Procurement Fraud Prevention and Detection
Main Topics

Fraud Terminologies

Cost of Fraud

What is Procurement Fraud?

Types of Procurement Fraud
Main Topics

- Red flags in Procurement Fraud Schemes
- Fraud Red flags
- Internal Control Weaknesses that Contributed to Fraud
- Anti-fraud Strategies
What is Fraud?

- Fraud essentially involves using deception to dishonestly make a personal gain for oneself and/or create a loss for another.

  CIMA

- Fraud: Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force.

  IIA

- A fraudulent practice is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.

  World Bank Group
Fraud is an Act made

- Intentionally
- Illegal
- Negative Impact
"Fraud costs organizations 5% of revenues each year"

ACFE
### Cost of Occupational Fraud

**Figure 1: Geographical Location of Victim Organizations**

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Cases</th>
<th>Percent of Cases</th>
<th>Median Loss (in U.S. dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>1038</td>
<td>48.6%</td>
<td>$120,000</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>285</td>
<td>13.4%</td>
<td>$143,000</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>221</td>
<td>10.4%</td>
<td>$245,000</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>112</td>
<td>5.3%</td>
<td>$174,000</td>
</tr>
<tr>
<td>Western Europe</td>
<td>110</td>
<td>5.2%</td>
<td>$263,000</td>
</tr>
<tr>
<td>Eastern Europe and Western/Central Asia</td>
<td>98</td>
<td>4.6%</td>
<td>$200,000</td>
</tr>
<tr>
<td>Southern Asia</td>
<td>98</td>
<td>4.6%</td>
<td>$100,000</td>
</tr>
<tr>
<td>Canada</td>
<td>86</td>
<td>4.0%</td>
<td>$154,000</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>79</td>
<td>3.7%</td>
<td>$275,000</td>
</tr>
</tbody>
</table>

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Cost of Occupational Fraud

**Figure 2: Distribution of Dollar Losses**

<table>
<thead>
<tr>
<th>Dollar Loss</th>
<th>2016</th>
<th>2014</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $200,000</td>
<td>55.5%</td>
<td>54.4%</td>
<td>53.6%</td>
</tr>
<tr>
<td>$200,000–$399,999</td>
<td>12.8%</td>
<td>11.8%</td>
<td>11.5%</td>
</tr>
<tr>
<td>$400,000–$599,999</td>
<td>5.7%</td>
<td>5.6%</td>
<td>6.1%</td>
</tr>
<tr>
<td>$600,000–$799,999</td>
<td>3.5%</td>
<td>3.4%</td>
<td>3.5%</td>
</tr>
<tr>
<td>$800,000–$999,999</td>
<td>1.9%</td>
<td>1.8%</td>
<td>2.1%</td>
</tr>
<tr>
<td>$1,000,000 or More</td>
<td>20.8%</td>
<td>21.9%</td>
<td>23.2%</td>
</tr>
</tbody>
</table>

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Figure 38: Type of Victim Organization—Frequency and Median Loss

- **Private Company**: $180,000, 37.7% cases
- **Public Company**: $178,000, 28.6% cases
- **Government**: $109,000, 18.7% cases
- **Not-for-Profit**: $100,000, 10.1% cases
- **Other**: $52,000, 5.0% cases

**Median Loss** compared to **Percent of Cases**.
Figure 40: Size of Victim Organization—Frequency

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Figure 41: Size of Victim Organization—Median Loss
Figure 43: Industry of Victim Organizations

- Banking and Financial Services: 16.0%
- Government and Public Administration: 10.5%
- Manufacturing: 8.8%
- Other: 7.0%
- Health Care: 6.0%
- Education: 6.0%
- Retail: 5.0%
- Construction: 3.9%
- Insurance: 3.3%
- Technology: 2.9%
- Oil and Gas: 2.4%
- Services (Other): 2.2%
- Transportation and Warehousing: 2.1%
- Telecommunications: 2.0%
- Services (Professional): 2.0%
- Religious, Charitable, or Social Services: 2.0%
- Agriculture, Forestry, Fishing, and Hunting: 1.9%
- Real Estate: 1.9%
- Utilities: 1.8%
- Arts, Entertainment, and Recreation: 1.7%
- Wholesale Trade: 1.6%
- Mining: 0.9%
- Communications and Publishing: 0.7%
Duration of Fraud Schemes

Figure 18: Frequency and Median Loss Based on Duration of Fraud
What is Occupational Fraud?

• Occupational fraud is fraud committed by an employee on an employer in the course of their employment.

  Brisbane Chapter ACFE

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

  ACFE
Types of Occupational Fraud

- Corruption
- Financial Statements Fraud
- Asset Misappropriation
Figure 4: Occupational Frauds by Category—Frequency

<table>
<thead>
<tr>
<th>TYPE OF FRAUD</th>
<th>2016</th>
<th>2014</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Misappropriation</td>
<td>83.5%</td>
<td>85.4%</td>
<td>86.7%</td>
</tr>
<tr>
<td>Corruption</td>
<td>35.4%</td>
<td>36.8%</td>
<td>33.4%</td>
</tr>
<tr>
<td>Financial Statement Fraud</td>
<td>9.6%</td>
<td>9.0%</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

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How Occupational Fraud Is Committed

**Figure 5: Occupational Frauds by Category—Median Loss**

- **Asset Misappropriation**
  - 2016: $125,000
  - 2014: $130,000
  - 2012: $120,000

- **Corruption**
  - 2016: $200,000
  - 2014: $200,000
  - 2012: $250,000

- **Financial Statement Fraud**
  - 2016: $975,000
  - 2014: $1,000,000
  - 2012: $1,000,000

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Procurement Frauds

**Illegal Gratuities** are items of value given to reward a decision, often after the recipient has made a decision.

**Economic Extortion** is present when an employee, through the wrongful use of actual or threatened force or fear, demands money or some other consideration to make a particular business decision.

In **Fraudulent Disbursements** schemes, an employee makes a distribution of company funds for dishonest purpose.
What is Procurement Fraud?

• Procurement fraud is dishonestly obtaining an advantage, avoiding an obligation or stealing or redirecting funds during the acquisition, sale or management of goods or services.

  Maxwell Locke & Ritter

• Procurement fraud is any fraud relating to a company purchasing goods, services or commissioning construction projects from third parties.

  Action Fraud
What is Procurement Fraud?

- Unlawful manipulation of the process to acquire goods or services to obtain and unfair advantage.

  CPA Handbook on Fraud

- Dishonestly obtaining an advantage, avoiding an obligation, or causing a loss to public property or various means during procurement process by public servants, contractors, or any other person involved in the procurement.
Types of Procurement Fraud

- Collusion between employees and vendors
- Vendors defrauding the company
- Collusion among vendors within an industry
- Employees defrauding their employer
The most common schemes

- Submission of false claims
- Bribery
- Bid-rigging
- Embezzlement

US National Procurement Fraud Task Force
Most Common Frauds in Selected Industries

- Financial Services
- Pharmaceuticals: Mostly embezzlement
- Consumer & Industrial Markets
- Energy & Natural Resources
- Public Sector & Information: Mostly procurement fraud
- Communications & Entertainment

KPMG 2013
EY 14th Global Fraud Survey 2016

Justifying unethical behaviour and misconduct

- 42% could justify unethical behavior to meet financial targets
- 51% believe that bribery and corruption are still perceived to occur widely in their countries

Reflecting the views of 2,825 executives from 62 countries
Red flags is items or actions that have been associated with fraudulent conduct.

Red flags are subjective in nature.

Many common red flags are not always associated with situations of fraud.

The mere existence of red flags would not immediately warrant a fraud investigation.
Behavioral Red Flags Displayed by Perpetrators

Figure 94: Behavioral Red Flags Displayed by Perpetrators

- Living Beyond Means: 45.8%
- Financial Difficulties: 30.0%
- Unusually Close Association with Vendor/Customer: 20.1%
- Wheeler-Dealer Attitude: 15.3%
- Control Issues, Unwillingness to Share Duties: 15.3%
- Divorce/Family Problems: 13.4%
- Irritability, Suspiciousness, or Defensiveness: 12.5%
- Addiction Problems: 10.0%
- Complained About Inadequate Pay: 5.0%
- No Behavioral Red Flags: 8.8%
- Refusal to Take Vacations: 7.8%
- Excessive Pressure from Within Organization: 7.0%
- Past Employment-Related Problems: 6.8%
- Social Isolation: 5.9%
- Past Legal Problems: 5.0%
- Other: 3.9%
- Excessive Family/Peer Pressure for Success: 3.8%
- Complained About Lack of Authority: 3.4%
- Instability in Life Circumstances: 4.3%
Behavioral Red Flags Based on Perpetrator’s Position

Figure 95: Behavioral Red Flags Based on Perpetrator’s Position
Behavioral Red Flags Based on Perpetrator’s Gender

Figure 97: Behavioral Red Flags Based on Perpetrator’s Gender
Employee Red flags

1) Employee lifestyle changes: expensive cars, jewellery, homes, clothes
2) Significant personal debt and credit problems
3) Behavioural changes: these may be an indication of drugs, alcohol, gambling, or just fear of losing the job
4) High employee turnover, especially in those areas which are more vulnerable to fraud
5) Refusal to take vacation or sick leave
6) Lack of segregation of duties in the vulnerable area
1) Management decisions are dominated by an individual or small group
2) Managers display significant disrespect for regulatory bodies
3) There is a weak internal control environment
4) Decentralization without adequate monitoring
5) Service Contracts result in no product
6) Significant downsizing in a healthy market
7) Refusal by company or division to use serial numbered documents
8) Compensation program that is out of proportion
## Changes in Behavior Red flags

The following behavior changes can be “Red Flags” for Embezzlement:

| • Creditors or collectors appearing at the workplace | • Borrowing money from co-workers |
| • Providing unreasonable responses to questions | • Refusing vacations or promotions for fear of detection |
| • Gambling beyond the ability to stand the loss | • Bragging about significant new purchases |
| • Excessive drinking or other personal habits | • Carrying unusually large sums of money |
| • Easily annoyed at reasonable questioning | • Rewriting records under the guise of neatness in presentation |
## Red Flags in Purchasing/Inventory

<table>
<thead>
<tr>
<th>Red Flags</th>
<th>Red Flags</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in purchasing inventory but no increase in sales</td>
<td>High volume of purchases from new vendors</td>
</tr>
<tr>
<td>Increasing number of complaints about products or service</td>
<td>Vendor addresses matching employee addresses</td>
</tr>
<tr>
<td>Abnormal inventory shrinkage</td>
<td>Purchases that bypass the normal procedures</td>
</tr>
<tr>
<td>Lack of physical security over assets/inventory</td>
<td>Vendors without physical addresses</td>
</tr>
<tr>
<td>Excess inventory</td>
<td>Inventory with unusual slow turnover</td>
</tr>
<tr>
<td>Charges without shipping documents</td>
<td>Purchasing agents that pick up vendor payments rather than have it mailed</td>
</tr>
</tbody>
</table>
# Red Flags in Purchasing

<table>
<thead>
<tr>
<th>Red Flags</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments just under authorization level</td>
<td>Slight variation of vendor names</td>
</tr>
<tr>
<td>Payments to vendors who aren’t on an approved vendor list</td>
<td>Unusual or unauthorized vendors</td>
</tr>
<tr>
<td>Large gifts and entertainment expenses</td>
<td><strong>Round-dollar amounts</strong></td>
</tr>
<tr>
<td>Sequential invoices paid</td>
<td>Multiple invoices paid on same date</td>
</tr>
</tbody>
</table>
Red flags in Procurement Fraud Schemes

- Change Order Abuse
- Co-mingling of Contracts
- Excluding Qualified Bidders
- Failure to Meet Contract Specifications
- False Statements & Claims
- Imprest Fund Abuse
- Leaking of Bid Information
- Split Purchases
Red flags in Procurement Fraud Schemes

- Unjustified Sole Source Awards
- Unnecessary Purchases
Internal Control Weaknesses That Contributed to Fraud

Figure 63: Primary Internal Control Weakness Observed by CFE
Internal Control Weaknesses That Contributed to Fraud

Figure 64: Primary Internal Control Weakness by Scheme Type

- Lack of Internal Controls
- Lack of Management Review
- Override of Existing Internal Controls
- Poor Tone at the Top
- Lack of Competent Personnel in Oversight Roles
- Other
- Lack of Independent Checks/Audits
- Lack of Employee Fraud Education
- Lack of Clear Lines of Authority
- Lack of Reporting Mechanism

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Factors that Contributed to Fraud

Factors contributing to the facilitation of the fraud

- Collusion circumventing good controls: 11%
- Reckless dishonesty regardless of controls: 21%
- Weak internal controls: 61%
- Other: 5%

Source: Global Profiles of the Fraudster, KPMG International, 2016
An effective anti-fraud strategy has three main components:

- **Prevention** – by adopting methods that will decrease motive, restrict opportunity and limit the ability for potential fraudsters to rationalise their actions.

- **Detection** – by using of analytical and other procedures to highlight anomalies, and the introduction of reporting mechanisms that provide for communication of suspected fraudulent acts

- **Response** – by sending a message that fraud is taken seriously and that action will be taken against perpetrators.
Anti-fraud Strategy
Safeguards that can Prevent Procurement Fraud

• A **centralized procurement department** that routinely rotates purchasing managers across different vendor relationships.

• A **strong contracting process** that includes well-written contracts and a strong code of ethics that vendors acknowledge and must abide by.

• A **thorough review and disclosure process to investigate all new vendors**, including any possible association with existing vendors or employees of the organization.

• An **efficient process of accepting and acknowledging that goods and services** are adequately delivered in accordance with the terms of their contracts.

• **Routine auditing of vendors** to ensure that pricing is in accordance with agreements and other contractual terms are being met.
Safeguards that can Prevent Procurement Fraud

• Regular auditing of accounts payable to look for duplicate disbursements and to verify that credits and discounts are being properly administered.

• Development of a routine bidding process for contractual items to determine if pricing is at market rates. Bids should be reviewed by the procurement department, independent of those requesting the goods or services.

• Development of fraud risk, business ethics and compliance training programs. These greatly assist in supporting a good corporate culture to help in reducing procurement fraud risk.

• Establishing a fraud risk management group with direct reporting lines to an audit or risk management committee.
Safeguards that can Prevent Procurement Fraud

• Educate contractors and suppliers about the organization’s code of conduct, ethical stance on fraud and corruption, and ensure that they sign an acknowledgement of compliance.
• Provide incentives for contractors and suppliers to create and adopt their own fraud control and ethical policies and procedures.
• Embark on a proactive data mining detection program of the entire procurement data.
• Conduct ongoing fraud risk assessments across the procurement system.
• Ensure that all staff members provide a conflict of interest declaration.
Safeguards that can Prevent Procurement Fraud

• Establish a **policy of staff rotation** within the identified high-risk groups such as buyers.
• Develop a **fraud control plan**.
• Undertake **ongoing internal audit** activity into specific areas of the procurement cycle.
• Undertake enhanced **background checking of new employees** entering the high-risk groups.
• Perform **background checks on vendors and contractors**.
Approximately 51% of organizations conducted background checks and 49% did not.

Roughly 11% of the background checks conducted did uncover at least one red flag (e.g., prior criminal activity, employment issues, or financial problems) regarding the perpetrator.
Background Checks

Figure 62: Type(s) of Background Checks Run on Perpetrator Before Being Hired

- Employment History: 80.0%
- Criminal Checks: 73.5%
- Reference Checks: 57.8%
- Education Verification: 49.6%
- Credit Checks: 38.1%
- Credit Checks: 4.1%
- Other

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Somebody once said that in looking for people to hire, you look for three qualities:

• integrity,

• intelligence,

• and energy.

And if you don't have the first, the other two will kill you.

Warren Buffett
Initial Detection of Frauds

How the frauds were detected

- Tips offs and complaints, other than formal hotline: 24% (Total), 16% (Fraudsters acting alone), 31% (Fraudsters acting in collaboration with others)
- Management review: 22% (Total), 25% (Fraudsters acting alone), 21% (Fraudsters acting in collaboration with others)
- Formal whistle blowing report/hotline: 20% (Total), 16% (Fraudsters acting alone), 22% (Fraudsters acting in collaboration with others)
- Accidental: 14% (Total), 20% (Fraudsters acting alone), 11% (Fraudsters acting in collaboration with others)
- Internal audit: 14% (Total), 18% (Fraudsters acting alone), 13% (Fraudsters acting in collaboration with others)
- Suspicious superior: 10% (Total), 11% (Fraudsters acting alone), 9% (Fraudsters acting in collaboration with others)
- Other internal control: 7% (Total), 8% (Fraudsters acting alone), 6% (Fraudsters acting in collaboration with others)
- External audit: 6% (Total), 6% (Fraudsters acting alone), 7% (Fraudsters acting in collaboration with others)
- Self-reported/admitted: 3% (Total), 4% (Fraudsters acting alone), 2% (Fraudsters acting in collaboration with others)
- Proactive fraud-focused data analytics: 3% (Total), 3% (Fraudsters acting alone), 2% (Fraudsters acting in collaboration with others)

Source: Global Profiles of the Fraudster, KPMG International, 2016
Initial Detection of Occupational Frauds
Figure 33: Source of Tips

- Employee: 51.5%
- Customer: 17.8%
- Anonymous: 14.0%
- Vendor: 9.9%
- Shareholder/Owner: 2.7%
- Competitor: 1.6%
- Other: 12.6%
Figure 34: Impact of Hotlines

- Tip: 47.3%
- Internal Audit: 28.2%
- Management Review: 15.4%
- Account Reconciliation: 12.1%
- By Accident: 8.1%
- Other: 7.8%
- Document Examination: 9.1%
- Surveillance/Monitoring: 9.1%
- IT Controls: 9.1%
- External Audit: 6.1%
- Notified by Law Enforcement: 3.9%
- Confession: 2.7%

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Formal Reporting Mechanism Used by Whistleblower

Figure 35: Formal Reporting Mechanism Used by Whistleblower
Figure 36: Party to Whom Whistleblower Initially Reported

- Direct Supervisor: 20.6%
- Other: 18.8%
- Executive: 18.0%
- Fraud Investigation Team: 13.1%
- Internal Audit: 12.3%
- Coworker: 8.9%
- Law Enforcement or Regulator: 7.4%
- Board or Audit Committee: 6.8%
- External Audit: 2.4%
- In-House Counsel: 1.8%
### Party to Whom Whistleblower Initially Reported

**Figure 37:** Top Three Parties to Whom Tips Were Reported Based on Perpetrator’s Department

<table>
<thead>
<tr>
<th>Operations</th>
<th>Accounting</th>
<th>Sales</th>
<th>Customer Service</th>
<th>Purchasing</th>
<th>Finance</th>
<th>Executive/Upper Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Supervisor (25.3%)</td>
<td>Executive (38.0%)</td>
<td>Direct Supervisor (26.4%)</td>
<td>Direct Supervisor (28.6%)</td>
<td>Executive (26.7%)</td>
<td>Direct Supervisor (21.1%)</td>
<td>Board or Audit Committee (22.2%)</td>
</tr>
<tr>
<td>Internal Audit (18.6%)</td>
<td>Direct Supervisor (27.1%)</td>
<td>Executive (20.8%)</td>
<td>Coworker (23.8%)</td>
<td>External Audit (26.7%)</td>
<td>Coworker (21.1%)</td>
<td>Law Enforcement or Regulator (20.4%)</td>
</tr>
<tr>
<td>Fraud Investigation Team or Executive (Both 15.7%)</td>
<td>Fraud Investigation Team (10.1%)</td>
<td>Fraud Investigation Team (17.0%)</td>
<td>Internal Audit (16.7%)</td>
<td>Direct Supervisor or Fraud Investigation Team (Both 16.7%)</td>
<td>Executive (21.1%)</td>
<td>Executive (18.5%)</td>
</tr>
</tbody>
</table>

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An organisation where the value of open whistleblowing is recognised will be better able to:

• Deter wrongdoing
• Pick up potential problems early
• Enable critical information to get to the people who need to know and can address the issue
• Demonstrate to stakeholders, regulators, and the courts that they are accountable and well managed
• Reduce the risk of anonymous and malicious leaks
• Minimise costs and compensation from accidents, investigations, litigation and regulatory inspections
• Maintain and enhance its reputation.
Anti-Fraud Controls at Victim Organizations

Figure 47: Frequency of Anti-Fraud Controls

Key:
- External Audit of F/S = Independent External Audits of the Organization’s Financial Statements
- Management Certification of F/S = Management Certification of the Organization’s Financial Statements
- External Audit of ICOFR = Independent Audits of the Organization’s Internal Controls Over Financial Reporting
**Trends in the Implementation of Anti-Fraud Controls**

**Figure 49: Change in Implementation Rates of Anti-Fraud Controls**

<table>
<thead>
<tr>
<th>Control</th>
<th>2010 Implementation Rate</th>
<th>2016 Implementation Rate</th>
<th>Change from 2010–2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotline</td>
<td>51.2%</td>
<td>60.1%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Fraud Training for Employees</td>
<td>44.0%</td>
<td>51.6%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Anti-Fraud Policy</td>
<td>42.8%</td>
<td>49.6%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Code of Conduct</td>
<td>74.8%</td>
<td>81.1%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Management Review</td>
<td>58.8%</td>
<td>64.7%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Surprise Audits</td>
<td>32.3%</td>
<td>37.8%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Fraud Training for Managers/Executives</td>
<td>46.2%</td>
<td>51.3%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Independent Audit Committee</td>
<td>58.4%</td>
<td>62.5%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Management Certification of Financial Statements</td>
<td>67.9%</td>
<td>71.9%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Rewards for Whistleblowers</td>
<td>8.6%</td>
<td>12.1%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Job Rotation/Mandatory Vacation</td>
<td>16.6%</td>
<td>19.4%</td>
<td>2.8%</td>
</tr>
<tr>
<td>External Audit of Internal Controls over Financial Reporting</td>
<td>65.4%</td>
<td>67.6%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Employee Support Programs</td>
<td>54.6%</td>
<td>56.1%</td>
<td>1.5%</td>
</tr>
<tr>
<td>External Audit of Financial Statements</td>
<td>80.9%</td>
<td>81.7%</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

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## Figure 66: Median Duration of Fraud Based on Position

<table>
<thead>
<tr>
<th>Position</th>
<th>Median Months to Detect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>12</td>
</tr>
<tr>
<td>Manager</td>
<td>18</td>
</tr>
<tr>
<td>Owner/Executive</td>
<td>24</td>
</tr>
<tr>
<td>Other</td>
<td>18</td>
</tr>
</tbody>
</table>
Figure 76: Tenure of Perpetrator—Frequency and Median Loss

Perpetrator’s Tenure
Perpetrator’s Tenure

Years of service

- Less than 1 year: 2%
- 1 to 4 years: 19%
- 4 to 6 years: 14%
- More than 6 years: 38%

Source: Global Profiles of the Fraudster, KPMG International, 2016
Perpetrator’s Department

Figure 77: Department of Perpetrator—Frequency and Median Loss

*Internal Audit category had insufficient responses for median loss calculation.
## Schemes Based on Perpetrator’s Department

**Figure 78:** Frequency of Schemes Based on Perpetrator’s Department

| Department/\n| Scheme | Accounting | Operations | Sales | Executive/Upper Management | Customer Service | Purchasing | Finance | Warehousing/\n| Inventory |
|---------|---------|------------|---------|---------------------------|------------------|------------|---------|---------|---------------------|
| Cases   |         | 318        | 312     | 260                       | 228              | 189        | 161     | 94      | 86                  |
| Billing |         | 27.0%      | 21.5%   | 14.2%                     | 36.8%            | 9.5%       | 25.5%   | 24.5%   | 9.3%                |
| Cash Larceny |   | 14.9%      | 7.7%    | 8.1%                      | 10.1%            | 14.3%      | 3.7%    | 18.1%   | 0.0%                |
| Cash on Hand |      | 15.5%      | 13.8%   | 6.5%                      | 12.3%            | 18.5%      | 13.0%   | 22.3%   | 5.8%                |
| Check Tampering | | 30.5%      | 9.3%    | 2.7%                      | 13.6%            | 7.4%       | 6.2%    | 24.5%   | 1.2%                |
| Corruption |     | 21.8%      | 34.9%   | 34.6%                     | 59.9%            | 25.4%      | 30.9%   | 37.2%   | 32.8%               |
| Expense Reimbursements | | 15.8%      | 12.2%   | 14.2%                     | 23.7%            | 5.8%       | 14.9%   | 14.9%   | 3.5%                |
| Financial Statement Fraud | | 12.9%      | 5.4%    | 7.3%                      | 30.3%            | 3.7%       | 3.1%    | 23.4%   | 9.3%                |
| Non-Cash |         | 7.2%       | 19.6%   | 20.4%                     | 24.6%            | 16.4%      | 18.6%   | 13.8%   | 57.0%               |
| Payroll |         | 21.6%      | 6.4%    | 1.5%                      | 10.1%            | 3.7%       | 5.0%    | 7.4%    | 2.3%                |
| Register Disbursements | | 3.2%       | 4.2%    | 5.0%                      | 1.8%             | 3.2%       | 4.3%    | 3.2%    | 0.0%                |
| Skimming |         | 17.5%      | 12.8%   | 11.9%                     | 11.8%            | 16.9%      | 7.5%    | 12.8%   | 5.8%                |

*Less Risk*  
*More Risk*
Perpetrator’s Gender

Figure 79: Gender of Perpetrator—Frequency

- **2012**: Male 65.0%, Female 35.0%
- **2014**: Male 66.8%, Female 33.2%
- **2016**: Male 69.0%, Female 31.0%
Median Loss Based on Gender

Figure 81: Gender of Perpetrator—Median Loss

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Position of Perpetrator Based on Gender

Figure 83: Position of Perpetrator—Median Loss Based on Gender

- **Employee**
  - Male: $72,000
  - Female: $55,000

- **Manager**
  - Male: $178,000
  - Female: $150,000

- **Owner/Executive**
  - Male: $300,000
  - Female: $825,000

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Frequency of Schemes Based on Gender

Figure 84: Frequency of Fraud Schemes Based on Gender

- Asset Misappropriation: Male 90.1%, Female 81.9%
- Corruption: Male 43.9%, Female 22.6%
- Financial Statement Fraud: Male 12.6%, Female 5.3%

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Perpetrator’s Education Level

Figure 86: Education Level of Perpetrator—Frequency and Median Loss

- High School Graduate or Less: Median Loss $100,000, 22.5% of Cases
- Some University: Median Loss $120,000, 16.5% of Cases
- University Degree: Median Loss $200,000, 47.3% of Cases
- Postgraduate Degree: Median Loss $300,000, 13.2% of Cases
The Impact of Collusion

Figure 87: Number of Perpetrators—Frequency and Median Loss

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### Figure 88: Median Duration of Fraud Based on Number of Perpetrators

<table>
<thead>
<tr>
<th>Number</th>
<th>Median Moths to Detect</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>16</td>
</tr>
<tr>
<td>Two or More</td>
<td>18</td>
</tr>
</tbody>
</table>
Perpetrator’s Criminal Background

Figure 92: Criminal Background of Perpetrator

- Never Charged or Convicted: 98.3%
- Had Prior Convictions: 5.2%
- Charged But Not Convicted: 5.5%
- Other: 2.3%
Perpetrator’s Employment History

**Figure 93:** Employment Background of Perpetrator

- **Never Punished or Terminated:** 82.5%
- **Previously Punished:** 8.7%
- **Previously Terminated:** 8.3%
- **Other:** 2.3%
REPORT TO THE NATIONS
ON OCCUPATIONAL FRAUD AND ABUSE

2016 GLOBAL FRAUD STUDY
References

White Paper – Fraud Risk Indicators

January 2017