

Playing Prevent Defense – Fraud Considerations



SPEAKERS

| | |
|--|---|
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FRAUD CONSIDERATIONS

Outline

- “Playing Prevent Defense”
- 2024 Report to the Nations
 - *Key findings*
 - *COVID-19 impact on fraud*
- Fraud risks and prevention by industry



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ACFE REPORT – 2024



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KEY FINDINGS

CFEs estimate that organizations **LOSE**



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KEY FINDINGS

ASSET MISAPPROPRIATION SCHEMES
are the most common but least costly



\$120,000
median loss

FINANCIAL STATEMENT FRAUDS
are the least common but most costly



\$766,000
median loss

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KEY FINDINGS

HIGHEST RISK ASSET MISAPPROPRIATION SCHEMES

MOST COMMON

Billing schemes
22% OF CASES

Theft of noncash assets

22% OF CASES

MOST COSTLY

Check and payment tampering
\$155,000 MEDIAN LOSS

Billing schemes
\$100,000 MEDIAN LOSS



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KEY FINDINGS



A TYPICAL FRAUD CASE
lasts **12 MONTHS**
before detection

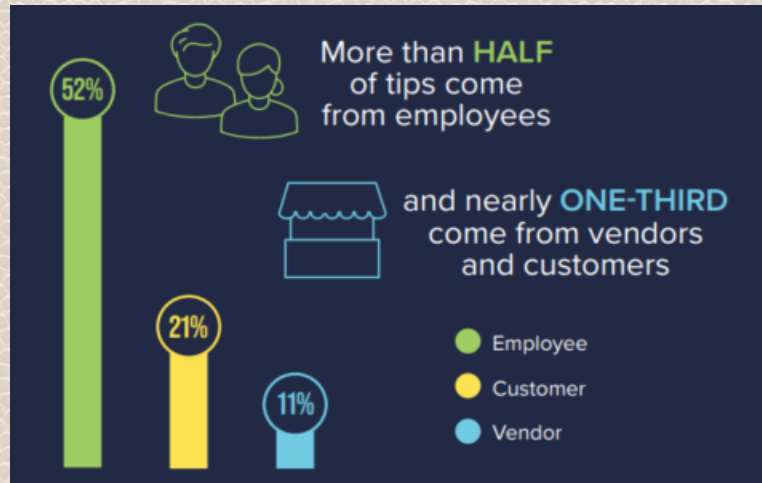


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KEY FINDINGS



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COVID-19 IMPACT

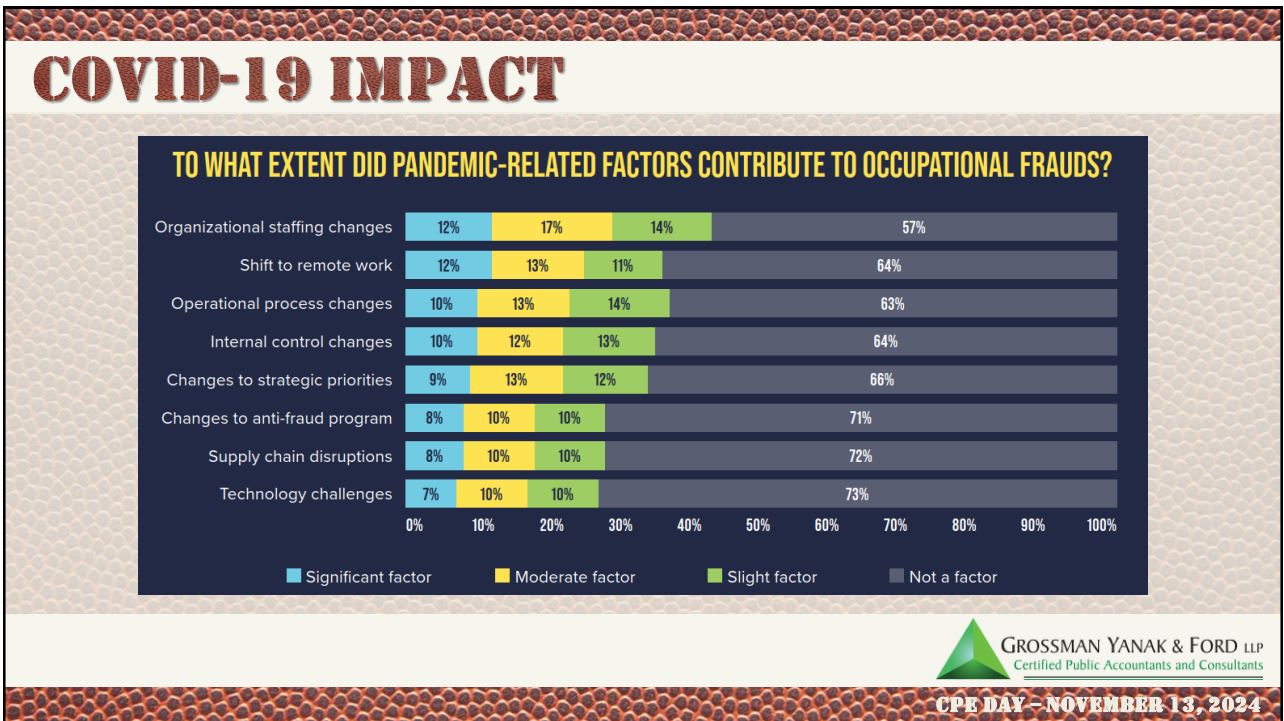
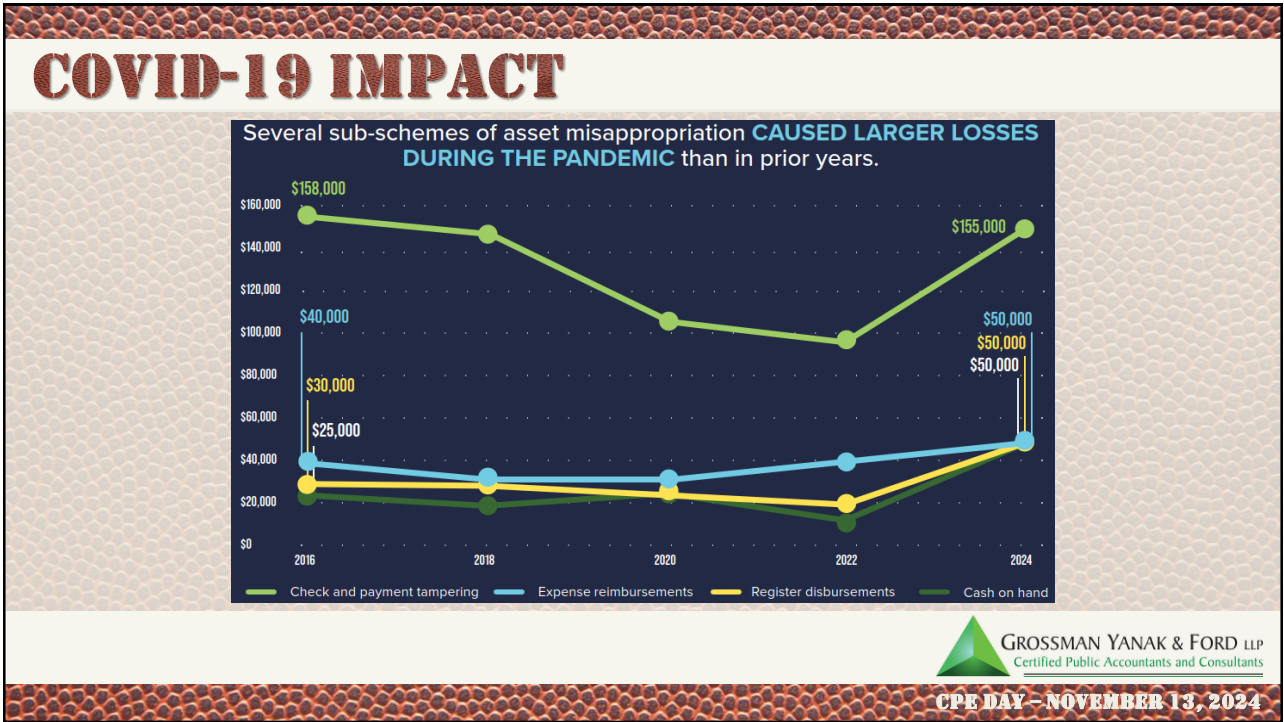
MEDIAN LOSSES FOR ALL THREE PRIMARY CATEGORIES OF OCCUPATIONAL FRAUD INCREASED FROM 2022-2024

| | 2022 | 2024 | CHANGE |
|---------------------------|-----------|-----------|--------|
| Financial statement fraud | \$593,000 | \$766,000 | ↑ 29% |
| Corruption | \$150,000 | \$200,000 | ↑ 33% |
| Asset misappropriation | \$100,000 | \$120,000 | ↑ 20% |

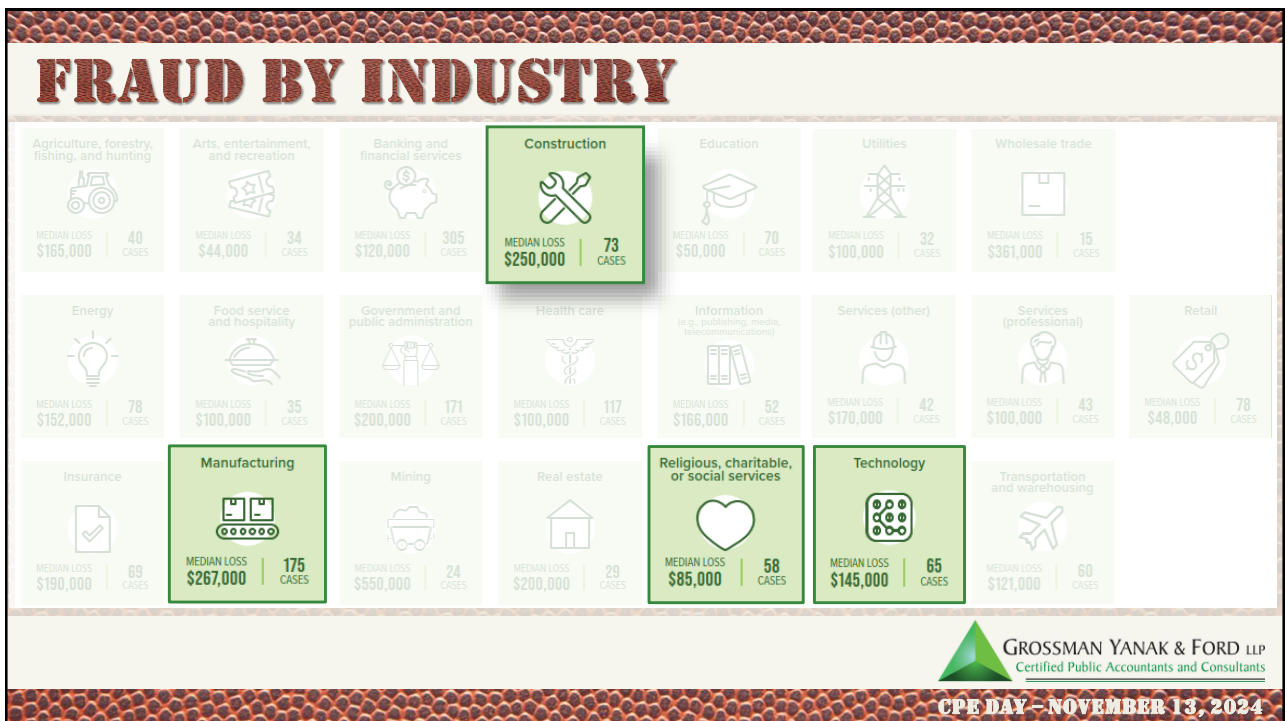
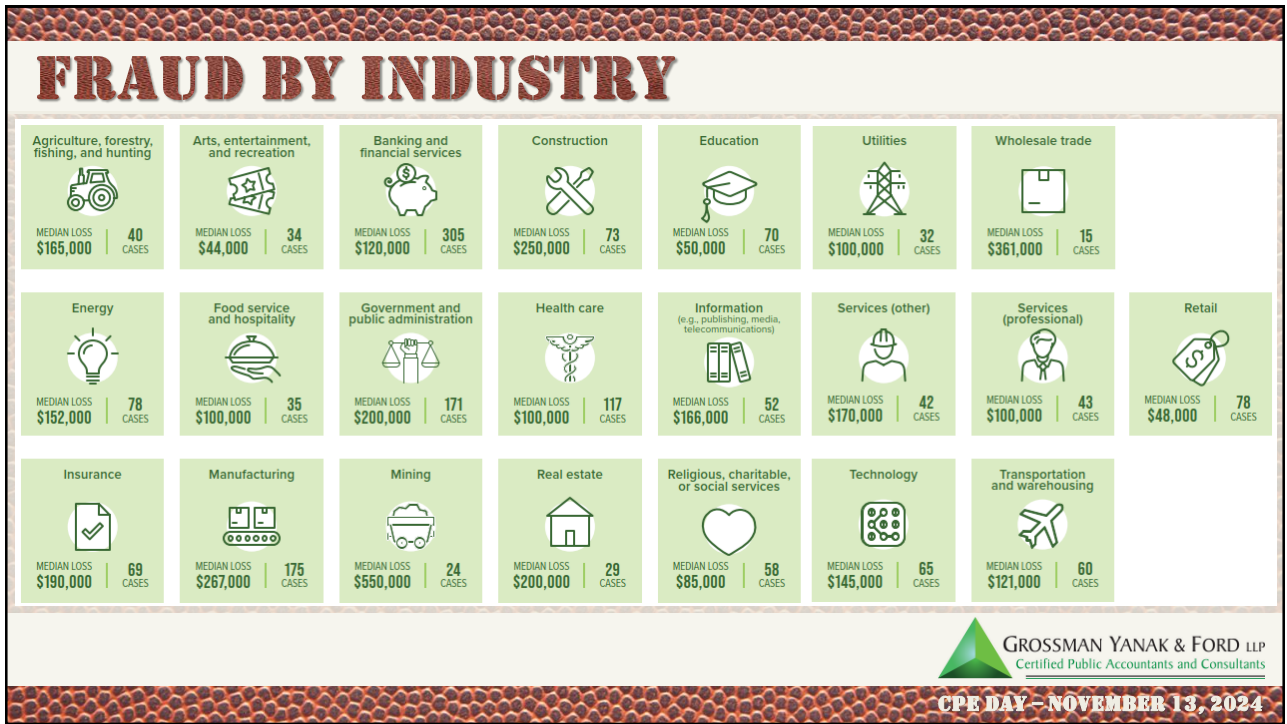
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FRAUD BY INDUSTRY

| Industry | Cases | Billing | Cash larceny | Cash on hand | Check and payment tampering | Corruption | Expense Reimbursements | Financial statement fraud | Noncash | Payroll | Register disbursements | Skimming |
|---|-------|---------|--------------|--------------|-----------------------------|------------|------------------------|---------------------------|---------|---------|------------------------|----------|
| Manufacturing | 175 | 27% | 6% | 4% | 7% | 55% | 17% | 6% | 29% | 10% | 1% | 9% |
| Construction | 73 | 38% | 12% | 7% | 19% | 52% | 25% | 10% | 25% | 23% | 4% | 23% |
| Religious, charitable, or social services | 58 | 36% | 17% | 24% | 17% | 45% | 29% | 3% | 10% | 7% | 2% | 16% |
| Technology | 65 | 28% | 9% | 2% | 9% | 65% | 11% | 3% | 32% | 14% | 3% | 7% |

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FRAUD PREVENTION

Manufacturing

RISK

- Theft of inventories
 - *Noncash misappropriation*

PREVENTION

- Physical security
 - *Fence, locks, access cards*
 - *Cameras*
- Routine physical counts
- Monitor scrap

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FRAUD PREVENTION

Manufacturing

RISK

- Billing scheme
 - *Fraudulent disbursement via fictitious invoice or personal purchases*

PREVENTION

- Approved list of vendors
- Restricted access and/or review of master file changes
- Review of vendor listing



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FRAUD PREVENTION

Construction

RISK

- Payroll scheme
 - *Fraudulent disbursement via fictitious claims for compensation (hours worked, ghost employees)*

PREVENTION

- Automated time system
- Formal approval of overtime hours by manager
- Review of payroll register



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FRAUD PREVENTION

Construction

RISK

- Expense reimbursement scheme
 - *Fraudulent disbursement via fictitious claims for reimbursement*

PREVENTION

- Require submission of receipts
- Formal approval by manager
- Review dates of travel
- Use of company credit cards



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FRAUD PREVENTION

Construction

RISK

- Check and payment tampering
 - *Intercepting, forging or altering a check or electronic payment*

PREVENTION

- Positive pay system
- Automatic drafts (electronic payments) for recurring payments

FRAUD BY INDUSTRY

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FRAUD PREVENTION

Nonprofits

RISK

- Cash on-hand misappropriation (theft)
- Cash larceny
 - *Interception of cash receipts*

PREVENTION

- Segregation of duties for cash handling
- Limit amount of duration of cash on-hand
 - *Frequent deposits*



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FRAUD PREVENTION

Nonprofits

RISK

- Check or payment tampering scheme
 - *Fraudulent disbursement via intercepting, forging, or altering check or payment drawn*

PREVENTION

- Control blank checks
- Prohibit writing checks to “cash”
- Dual signatures
- Avoid using stamp



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FRAUD PREVENTION

Nonprofits

RISK

- Billing scheme
 - *Fraudulent disbursement via fictitious invoice or personal purchases*

PREVENTION

- Budget-to-actual comparisons
- Review of monthly financials by managers, executive director and board



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FRAUD PREVENTION

Technology

RISK

- Corruption
 - *Bribery or conflicts of interest*

PREVENTION

- Competitive bidding process
- Dedicated email for accounts payable invoices
- Segregation of duties



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FRAUD PREVENTION

Technology

RISK

- Management override of controls

PREVENTION

- Segregation of duties
 - *Small steps can be taken even with a limited headcount*
- Budget-to-actual comparisons



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QUESTIONS?

Thank you for your attention!

- Please reach out directly to the presenters if you need assistance:
 - *Mark Wolstoncroft, Partner* – 412-338-9315 – wolstoncroft@gyf.com
 - *Amber Pinskey, Sr. Manager* – 412-799-69129 – pinskey@gyf.com



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