

# Fraud Risks in Current Times



Wisconsin Counties Association

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# Objectives

- Define occupational fraud
- Extent of fraud risk facing organizations
- Factors that lead to fraud being perpetrated
- How the economy has increased fraud risk
  
- Ask Questions!



# Agenda

- Introductions
- Fraud Definitions and Statistics
- Where Are Fraud Risks?
- Fraud Schemes
- Actual Fraud Case Studies
  
- Additional Resources
- Contact Information



# Introductions

## Marc W. Courey

- Credentials

- Certified Public Accountant (CPA)
- Certified in Financial Forensics (CFF)
- Juris Doctor (JD)
- Master of Laws (taxation) (LLM)
- Certified Fraud Examiner (CFE)
- Certified Internal Controls Auditor (CICA)
- Certified Internal Auditor (CIA)
- Certified Compliance and Ethics Professional (CCEP)
- Over 25 years experience in IT systems, financial reporting, legal practice, forensic accounting and investigations

- Wipfli

- Director – Forensic & Litigation, and Risk Advisory Services
- Over 18 years experience, leads forensic accounting and investigations, incident response and handling



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# Introductions

## Dru D. Carney

- Credentials

- Masters of Business Administration–Forensic Accounting (MBA)
- Certified Fraud Examiner (CFE)
- Member International Association of Financial Crimes Investigators
- Sixteen years in law enforcement
- Security manager for the 415th Civil Affairs Battalion

- Wipfli

- Consultant – Forensic & Litigation Services
- Assists clients with fraud risk assessments, forensic consulting and investigations, internal control assessments



# Introductions

- Audience
  - What is your role in your organization?
  - How many have been at an organization where an insider acted inappropriately?
  - How many of your organizations actively consider the risk of insider fraud?
  - What are you looking for today?
    - How to get your organization to consider that bad things happen
    - Technical skills to address fraud risk
    - Have a particular concern about ...
    - War stories (others are worse off than you)
  - What do you think of when it comes to fraud risk?





# Fraud Definitions and Statistics

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# Fraud Definitions and Statistics

- Occupational Fraud
  - A/k/a Workplace Fraud
  - A/k/a Asset Theft Fraud

The use of one's occupation for personal gain through the deliberate misuse or theft of the employing organization's resources or assets.

2014 Association of Certified Fraud Examiners, Inc., Report to the Nations





# Fraud Definitions and Statistics

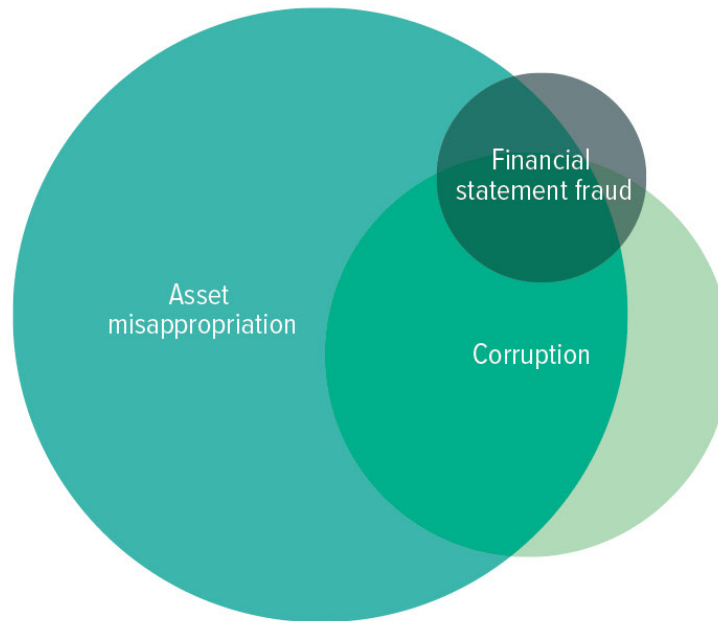
- Financial Statement Fraud – 10%, median loss **\$800,000**
  - Fictitious revenues, inflating assets, concealing or underreporting expenses or liabilities
- Corruption – 38%; median loss **\$250,000**
  - Conflict of interest, bribery, extortion
- Asset misappropriation – 89%; median loss **\$114,000**
  - Embezzlement, theft (cash and/or other), false expense reports, forgery

2018 Association of Certified Fraud Examiners, Inc., Report to the Nations



# Fraud Definitions and Statistics

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



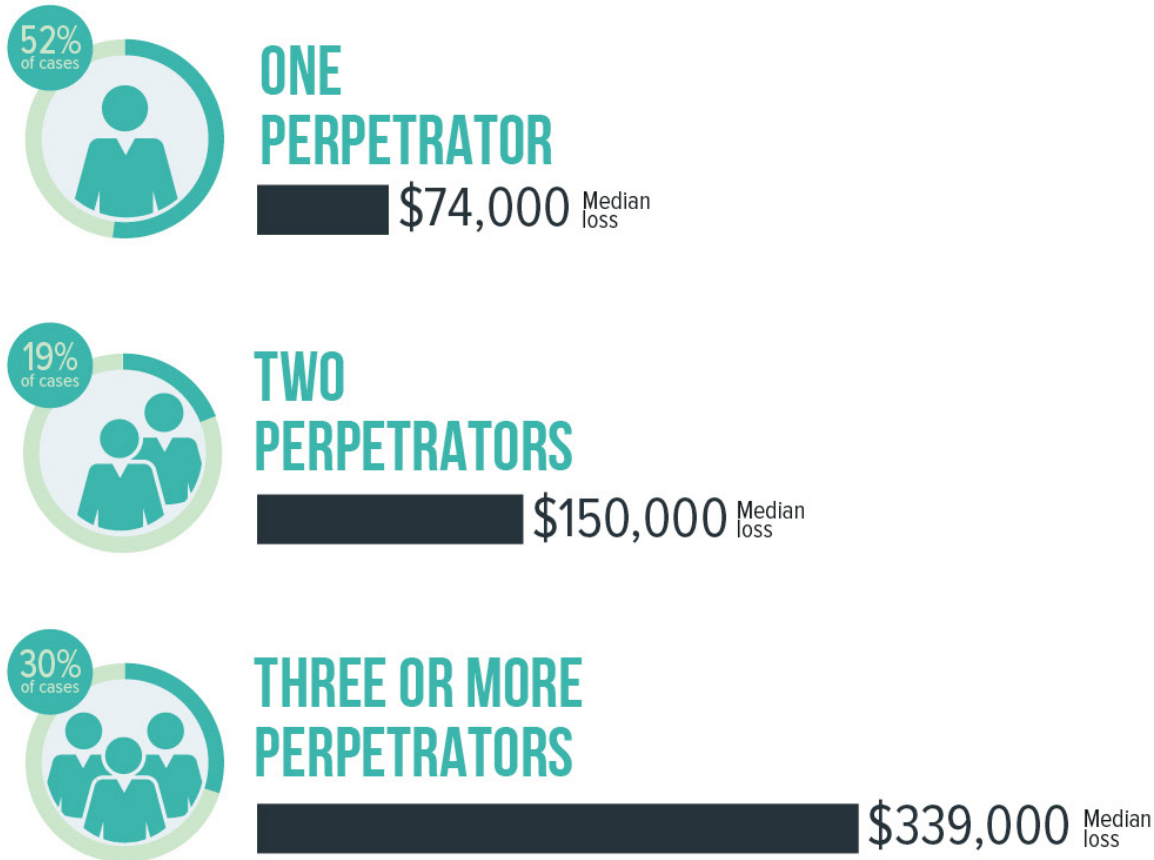
Asset misappropriation only	57%
Asset misappropriation and corruption	23%
Corruption only	9%
Corruption, asset misappropriation, and financial statement fraud	4%
Asset misappropriation and financial statement fraud	3%
Financial statement fraud only	1%
Corruption and financial statement fraud	1%

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# Fraud Definitions and Statistics

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



# Fraud Definitions and Statistics

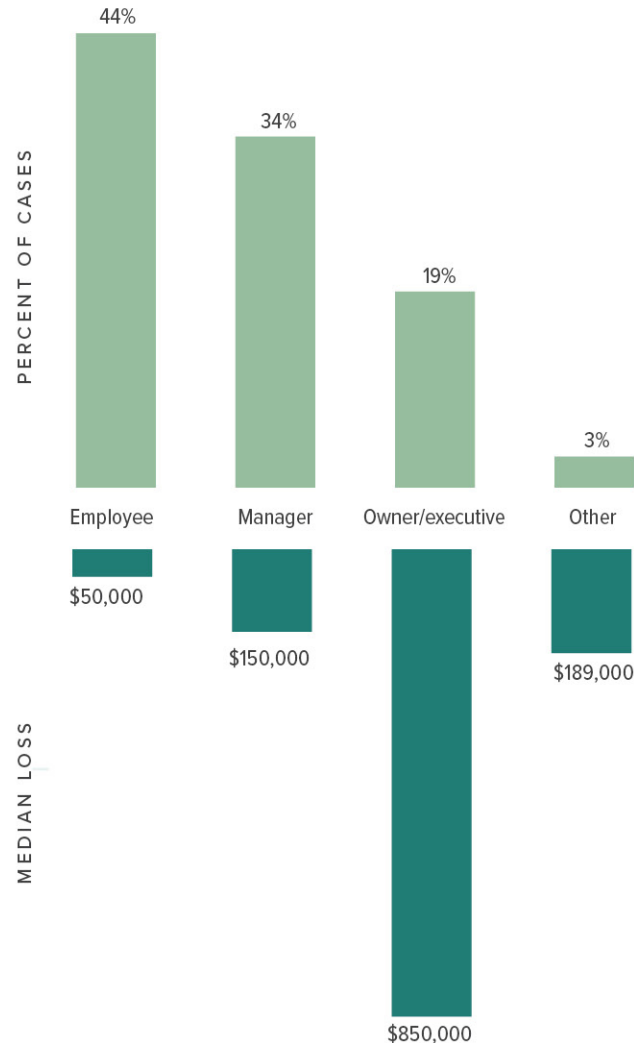
**FIG. 25 How does the perpetrator's level of authority relate to scheme duration?**

<b>Position</b>	<b>Median months to detection</b>
Employee	12 months
Manager	18 months
Owner/executive	24 months



# Fraud Definitions and Statistics

FIG. 24 How does the perpetrator's level of authority relate to occupational fraud?

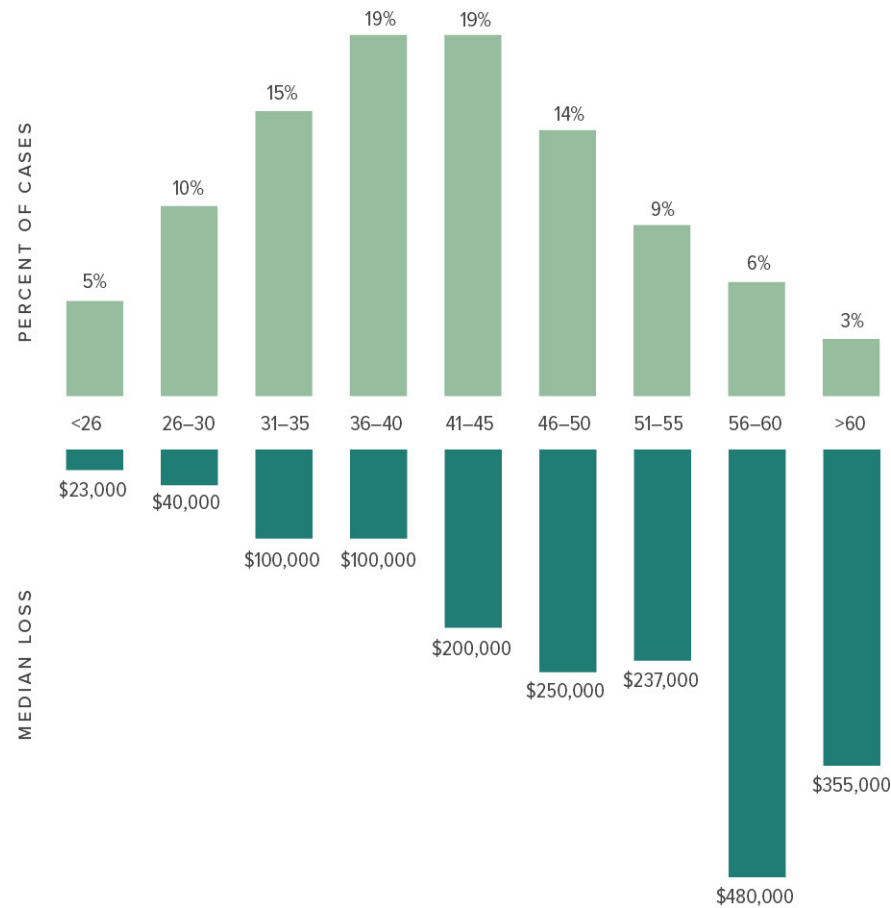


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# Fraud Definitions and Statistics

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

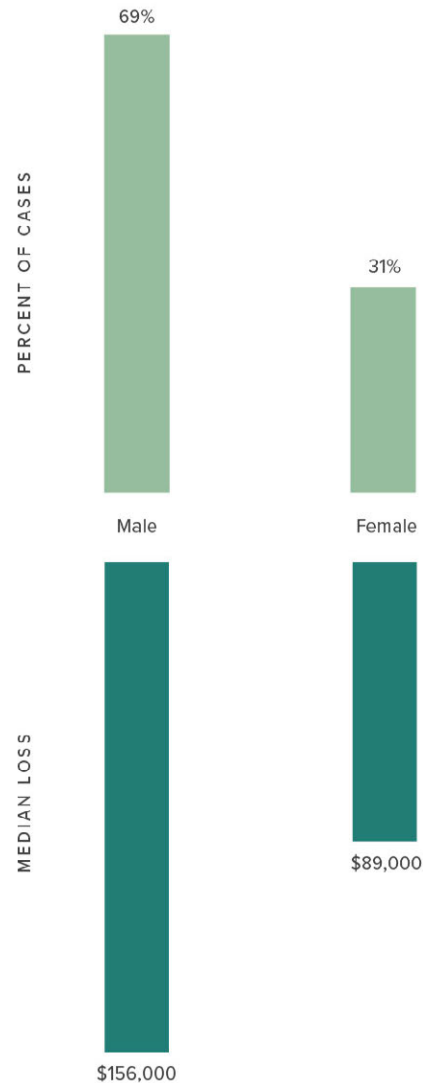


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# Fraud Definitions and Statistics

FIG. 30 How does the perpetrator's gender relate to occupational fraud?



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# Fraud Definitions and Statistics

FIG. 32 How does gender distribution and median loss vary based on the perpetrator's level of authority?

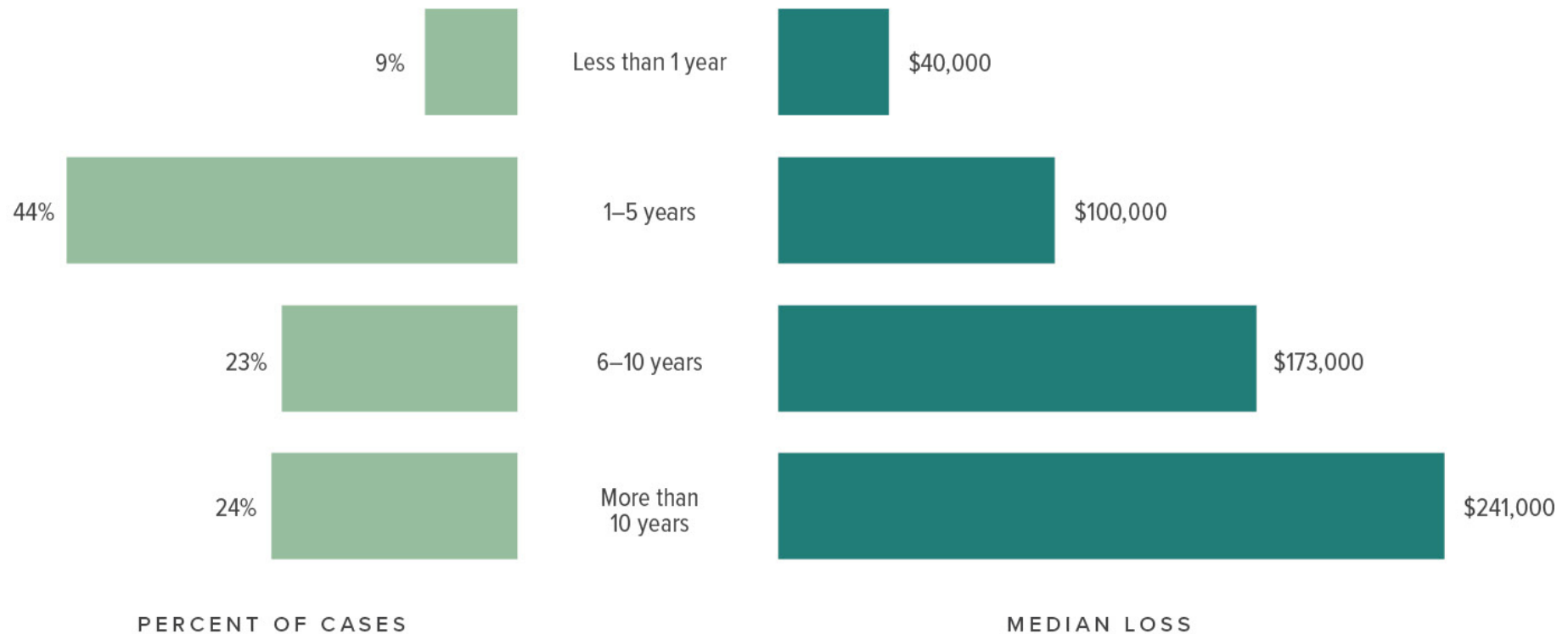


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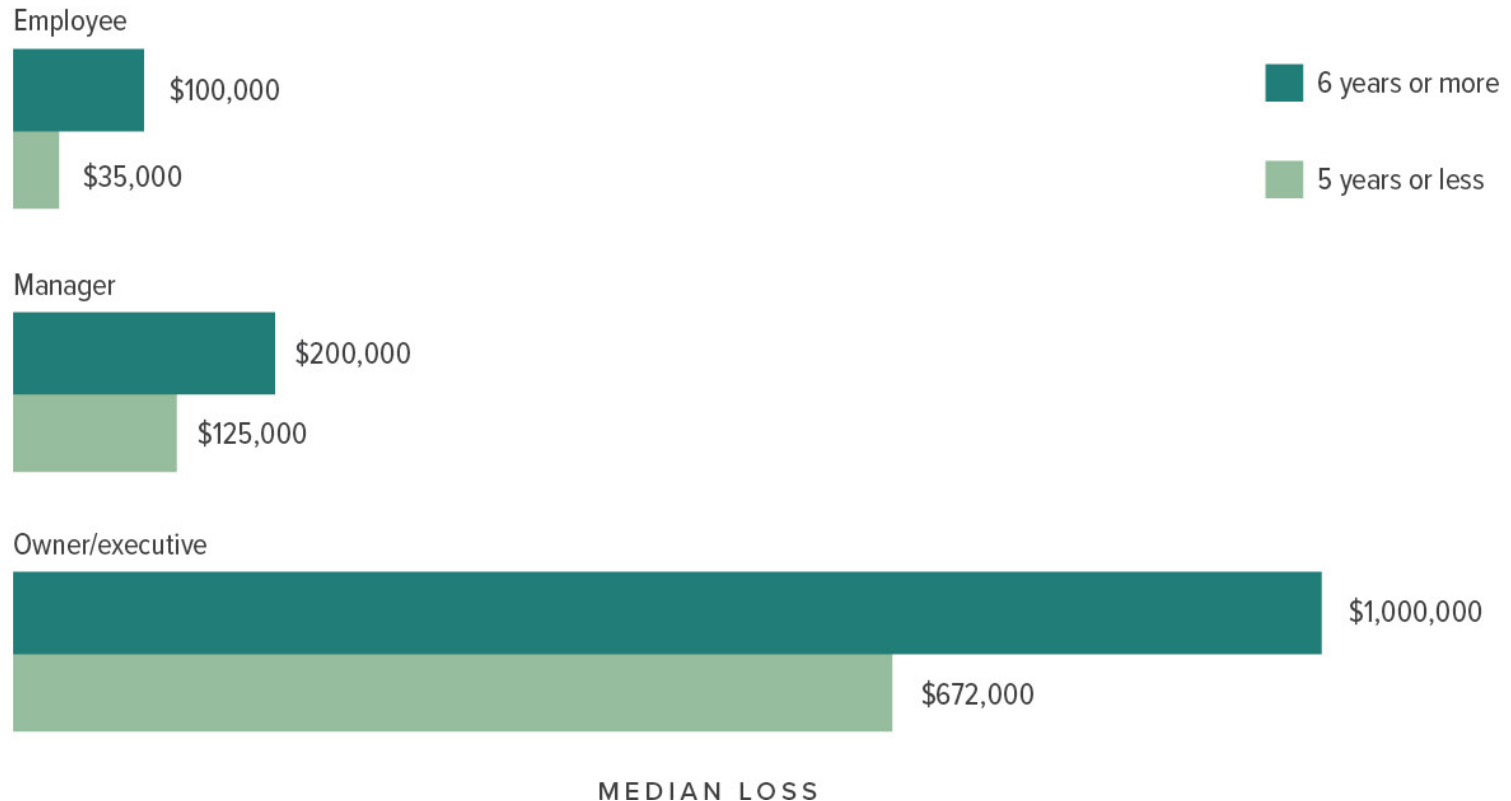
# Fraud Definitions and Statistics

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



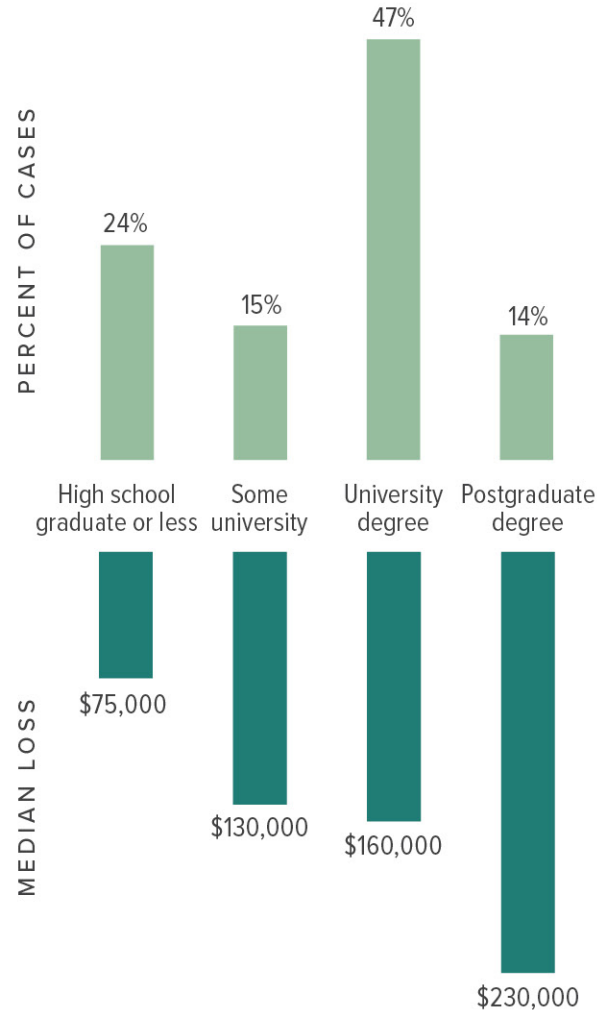
# Fraud Definitions and Statistics

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



# Fraud Definitions and Statistics

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

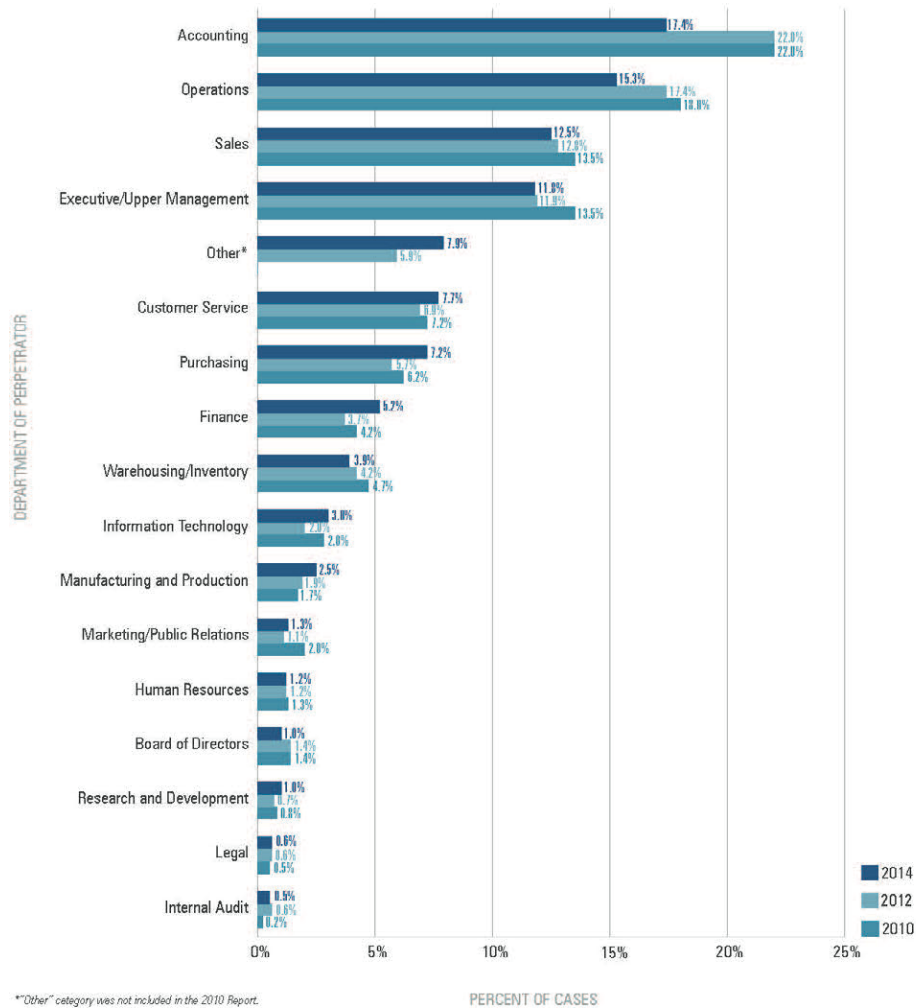


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# Fraud Definitions and Statistics

Figure 66: Department of Perpetrator — Frequency



\*"Other" category was not included in the 2010 Report.

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# Fraud Definitions and Statistics

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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# Fraud Definitions and Statistics

FIG. 37 Do perpetrators tend to have prior employment-related disciplinary actions for fraud?



- Never punished or terminated (85%)
- Previously terminated (9%)
- Previously punished (6%)
- Other (1%)

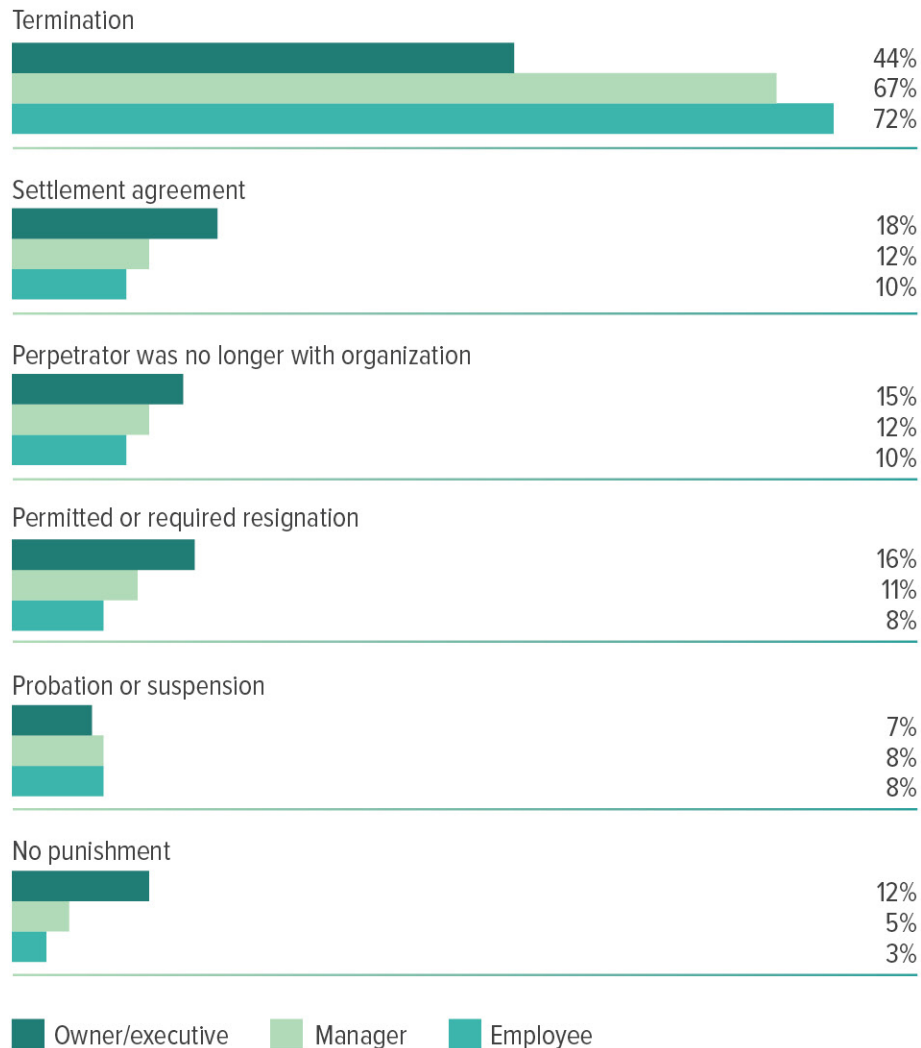
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# Fraud Definitions and Statistics

FIG. 42 Does the perpetrator's position affect the punishment for fraud?



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# Fraud Definitions and Statistics

- Takeaways:

- Employees will steal
- Fraud occurs in every organization
- Most perpetrators have never been charged or convicted
- Most perpetrators have never been punished or terminated
- Biggest risk is from
  - Longer tenured
  - More experienced
  - Better educated
  - More trusted





## Where Are Fraud Risks?

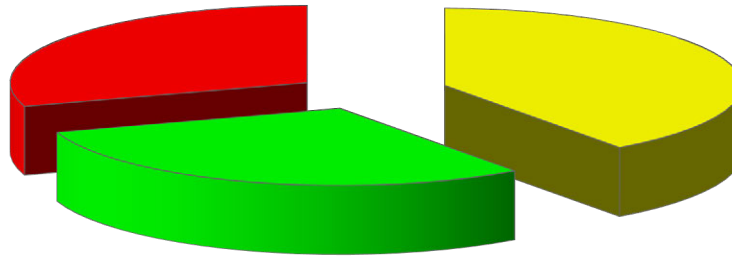
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# Where Are Fraud Risks?

Likelihood individuals will steal:

**Will steal**  
**30%**

**Won't steal**  
**40%**



**Might steal**  
**30%**

Source: Dishonesty in the Workplace: A Manager's Guide to Preventing Employee Theft by Richard Hollinger. Copyright 1989 by London House Press



# Where Are Fraud Risks?

- Survey of Graduate Students
  - 56% of the graduate business students admitted to engaging in some form of cheating or questionable behavior during the past year.
    - 47% of nonbusiness peers
  - 23% of the graduate business students admitted to engaging in one or more incidents of test cheating.
    - 18% of nonbusiness peers
  - 53% of the graduate business students admitted to engaging in one or more incidents of cheating on written work during the past year.
    - 43% of nonbusiness peers
  - 28% of the graduate business students admitted to engaging in collaboration cheating.
    - 23% of nonbusiness peers

*McCabe, Butterfield, Trevino, (2006) Academic Dishonesty in Graduate Business Programs: Prevalence, Causes, And Proposed Action*



# Where Are Fraud Risks?

- How many times have you done this in the past year?
  - 98% agreed “it’s important for me to be a person with good character.”
  - 30% stole something from a store.
    - 15% at least once, 15% two or more times
  - 20% stole something from a friend.
    - 12% at least once, 8% two or more times
  - 82% copied another’s homework.
    - 20% at least once, 62% two or more times
  - 64% cheated on a test during school
    - 26% at least once, 38% two or more times
  - 21% agreed “people who are willing to lie, cheat, or break the rules are more likely to succeed than people who are not.”
  - 74% answered all questions on the survey with complete honesty.



# Where Are Fraud Risks?

## The Cressey Hypothesis

- “Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-sharable, are aware this problem can be secretly resolved by violation of the position of financial trust, and are able to apply to their own conduct in that situation verbalizations which enable them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users of the entrusted funds or property.”
- This applies to a majority of individuals. According to the ACFE, approximately 88% of the individuals caught have no prior criminal record.
- This hypothesis would not apply to career criminals because they typically take jobs where they know they are going to steal from the outset.
- Cressey’s hypothesis will not fit all situations. This should be taken into consideration when designing fraud prevention programs.





# Where Are Fraud Risks?

**Pressure**

**Opportunity**

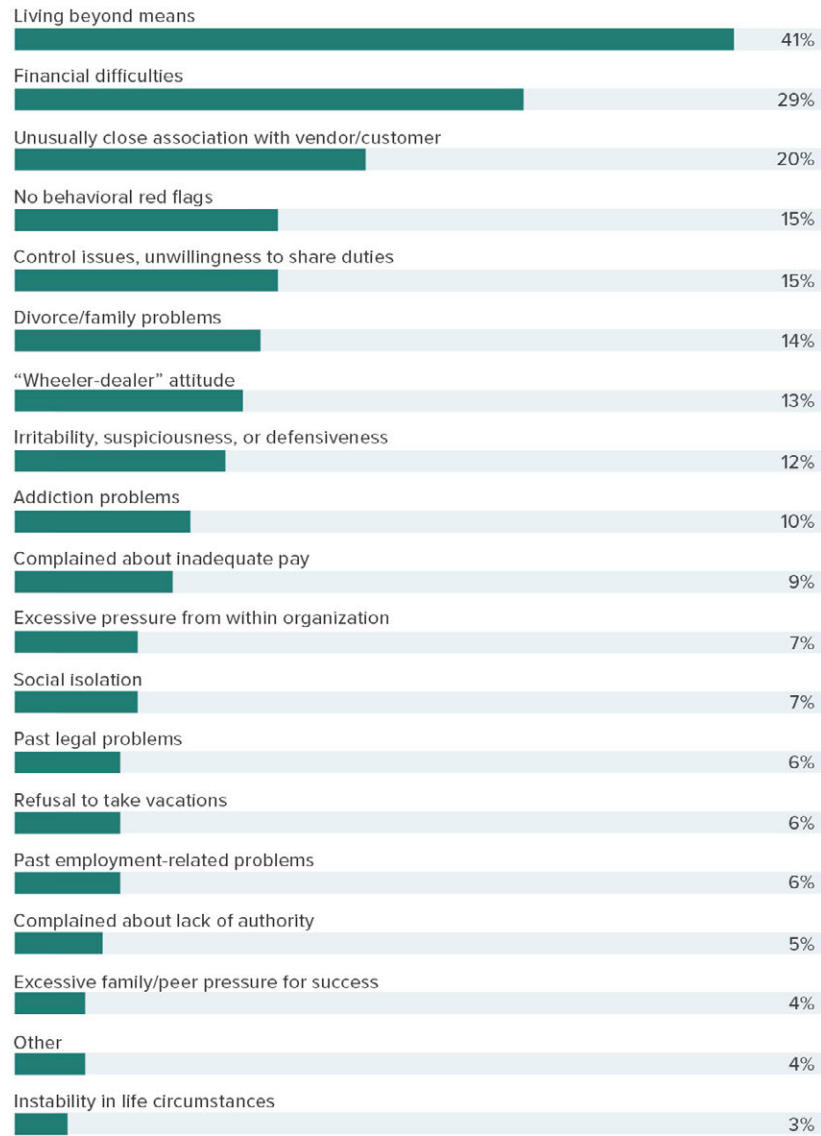
*Fraud  
Triangle*

**Rationalization**



# Where Are Fraud Risks?

FIG. 38 How often do perpetrators exhibit behavioral red flags?

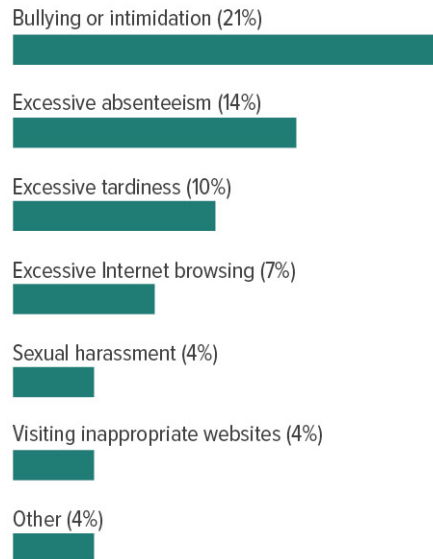
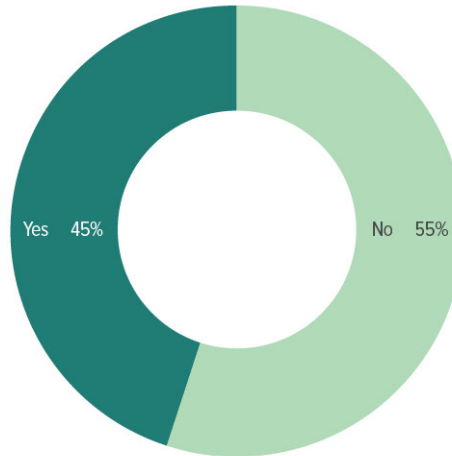


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# Where Are Fraud Risks?

FIG. 39 Do fraud perpetrators also engage in non-fraud-related misconduct?



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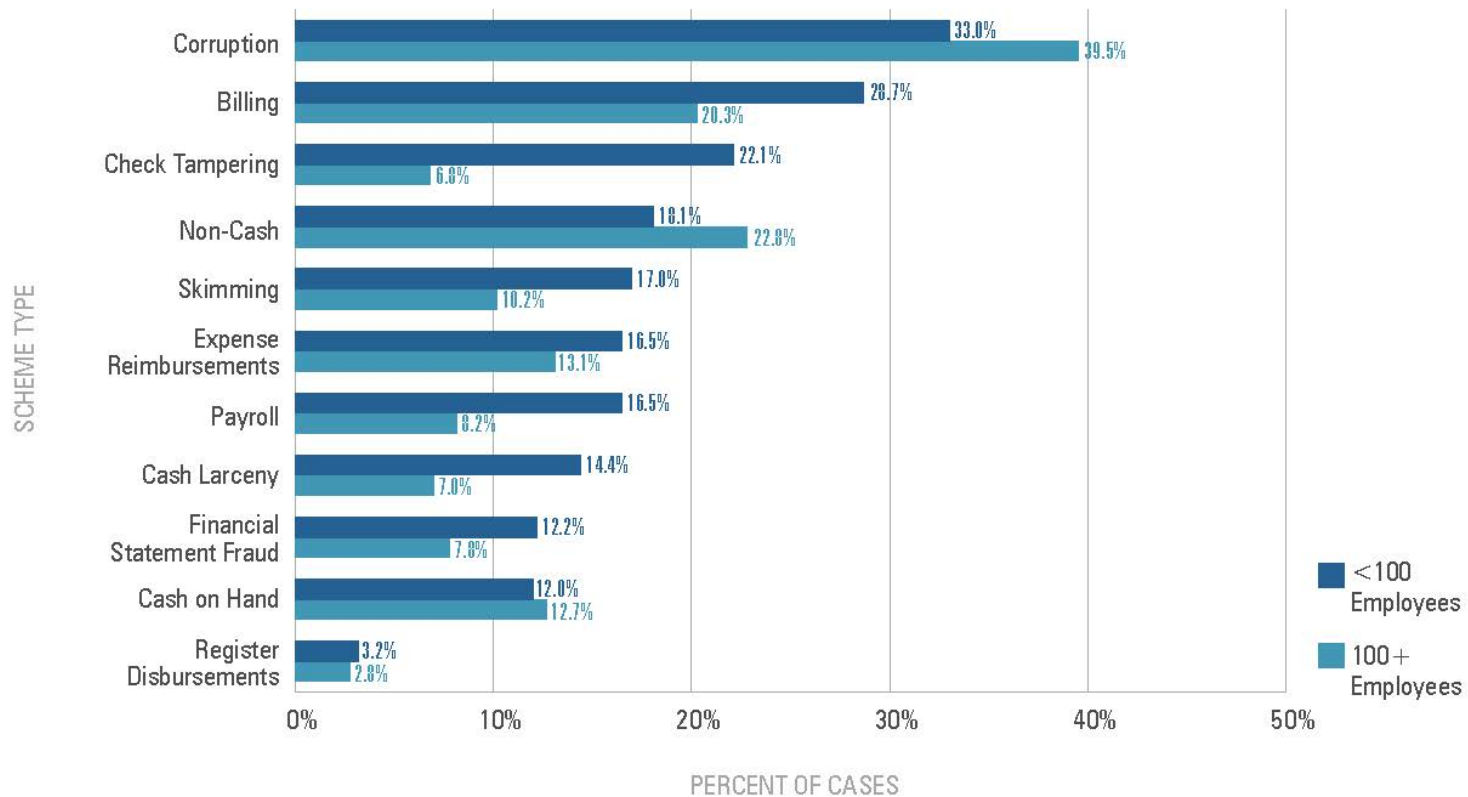


# Fraud Schemes

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# Fraud Schemes

**Figure 21:** Scheme Type by Size of Victim Organization

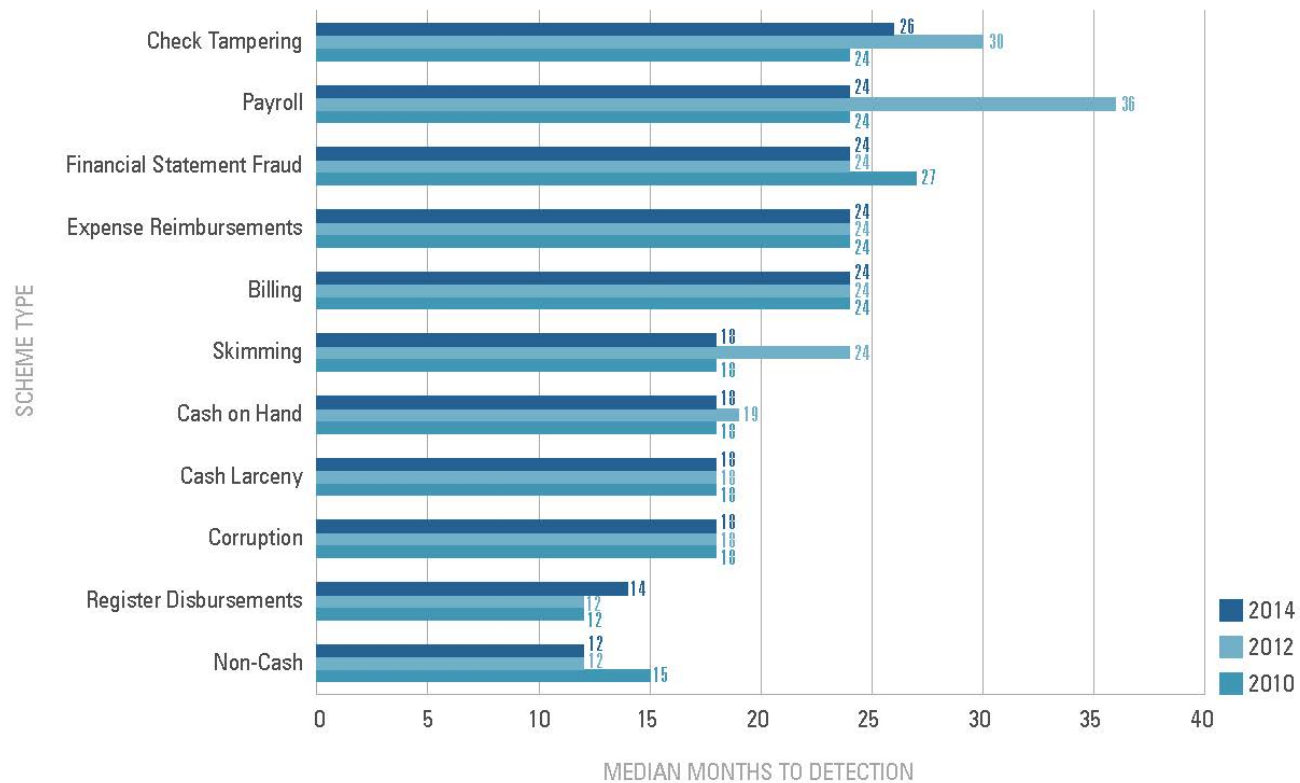


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# Fraud Schemes

**Figure 10:** Median Duration of Fraud Based on Scheme Type



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# Fraud Schemes

- Travel and Entertainment
  - Double dipping
  - Unauthorized expenses
  - Bait and switch
- Accounts Payable
  - Fictitious vendor
- Purchasing
  - Conflicts of interest
  - Collusion
    - Kickbacks
    - Inferior products
- Fixed assets
- Payroll
  - Ghost employees
  - Hours/pay schemes
- Revenue







## Actual Fraud Case Studies

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# Actual Fraud Case Studies

- Financial statement fraud
- \$4,970,000 cash embezzlement
- \$265,000 cash embezzlement
- \$185,000 cash embezzlement
- Inventory misappropriation/conflict of interest
- Cash misappropriation
- \$250,000 cash embezzlement
- Intellectual property



# Questions & Answers



# Additional Resources

Resources	Websites
Association of Certified Fraud Examiners	<a href="http://www.acfe.com">www.acfe.com</a>
Transparency International (Corruption Perception Index)	<a href="http://www.transparency.org">www.transparency.org</a>
The Institute of Internal Auditors	<a href="http://www.theiia.org">www.theiia.org</a>
Open Compliance and Ethics Group	<a href="http://www.oceg.org">www.oceg.org</a>
International Association of Financial Crimes Investigators	<a href="http://www.iafci.org">www.iafci.org</a>
Society of Corporate Compliance and Ethics	<a href="http://www.corporatecompliance.org">www.corporatecompliance.org</a>
American Institute of Certified Public Accountants – Forensic and Valuation Services	<a href="http://www.fvs.aicpa.org">www.fvs.aicpa.org</a>



# Additional Resources

Resources	Websites
The Committee of Sponsoring Organizations of the Treadway Commission (COSO)	<a href="http://www.coso.org">www.coso.org</a>
Chartered Institute of Management Accountants	<a href="http://www.cimaglobal.com">www.cimaglobal.com</a>
ASIS International	<a href="http://www.asisonline.org">www.asisonline.org</a>
The Serious Fraud Office (UK)	<a href="http://www.sfo.gov.uk">www.sfo.gov.uk</a>
Information Systems Audit and Control Association	<a href="http://www.isaca.org">www.isaca.org</a>
U. S. Department of Justice	<a href="http://www.usdoj.gov">www.usdoj.gov</a>
U.S. Securities and Exchange Commission	<a href="http://www.sec.gov">www.sec.gov</a>



# Contact Information

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