



Fraud Update As We Exit 2022

November 2022

3^d Annual Virtual Conference



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Disclaimer

The presentation you are about to participate in should not be relied upon or construed as legal or financial advice. Organizations vary significantly in the risks they face, and a one-hour presentation is no substitute for a thorough examination of your security ecosystem and risk posture. Please consult with your own Legal, Audit, Security, Compliance, and Finance resources before making any policy or procedure changes.

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Meet Our Presenter



Deron Rossi, CFS
Fraud Consultant
Risk & Compliance Services

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Polling question #1

Which functional area do you represent at your firm?

- A. Internal Audit
- B. Risk Management
- C. Executive Management
- D. Finance
- E. Other

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Overview


- Fraud Triangle – Getting Inside the Fraudster’s Mindset
- ACFE Report to the Nations Summary and Government View
- Fraud Risk – Where is it Heading?
- Fraud Focus Items

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The Fraud Triangle – Getting into the Fraudster’s Mindset

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Fraud Triangle

Three core concepts when taken together, create a situation ripe for fraud.

1. **Pressure** – Think motive - financial, personal vices or other pressures
2. **Rationalization** – Important component of most frauds; people need to reconcile their behavior (ex. I am underpaid, I deserve this.)
3. **Opportunity** – Open door for solving a non-shareable problem in secret by violating a trust relationship; accomplished by generally weak or no controls

Each element must co-exist with the other.



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Polling question #2

What are the three facets of the Fraud Triangle?

- A. Pressure, Rationalization, and Opportunity
- B. Rationalization, Opportunity, and Capability
- C. Pressure, Revenge, and Capability
- D. Pressure, Opportunity, and Revenge

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ACFE 2022 Report To The Nations (RTTN)

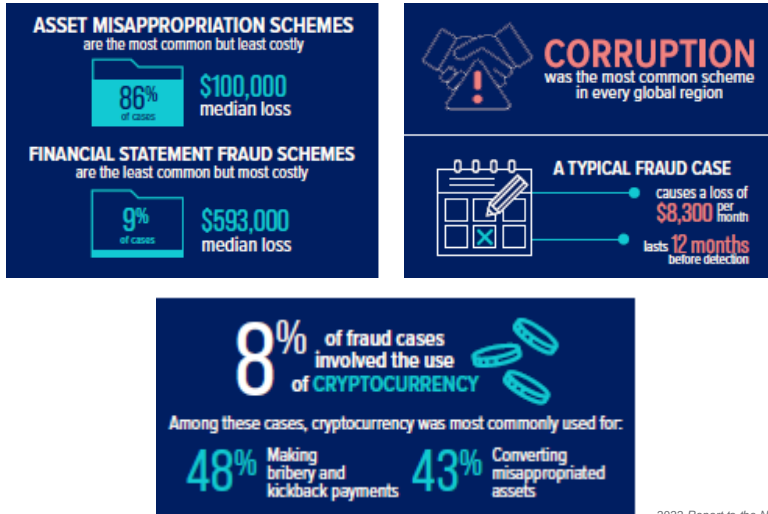
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2022 Fraud Statistics Summary



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2022 Fraud Scheme Statistics



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Cost of Occupational Fraud in Government



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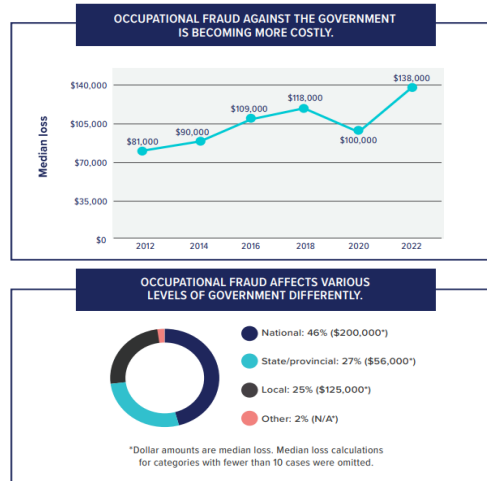
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Cost of Occupational Fraud in Government



THE TYPICAL CASE OF OCCUPATIONAL FRAUD AGAINST A GOVERNMENT ORGANIZATION LASTS **12 MONTHS** BEFORE BEING DETECTED.



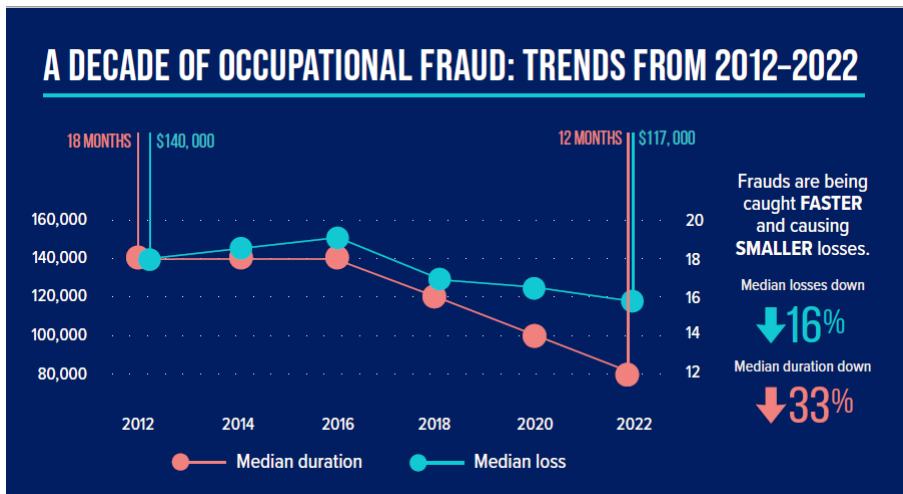
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2022 Fraud Scheme Statistics



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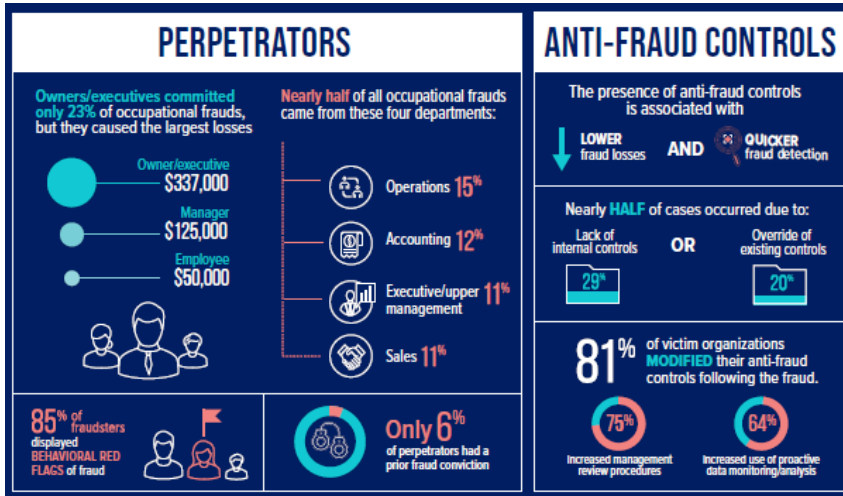
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2022 Fraud Statistics Summary (continued)



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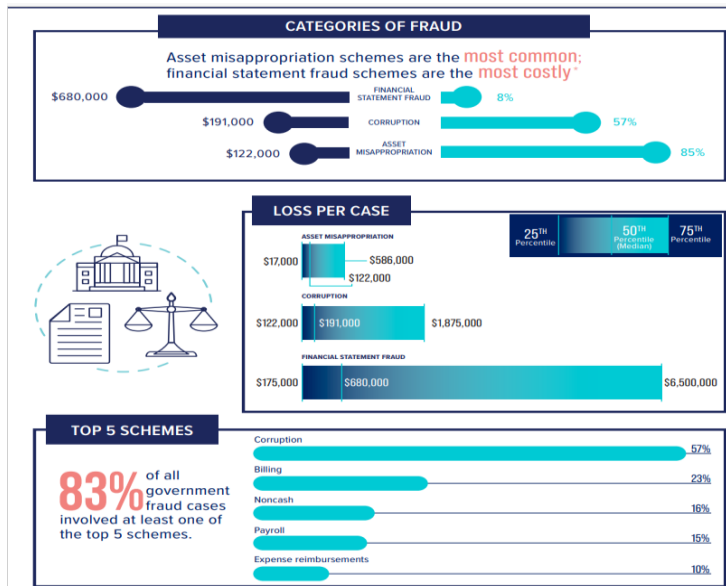
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Categories of Occupational Fraud in Government



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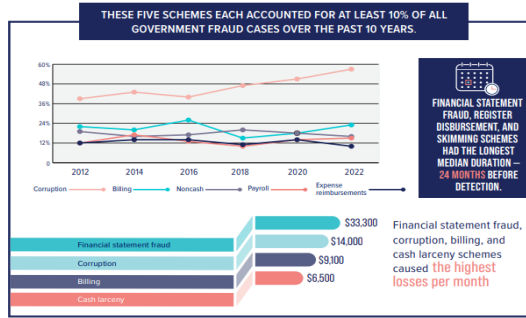
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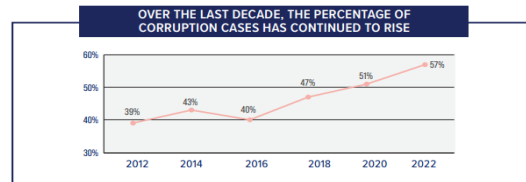
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Categories of Occupational Fraud in Government



7% of all fraud schemes in government organizations involved the use of cryptocurrency



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Control Weaknesses Involving Government Fraud



WHAT ARE THE PRIMARY INTERNAL CONTROL WEAKNESSES THAT CONTRIBUTE TO OCCUPATIONAL FRAUD IN GOVERNMENT ORGANIZATIONS?



Override of existing controls



Lack of internal controls



Lack of management review



Poor tone at the top

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Anti-Fraud Controls in Government

IMPLEMENTATION RATES FOR MANY ANTI-FRAUD CONTROLS AT GOVERNMENT ORGANIZATIONS HAVE INCREASED OVER THE LAST DECADE.



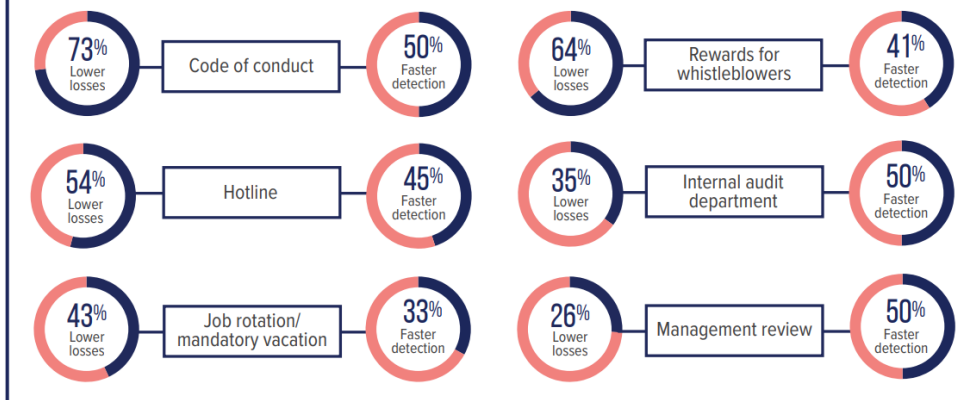
THESE SIX HAVE INCREASED THE MOST:

	2012	2022	Increase
Hotline	56%	71%	15%
Formal fraud risk assessments	29%	44%	15%
Management review	54%	67%	13%
Fraud training for employees	47%	59%	12%
Anti-fraud policy	45%	57%	12%
Independent audit committee	51%	63%	12%

THE PRESENCE OF SEVERAL ANTI-FRAUD CONTROLS WAS ASSOCIATED WITH NOTABLE REDUCTIONS IN BOTH LOSSES AND DURATION OF FRAUD.

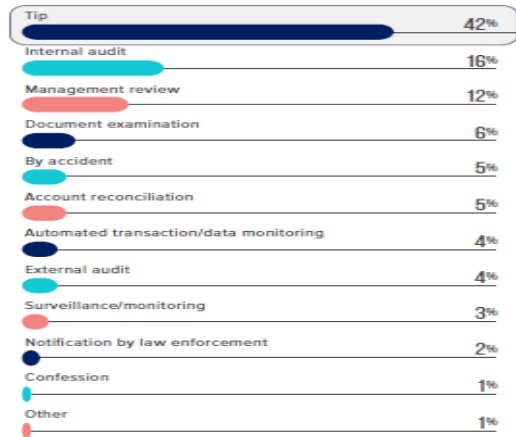
Anti-Fraud Controls Continued

HOW DOES THE PRESENCE OF AN ANTI-FRAUD CONTROL RELATE TO THE MEDIAN LOSS AND DURATION OF FRAUD IN GOVERNMENT ORGANIZATIONS?



2022 Fraud Scheme Statistics

How is occupational fraud initially detected?



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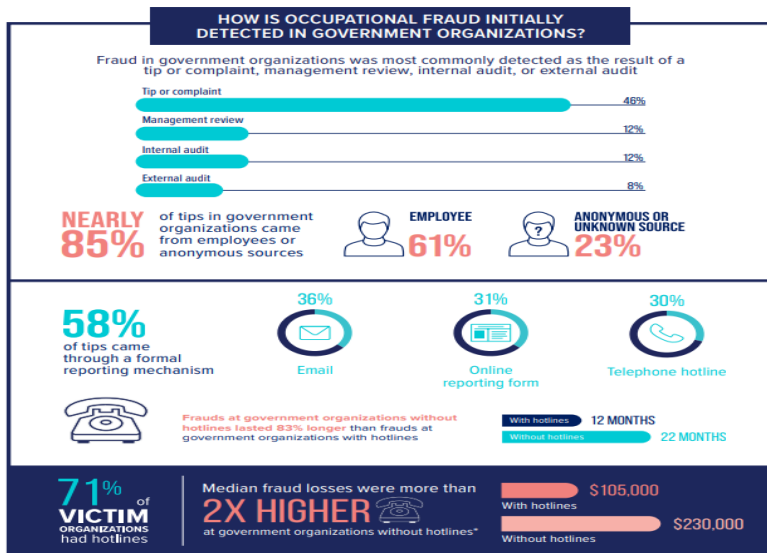
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How is Occupation Fraud Detected in Government Organizations?

HOW OCCUPATIONAL FRAUD IS DETECTED

Our study explores how fraud is initially detected, when it is detected, and how it is reported in government organizations.



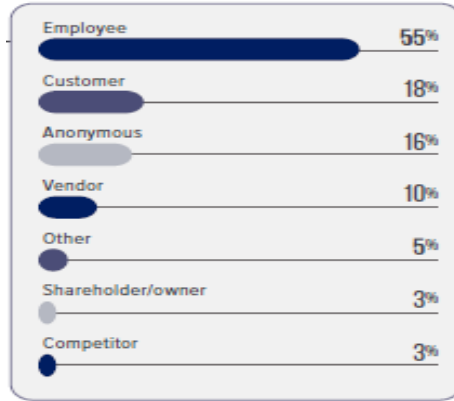
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2022 Fraud Scheme Statistics

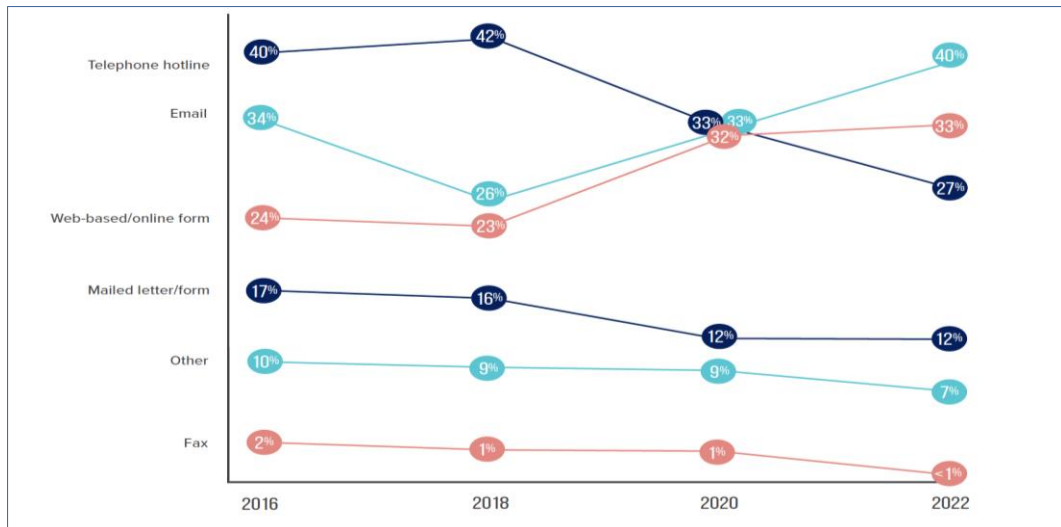
Who reports occupational fraud?



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What Formal Reporting Mechanisms Did Whistleblowers Use?



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Polling question #3

What percentage of revenue is believed to be lost to an organization due to occupational fraud (Hint: The number was the same in the 2020 ACFE RTTN)?

- A. 15%
- B. 8%
- C. 5%
- D. 2%

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COVID'S EFFECT ON OCCUPATIONAL FRAUD

We asked survey participants whether several pandemic-related issues contributed to the frauds that they investigated; 52% of respondents noted that at least one of these factors was present in their case. Of the factors analyzed, pandemic-related organizational staffing changes were the most common (42% of cases), and a shift to remote work was the factor most commonly cited as significant (15% of cases).



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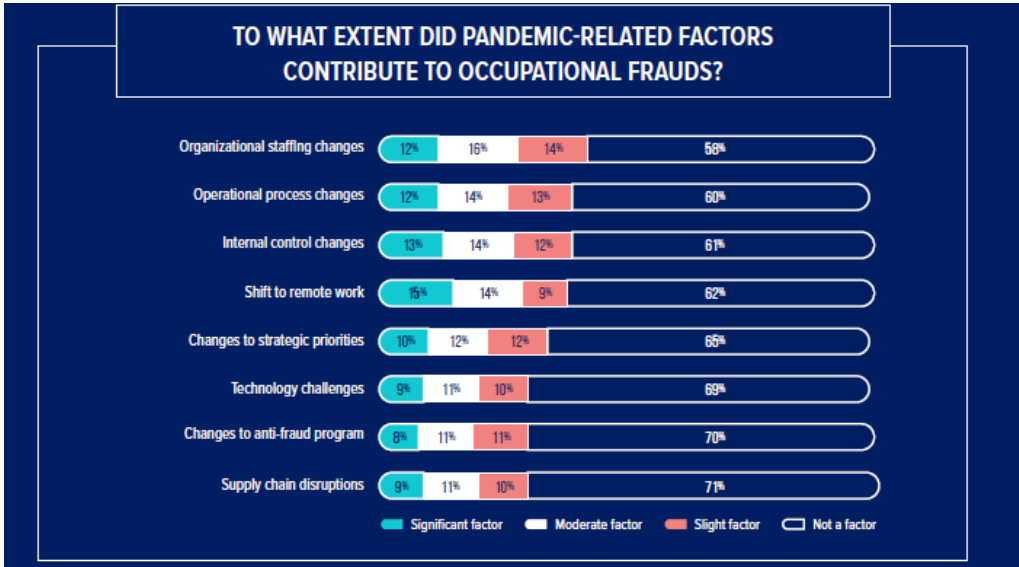
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COVID's effect on Occupational Fraud (continued)



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Behavioral Red Flags



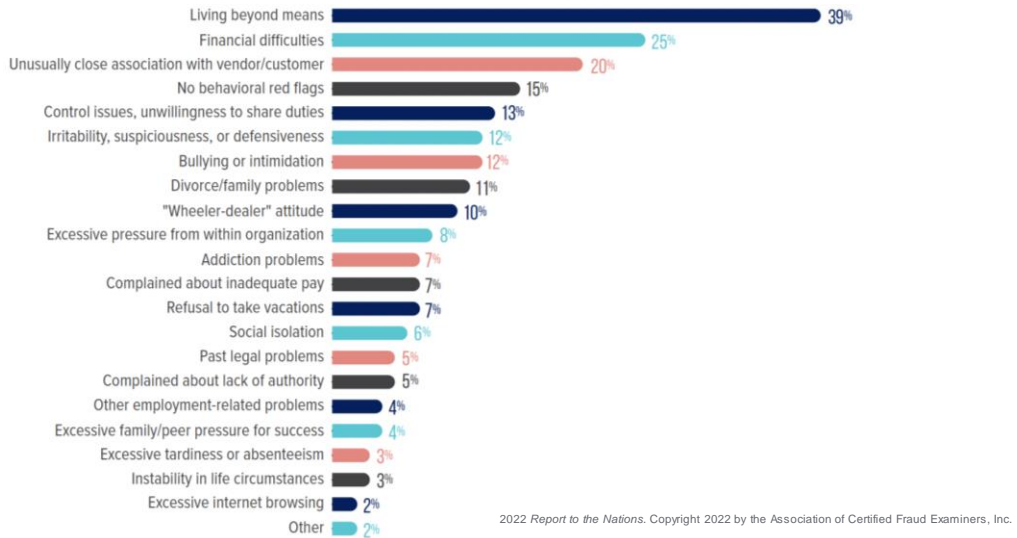
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How Often Do Perpetrators Exhibit Behavioral Red Flags?



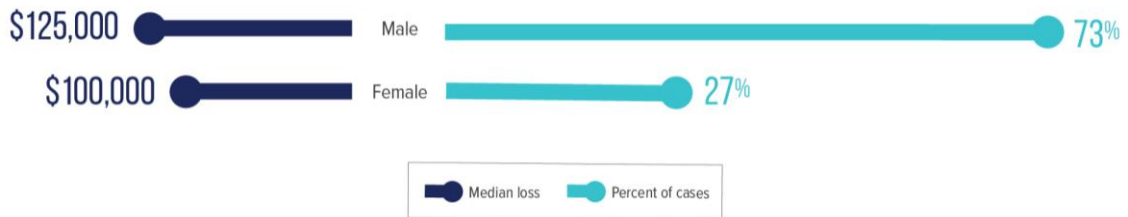
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How Does the Perpetrator’s Gender Relate to Occupational Fraud?



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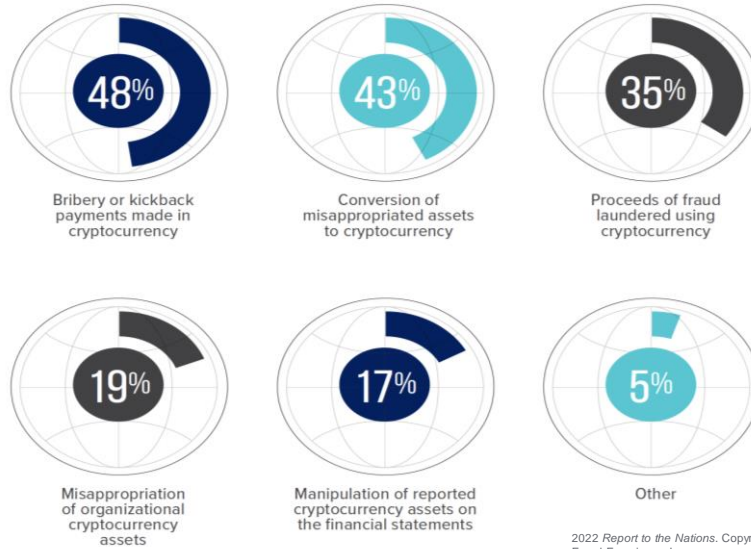
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Among Frauds Involving Cryptocurrency, How Was It Used?



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Polling question #4

What are the top two methods for initially detecting organizational fraud in government?

- A. Management Reviews, Tips
- B. Tips, Internal Audit
- C. Internal Audit, External Audits/Regulators
- D. Tips, Peer Pressure

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Fraud Outlook/Focus Items

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Fraud Outlook - 2023

Neither individuals, businesses, government entities, nor financial institutions are exempt from the velocity and scale of the newest generation of fraud attacks.

Pervasive synthetics, multiple breaches, insider recruitment, lending fraud, social media scams, social media cloning, government stimulus programs, and remote job scams—the abundance of emerging fraud trends is daunting.

Economic uncertainty is another fuel for fraud risk for 2023.

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Areas to Focus in 2023



- 1 The Three Lines work collaboratively to holistically look at risk, including new risks. Adjust 2023 plan continually to address risk changes.
- 2 Cyber, Cyber, Cyber
- 3 Reiterate Tone at the Top Messaging Addressing Ethical Challenges
- 4 Economic Conditions including Inflation Pressures
- 5 Third Party Risks
- 6 Employee Risks including Flight Risk, Mental Health, Engagement

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Questions



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Thank you for attending!

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