

# **Report to the Nation on Occupational Fraud & Abuse**

*Association of Certified Fraud Examiners*

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## **Objective:**

This is a bi-annual survey of certified fraud examiners created to shed light on the costs and effects of occupational fraud. The stated goals of the survey are as follows:

- Summarize the opinions of experts on the amount (and percentage) of revenues lost to occupational fraud and abuse.
- Examine the characteristics of employees who commit such frauds.
- Determine what kinds of organizations are victims of occupational fraud and abuse.
- Categorize the ways in which serious fraud and abuse occurs.

## **Methods Used:**

Survey respondents (Certified Fraud Examiners) were asked to provide a narrative of the single largest fraud case that they had investigated that met four explicit criteria:

1. The case must have involved occupational fraud.
2. The investigation must have occurred between January 2006 and the time of survey participation.
3. The investigation must have been completed.
4. The CFE must have been reasonably sure the perpetrator(s) was/were identified.

Respondents were also given 96 questions to answer. The survey got a total of 1,117 responses out of which 959 were usable.

## **Key Findings:**

- Survey respondents suggested that a typical US organization loses 7% of its annual revenues to fraudulent activity. In dollar terms, this translates to approximately \$994 billion in losses.
- The median loss comes out to \$175,000 per organization. More than one quarter of companies lose at least \$1 million.
- Asset misappropriation schemes (88.7%) tend to be the most commonly reported of the top three fraud categories. The other two categories were Corruption (27.4%) and Fraudulent Statements (10.3%).
- However, Fraudulent Statements caused the most dollar loss (\$2 million is the median) amongst the top three fraud cases. Corruption accounted for a median loss of \$375,000 and asset misappropriation, \$150,000.
- Occupational fraud schemes sometimes go undetected for years. The typical fraud in this study lasted for at least two years before it was exposed.
- Almost half of all occupational fraud detections are exposed by whistleblowers (46.2%). 20% of frauds are detected by accident. Only 23% of frauds are detected by internal organization controls.

- Nearly 40% of the victims in the study happened to be private companies. 28.4% of the victims were public companies. Government and not-for-profit companies accounted for 18.1% and 14.3% respectively.
- Median losses for private, public, government and not-for-profit companies were \$278,000, \$142,000, \$100,000 and \$109,000 respectively.
- Implementation of anti-fraud controls appears to have a measurable impact on organizational fraud. For example, companies that conducted surprise audits had a median loss of \$70,000 to occupational fraud. Comparatively, companies that did not conduct a surprise audit had a median loss of \$207,000. Similar proportions of reductions were reported in various other anti-fraud controls like hotlines, fraud training for managers, internal audit, etc.
- Nearly two-thirds of fraud schemes involved a single perpetrator with a median loss of \$115,000. 36% involved two or more people involved with a median loss of \$500,000.
- Almost half of the perpetrators were over 40 years old when they committed fraud. The age group 41 – 50 had the largest percentage of fraud cases (35.5%). As the age group rose, so did the median losses due to frauds committed by the people in those respective age groups.
- Approximately 52% of the perpetrators had worked for their company for more than five years. Longer-term employees tend to commit larger frauds as compared to their less experienced peers.
- Most fraud perpetrators had no criminal history (87.4%) and had never been punished at work (82.6%).
- 78% of victim organizations modified their anti-fraud controls after discovering that they had been defrauded. The most common case (56%) was to conduct a review of internal controls.
- Fraud perpetrators often display behavioral traits that serve as indicators of possible illegal behavior. The most commonly cited behavioral red flags were perpetrators living beyond their means (39%) or experiencing financial difficulties at the time of committing frauds (34%).

### **Conclusion:**

As compared to the results in a similar survey in 2006, occupational fraud and abuse is still on the rise. The most affected category of companies by occupational fraud and abuse happen to be private sector companies. Maintaining strict internal controls leads to fewer cases of fraud. Longer term employees tend to commit larger frauds as compared to their less experienced peers.

### **Full Report**