | 130 Cases | Transportation and warehousing | Median loss \$250,000 | 82 Cases |
| Information (e.g., publishing, media, telecommunications) | Median loss \$58,000 | 60 Cases | Utilities | Median loss \$200,000 | 30 Cases |
| Insurance | Median loss \$130,000 | 88 Cases | Wholesale trade | Median loss \$400,000 | 28 Cases |

Psychology of a fraudster

Knowing what drives people to commit fraud can help you not only spot cases, but also create an environment to mitigate your risk.

A pioneer in studying fraud perpetrators, Dr. Donald Cressey developed the [fraud triangle](#) to explain the motivations and circumstances of fraudsters.

Three elements are typically present when fraud occurs: pressure, opportunity and rationalization.

Pressure: When a person is facing intense pressure from a problem, most likely financial, and they see fraud as the only solution. Examples include gambling debts, peer pressure to live above their means, a drug habit or a significant financial loss.

Opportunity: An employee must perceive that they have the opportunity to defraud their organization successfully. They see opportunities when anti-fraud controls are lacking or when there's little to no oversight over a financial operation.

Rationalization: Offenders rationalize their crimes, so they feel justified in their behavior. They rarely view their actions as bad or criminal. They often tell themselves they deserve the money because they're underpaid or underappreciated and that it doesn't hurt their organization.

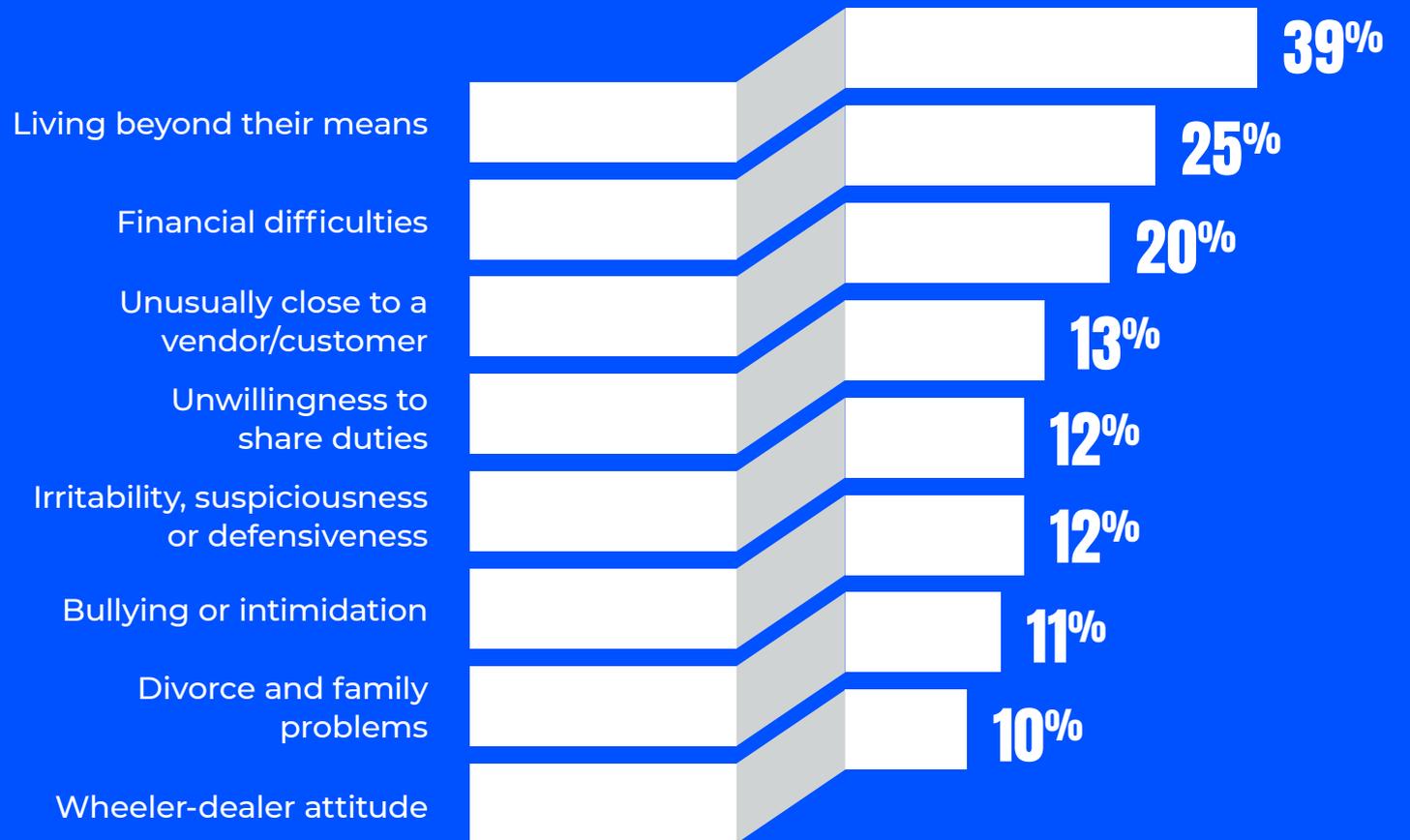
During COVID-19, fraud cases increased dramatically, most commonly driven by fear of job loss and denial of raise/promotion.





Behavioral red flags

People who commit fraud commonly demonstrate the following behaviors:



It's worth noting that among fraud perpetrators in the C-suite, bullying and intimidation is the #1 red flag behavior, followed by control issues.

Preventing and catching fraud

Ideally, you'd be able to prevent fraud by having strong internal controls and background checks before hiring someone.

But it's not that simple.

According to the ACFE, the majority of people – 89% – caught committing fraud do not have a criminal record.

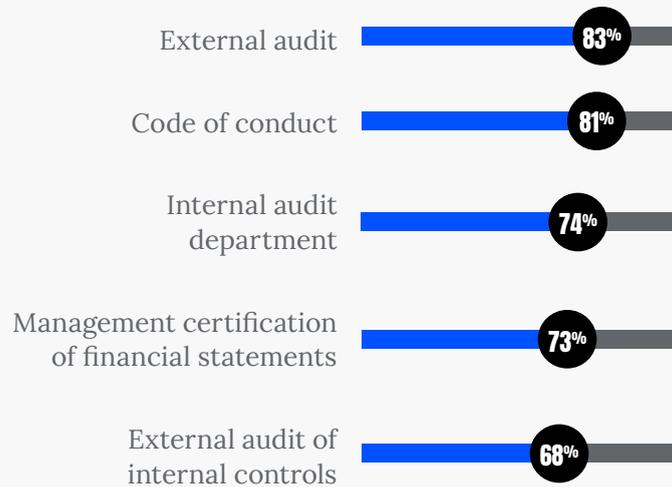
More than half (52%) of corporate victims had conducted a background check on the perpetrator and 87% of those background checks did not raise any red flags.

So whether someone has committed fraud previously – or evolves into a fraudster after hiring – proactive internal controls will be critical in protecting an organization. Not only will they help prevent fraud, controls can also reduce losses by catching fraud cases sooner.

In the majority of cases involving a single person, the perpetrator gets away with it due to a lack of internal controls. However, in fraud cases involving collusion among two or more employees, weaknesses occur when individuals can act together to override those controls.

So how do you stop fraud? By having internal controls, a process for reporting and educational programs to help spot red flags.

In companies surveyed by ACFE, the most common fraud controls are:



- Fraud training for employees: **55%**
- Fraud training for managers/executives: **55%**
- Dedicated fraud department, function or team: **44%**
- Formal fraud risk assessments: **41%**
- Surprise audits: **38%**
- Proactive data monitoring/analysis: **38%**
- Job rotation/mandatory vacation: **23%**
- Rewards for whistleblowers **13%**

What you can do today

1. Conduct fraud awareness and training

If your organization doesn't have dedicated anti-fraud professionals to lead trainings, you can take the initiative and share the free resources found on wipfli.com/fraudweek and fraudweek.com. Or ask an ACFE member to give a presentation at your organization. If you do have a training program, [see these tips](#) to measure its effectiveness.

Even just starting conversations about fraud and raising awareness of the issue may dissuade potential fraudsters from acting. They may become concerned about hidden internal controls or that co-workers will notice odd behavior.

Make sure your training includes how to identify key behavioral red flags so your associates know what to look for.

2. Establish a process for reporting

Your company should have a clear, confidential and well-publicized reporting mechanism, such as a hotline, that allows employees to report wrongdoing anonymously.

If you do not have a hotline, encourage employees to write an anonymous letter or send an email to your internal audit or anti-fraud team, the board of directors or someone ranked higher than the person they suspect.

The ACFE research shows that hotlines and reporting mechanisms are very effective:

- Fraud losses in organizations without a hotline were two times higher.
- 45% of cases were detected by associates who had fraud training.
- Organizations without training were three-and-a-half times more likely to discover fraud by external audits versus internal tips.

3. Get external help

Be proactive about fraud detection and hire an external expert to review your internal controls or perform a fraud risk assessment. An assessment can help identify opportunities to find fraud, such as using a data analytics test of addresses in a master vendor file, conducting surprise audits or reviewing your incentive programs for ways to manipulate.

Companies with no internal controls, on average, lose twice as much money as those who do have controls in place.

Conclusion

Companies that are victims of fraud, on average, lost 5% of their revenues to schemes. Those that face the highest risk are private companies and small businesses.

There is no way to completely bulletproof your organization from fraud, but there are several ways you can reduce your risk and limit your losses.

Strong internal controls, external audits, training and reporting mechanisms should be standard in every operation.

And make sure you hire the right team to help you. While auditors, fraud examiners and forensic accountants are on the same team, their jobs do differ.

- **The auditor:** An external auditor provides independent, objective assurance regarding your organization's financial statements through a systematic and disciplined approach.
- **The fraud examiner:** A fraud examiner is involved in the prevention, detection, investigation or resolution of fraud. They are responsible for establishing the scope of a fraud examination at its outset and then continuously reevaluating that scope as the examination proceeds.
- **The forensic accountant:** Using systematic processes and data investigations, forensic accountants examine the finances or compliance practices of an individual or organization, usually in relation to an investigation into suspected fraud or a litigation matter.

Incidents of fraud increased dramatically during the height of COVID-19 as many fraud perpetrators took advantage of the disruption to normal processes, internal controls and financial operations. The risk is only increasing as fraudsters get smarter and technology and remote working open new cracks in security.

Those committing fraud will continue to take advantage and undermine the health of your organization unless you take the needed steps to stop them. And that first step is understanding your risk so you can build a way to mitigate it.

90% of fraud examiners expect fraud cases to increase in the coming year.



We combine experienced investigators with the latest technology to fight fraud for you.

See more free fraud resources at wipfli.com/fraudweek.

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Perspective changes everything.

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