



# Occupational Fraud What, why, how, and who

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**Deloitte.**



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## Agenda

- Occupational fraud defined
- ACFE Report to the Nations Update
- Fraud Diamond and application
- Whistleblowing
- Resources



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## Learning Objectives

After this session, participants will be able to:

1. Define and provide examples of the three types of occupational fraud
2. Describe the current state of occupational fraud in the US
3. List controls in order of effectiveness in reducing mean loss and fraud duration
4. Explain the fraud diamond and components of capability
5. Describe the ethical dilemma faced by whistleblowers

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## Elements of Fraud

- A *material false* statement
- *Knowledge* that the statement was false when it was uttered (*Intent to deceive*)
- *Reliance* on the false statement by the victim
- *Damages* resulting from the victim's reliance on the false statement 

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## Defining Occupational Fraud and Abuse

The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets

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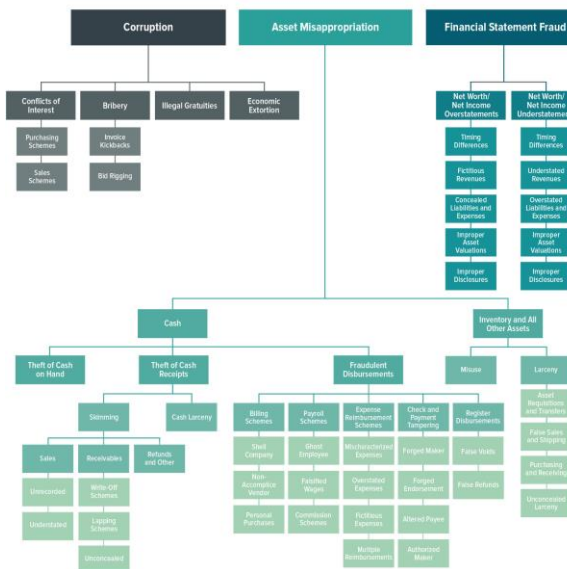
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- Every 2 years
- Free online
- Global, 2,690 cases
- Investigated by CFEs
- ACFE.com

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FIG. 4 Occupational Fraud and Abuse Classification System (the Fraud Tree)



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FIG. 85 What are the most common occupational fraud schemes in the United States?

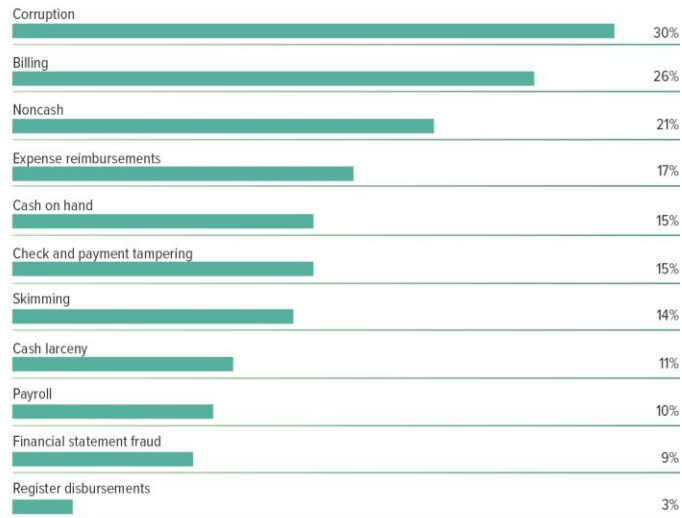


FIG. 2 How much does an occupational fraud cost the victim organization?



FIG. 3 How is occupational fraud committed?



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## Polling Question 1

According to the ACFE RTTN 2018, the most common fraud is \_\_\_\_\_ and the greatest median loss is from \_\_\_\_\_

- asset misappropriation, corruption
- asset misappropriation, financial statement fraud
- corruption, corruption
- financial statement fraud, asset misappropriation

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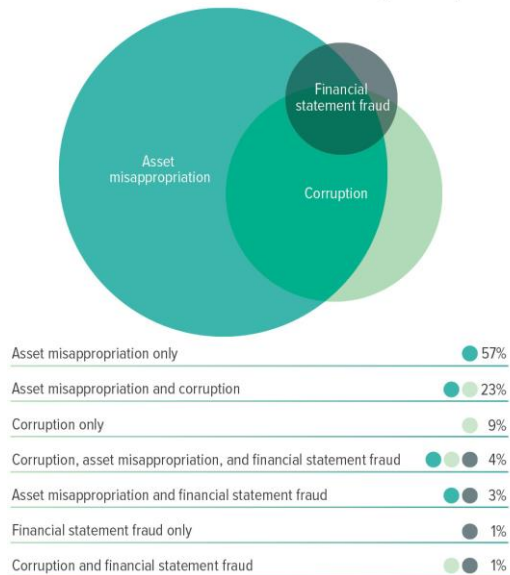
## Polling Question 1 - Answer

According to the ACFE Report to the Nations 2018, overall,

The most common fraud is **asset misappropriation**, and the greatest median loss is from **financial statement fraud**.

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FIG. 5 How often do fraudsters commit more than one type of occupational fraud?



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FIG. 7 How does the duration of a fraud relate to median loss?



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# Asset Misappropriation

FIG. 6 What asset misappropriation schemes present the greatest risk?

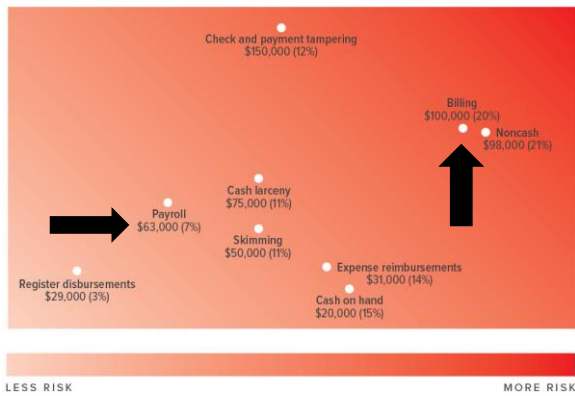
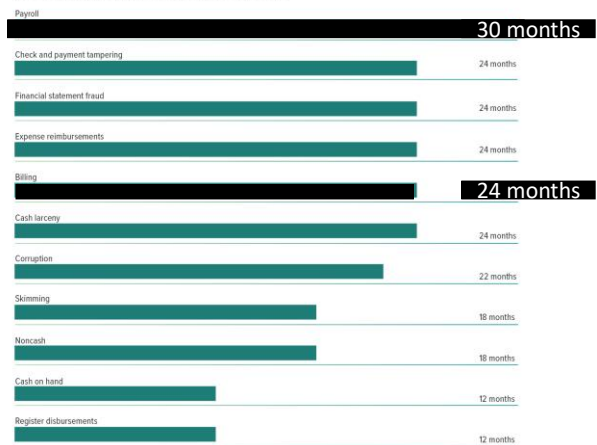
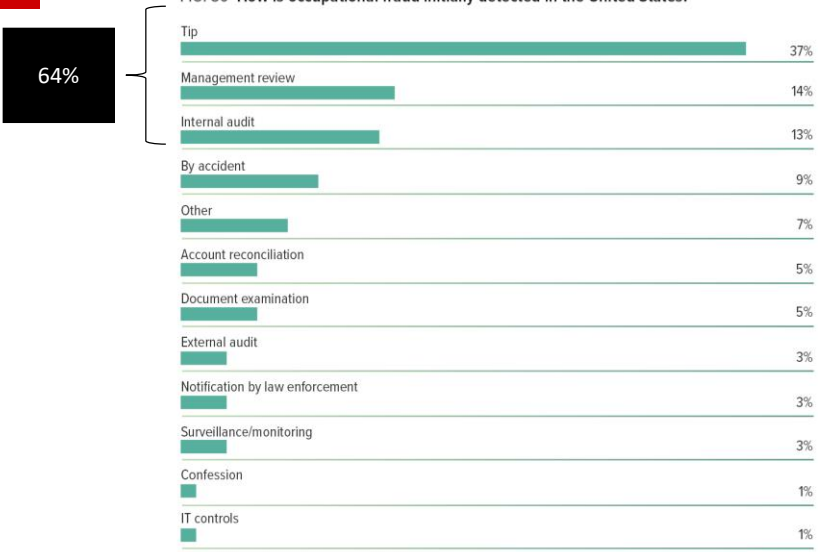


FIG. 8 How long do different occupational fraud schemes last?



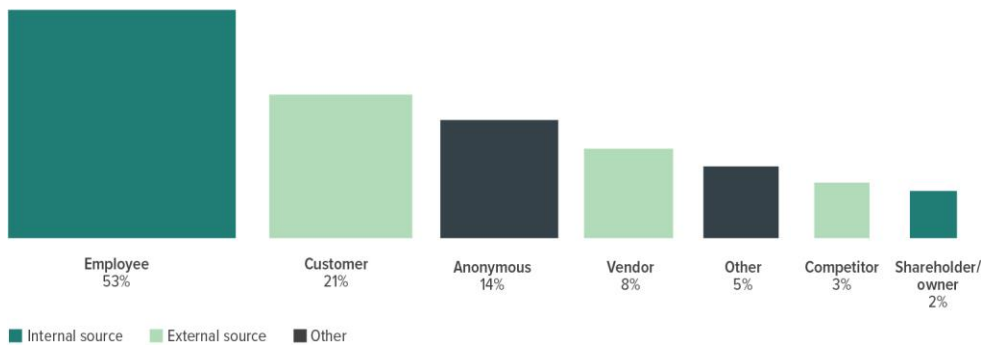
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# Who reports?

**FIG. 10 Who reports occupational fraud?**



## Polling Question 2

According to the ACFE Report to the Nations 2018, most common fraud method of detection is \_\_\_\_\_

- a. A whistleblowing tip from an employee.
- b. A management review.
- c. An anonymous whistleblowing tip.
- d. An external audit.

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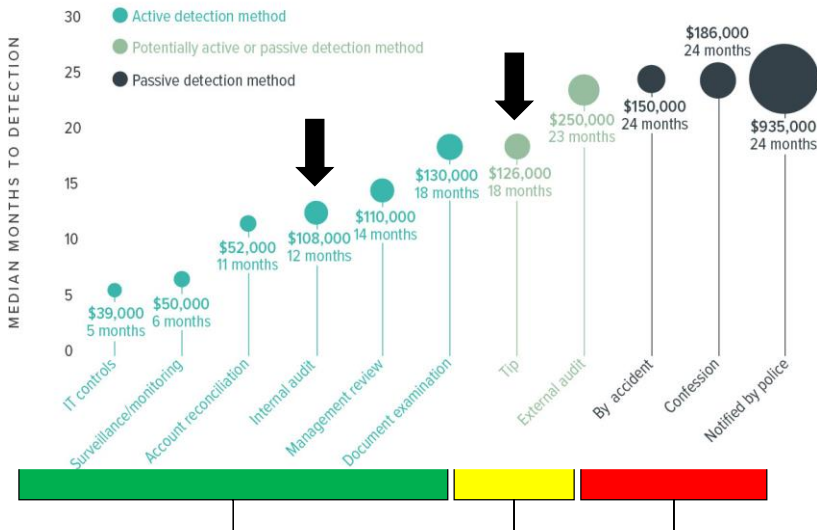
## Polling Question 2 - Answer

According to the ACFE Report to the Nations 2018,

The most common fraud method of detection is a **whistleblowing tip** from an employee.

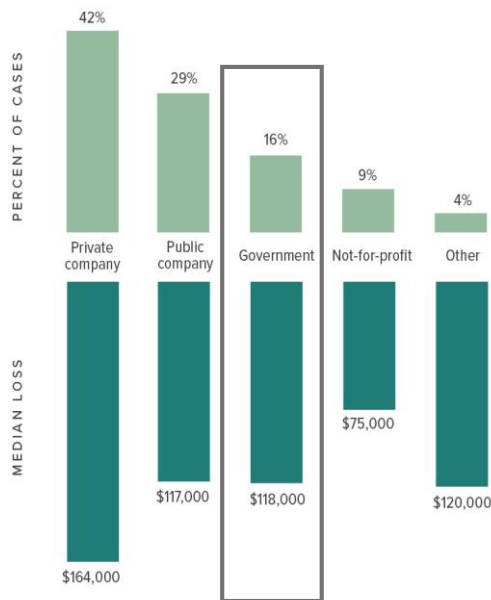
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FIG. 11 How does detection method relate to fraud duration and loss?



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FIG. 12 What types of organizations are victimized by occupational fraud?



Caveat – report data is from cases CFEs were hired to investigate and solve.  
AND  
This is the % of cases in the survey

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FIG. 13 What levels of government are victimized by occupational fraud?

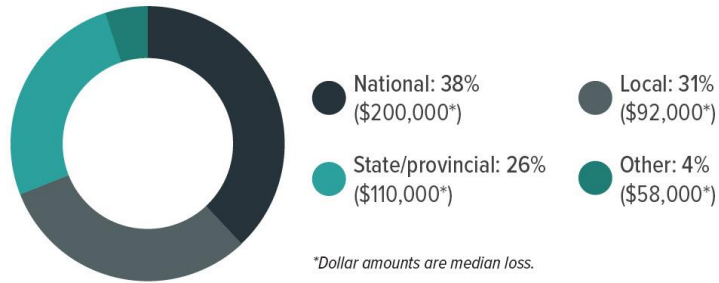


FIG. 16 What are the most common occupational fraud schemes in various industries?

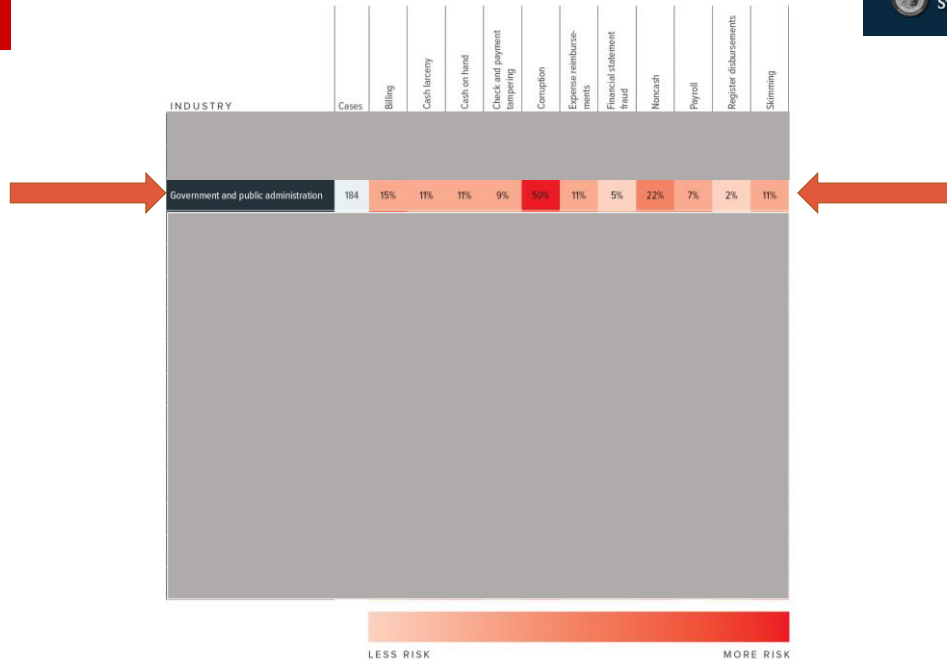
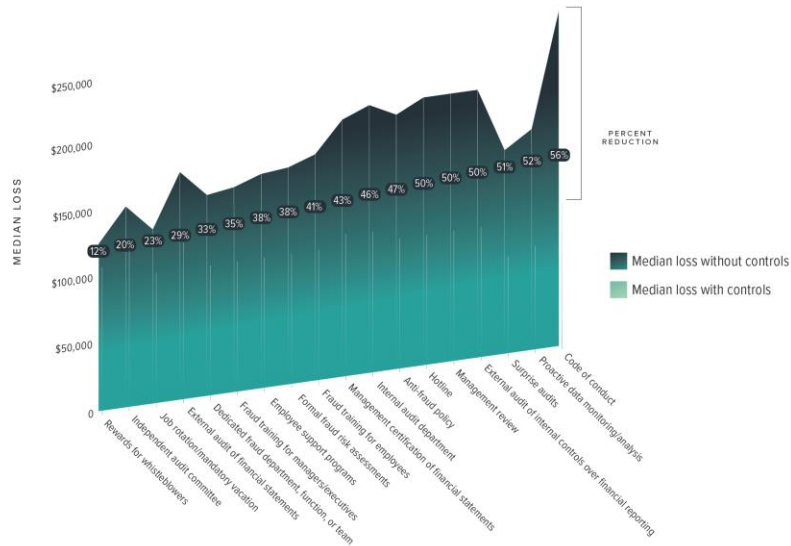




FIG. 18 How does the presence of anti-fraud controls relate to median loss?



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### Polling Question 3

According to the ACFE RTTN 2018, the greatest reduction in the median loss due to fraud is associated with:

- a. Having a policy of job rotation and mandatory vacation
- b. Providing payments to whistleblowers
- c. Having an external audit
- d. Having a code of conduct

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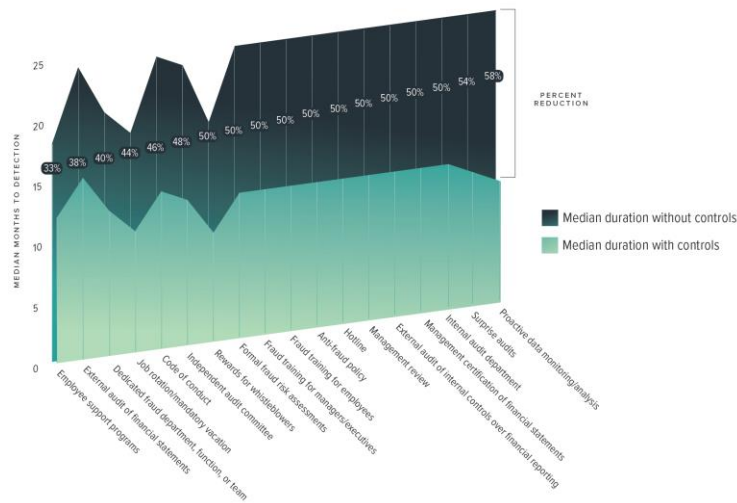
# Polling Question 3 – Answer

According to the ACFE Report to the Nations 2018,

Having a **code of conduct** is associated with the greatest reduction in the median loss due to fraud.

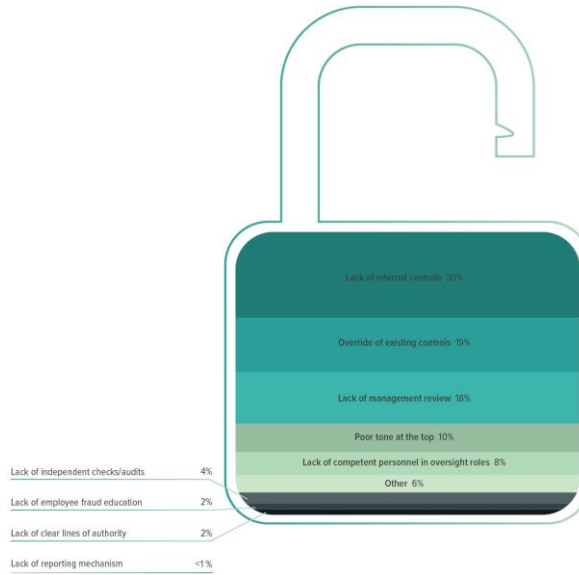
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FIG. 19 How does the presence of anti-fraud controls relate to the duration of fraud?



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FIG. 22 What are the primary internal control weaknesses that contribute to occupational fraud?

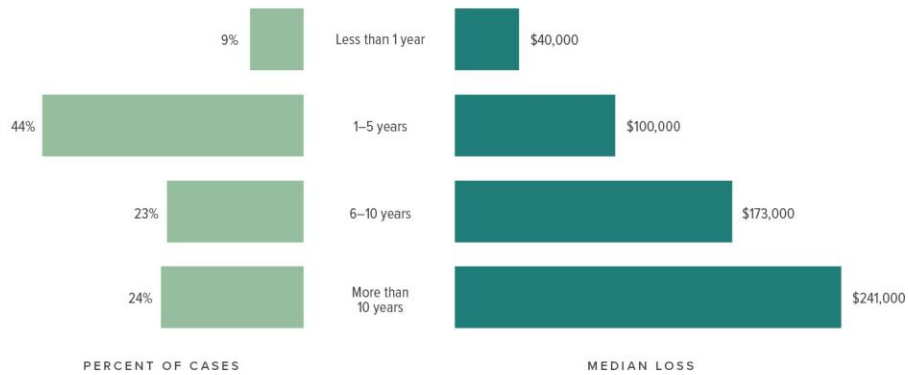


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FIG. 26 How does the perpetrator's tenure relate to occupational fraud?

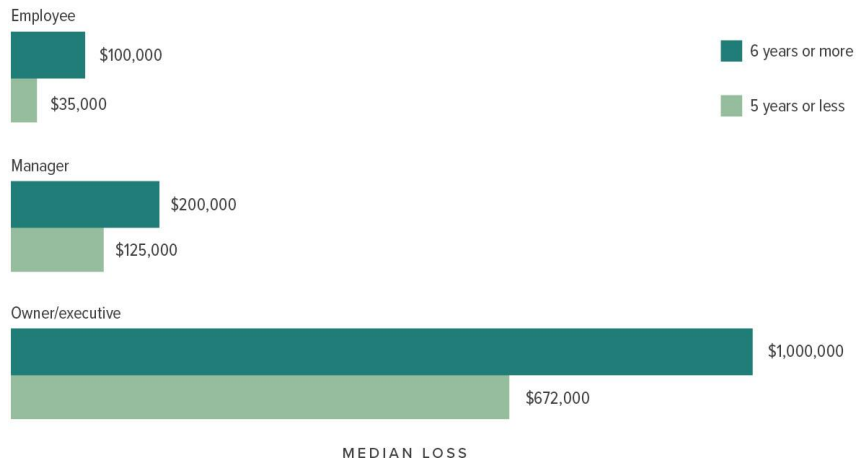


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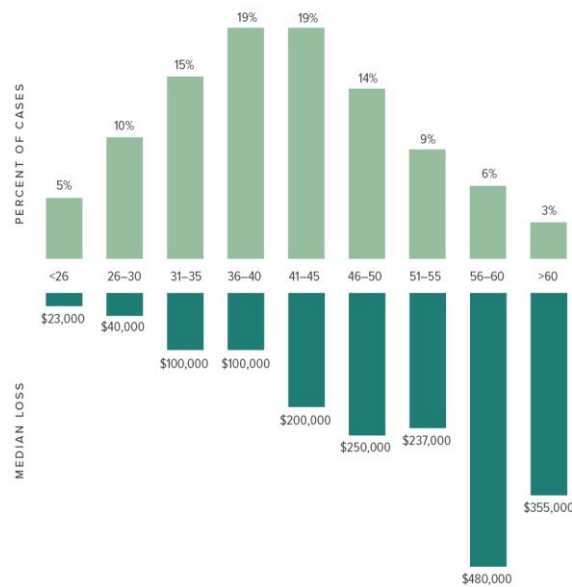
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FIG. 27 How does the perpetrator's tenure relate to median loss at different levels of authority?



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FIG. 33 How does the perpetrator's age relate to occupational fraud?



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FIG. 34 How does the perpetrator's education level relate to occupational fraud?

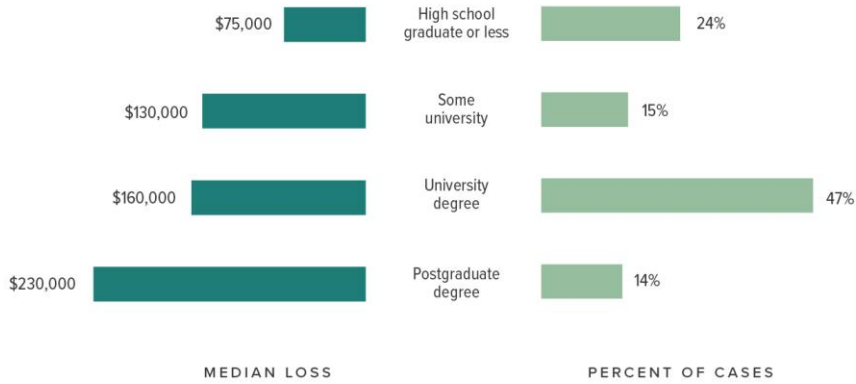


FIG. 35 How does the number of perpetrators in a scheme relate to occupational fraud?

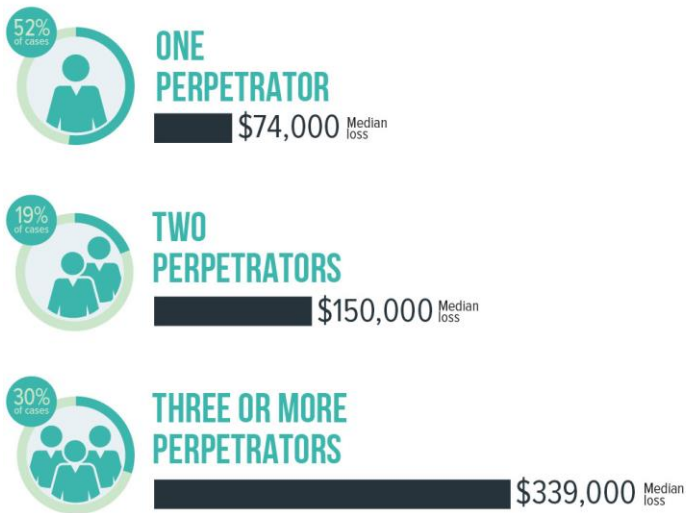


FIG. 36 Do perpetrators tend to have prior fraud convictions?



- Never charged or convicted (89%)
- Charged but not convicted (6%)
- Had prior convictions (4%)
- Other (1%)

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Opportunity (weak controls)

Fraud Triangle

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Pressure (Incentive)

Rationalization (why it is ok)

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## Polling Question 4

According to the fraud triangle theory,

- a. Only two of the three legs are needed for fraud to occur.
- b. Rationalization reduces fraudsters' feelings of guilt.
- c. All people with pressure commit fraud
- d. Opportunity is not under control of the organization.

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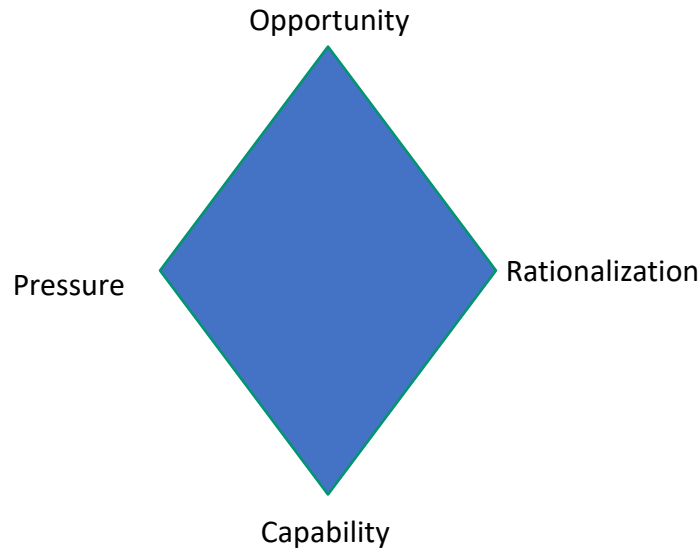
## Polling Question 4 - Answer

According to the fraud triangle theory,

Rationalization reduces fraudsters' feelings of guilt

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## Fraud Diamond (Wolfe and Hermanson)



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## Capability

1. Function or position in organization
2. Clever/Smart
3. Ego/Confidence/Belief in ability to talk way out if detected
4. Coercion ability, charisma
5. Effective liar
6. Deals well with stress

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## Ethical Dilemmas: Common global moral values (Kidder)

Honesty

Promise-keeping

Fairness

Respect for others

Compassion

Integrity

- Overwhelming global consensus.
- Differences only in the way cultures prioritize these.

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## Ethical Dilemmas

Value	Value	Right versus wrong	Right versus right	Ethical Dilemma
Honesty	Dishonesty	X		No
Fairness	Unfairness	X		No
Four Dilemma Paradigms: when two values collide in one of the following ways:				
Truth	Loyalty		X	Yes
Individual	Community		X	Yes
Short term	Long term		X	Yes
Justice	Mercy		X	Yes

## Whistleblowing: Truth versus Loyalty

Whistleblowing relates to actions taken by current or former organizational members to **report illegal, unethical, or illegitimate activities**, which are under the control of management, to persons who are willing and able to correct such misconduct.

(Miceli and Near, 1984)

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## Polling Question 5

Whistleblowers face the choice between:

- a. Individual and Community
- b. Short term and Long term
- c. Truth and Loyalty
- d. Justice and Mercy

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## Polling Question 5 - Answer

Whistleblowers face the choice between:

Truth and Loyalty

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## When faced with fraud...

### Moral Intensity (Jones 1991)

#### Six components

- Magnitude of Consequences ..... Harm (how much)
- Social Consensus ..... Evilness (how bad)
- Probability of Effect ..... Chance (will lead to harm)
- Temporal Immediacy ..... Time lag (how soon)
- Proximity..... Closeness (how close to me)
- Concentration of Effect ..... Number (how many people)

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## Understanding whistleblowers: Loyalty to ?

### Theory

Economics approach says fraud detection belongs to people who would benefit directly:

- Legal view (auditors and securities regulators)
- Private litigation view (law firms)
- Finance view (equity and debt holders)

### Reality

Fraud detection is actually found and reported by:

- Employees
- Non-financial market regulators
- Media
- Those who have little to gain and much to lose

Complex and costly

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## Resources

- [ACFE website](#)
- Jones, T. 1991. Ethical decision making by individuals in organizations: An issue-contingent model. *Academy of Management Review*, 16(2) 231-248.
- Kidder, R.M. 2005. *Moral Courage*, Harper Collins.
- Paeth, S. 2013. The responsibility to lie and the obligation to report. *Journal of Business Ethics*, 112, 559-566.
- Wolfe, D. and Hermanson, D. 2004. The Fraud Diamond: Considering the four elements of fraud. *CPA Journal* 74.12, 38-42.

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