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Safeguarding Your Financial Assets & Mitigating Employee Fraud

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What is Fraud?

- Wikipedia
In criminal law, a fraud is an intentional deception made for personal gain or to damage another individual; the related adjective is fraudulent. The specific legal definition varies by legal jurisdiction. Fraud is a crime and also a civil violation.
- American Heritage Dictionary
Fraud (frôd) n : 1 A deception deliberately practiced in order to secure an unfair or unlawful gain
2. a piece of trickery, a swindle


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Why Employee Fraud is Difficult to Quantify?

- Not all fraud is discovered
- If discovered, not all fraud is reported

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The Cost of Fraud

2012 Certified Fraud Examiners Study on occupational fraud cases estimated that fraud and abuse cost the global economy over \$3.5 trillion annually.


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Industries most commonly impacted by fraud

- Financial Service
- Government
- Manufacturing

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Stats on Fraud

- The average organization loses 5% of its total annual revenue to fraud and abuse committed by employees
- The average scheme lasts 18 months
- 75% of employees will commit some form of fraud at least once in their career, 1/2 of these will do it again

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Types of Fraud



- Asset Misappropriation
- Corruption
- Financial Statement Fraud

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Asset Misappropriation



- Most frequent & least costly
 - 80-90% of incidents
 - Median loss ~\$187,500
- Skimming, fraudulent billing, expense reimbursement fraud etc
- Examples – falsification of expenses, use of vehicles or other business tools for unauthorized activities

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Corruption



- Second most common & second most costly
 - 39% of incidents
 - Median loss ~\$250,000
- Use of influence to sway a business/official transaction to obtain benefit contrary to the individual's duty
- Examples – conflict of interest, contractual fraud, acceptance of bribes

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Conflict Of Interest



- A situation in which an employee at any level has an undisclosed economic or personal interest in a transaction that directly affects their employer
- Accounts for 77% of corruption schemes

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Financial Statement Fraud



- Least likely (8%) – Most costly (median loss 1 million)
- Misrepresentation of financial statements including assets
- Examples - fictitious sales, concealing liabilities

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Fraud Most Common in Government.....



- Asset Misappropriation
- Corruption

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Who Commits Fraud?



- 54% of Incidents in Canada committed by Employees age 31-45
- Men account for 71% of the cases
 - Median cost of Fraud by men 250K
 - Median Cost of Fraud by Women 70K
- All levels of education
 - Highest by occurrence – HS Diplomas
 - Highest by financial impact – Bachelors Degree
- Employees (42%), Managers (38%), Execs (20%)

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What are the Red Flags.....



- Erratic Behaviour
- Lives beyond ones means
- Financial Stresses
- Resistant to procedural and staffing changes

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Detecting Fraud..... Government vs Industry Average



● Tips	48% vs. 42%
● Internal Controls	8% vs 18%
● By Accident!	20% vs 17%
● Internal Audit	28% vs 13%
● External audit*	4% vs 6%
● Notified by police	4%

*Most common measure, least effective

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What Must be in Place



- Need
- Opportunity
- Attitude

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What Can be Controlled



- Opportunity
- Attitude

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Eliminate the Opportunity....



- Audits
- Internal Controls
- Job Rotation
- Levels of Authority

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Internal controls & Responsibilities



- No one person should be responsible for more than one internal control responsibility
- Conduct spot checks and audits - Formal and informal
- Don't be predictable

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Internal Control Best practices



- Review management reports
 - Ask questions
 - Note discrepancies
 - Ask Questions (again)
- Rotate duties
 - Avoid making any one person indispensable
 - Allow informal audits

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Create the Right Attitude



- Create a Culture of High Integrity
- Train (and Verify)

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Training & Education



- Do Employees know and understand your fraud policy?
- Do they understand the definition of Fraud?
- Do they know how to report fraud?
- Do they feel comfortable asking questions?
- Is an understanding of and agreement to adhere to the policy verified annually?

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Best practices



- Investigate all tips, complaints, reports
- Root Cause all occurrences, what happened, why, how was it detected, why was it not detected earlier
- Update policies & procedures based on lessons learned
- Ensure all employees understand the value of integrity

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Some examples.....



The Royal Canadian Mounted Police (RCMP) has laid criminal charges against a former Correctional Service of Canada government employee.

- > Police allege that the employee used his government credit card for his personal purchases.
- > Employee also made purchases from a company that had a standing offer with the federal government, but were diverted for his personal use
- > Timeframe - 2010 and 2011
- > Estimated loss- greater than \$5,000
- > Charge - *Breach of trust by a public officer*

<http://www.rcmp-grc.gc.ca/on>

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Hamilton, Ont. fires 29 city workers over 'inappropriate behaviour' accusations

DARSHANA BASCARAMETTY
The Globe and Mail
Published Monday, Jan. 28 2013, 12:46 PM EST
Last updated Tuesday, Jan. 29 2013, 10:59 AM EST

"It was that surveillance that really told the story in terms of what they *weren't* doing," said city manager Chris Murray. "In some cases there was very little work taking place, at the end of the day."

On one work day, the private investigators found one crew only worked for 30 minutes

"Hamilton, Ontario March 2012

- > 15 month investigation
 - > Executive Director and Chief Financial Officer of Settlement and Integration Services Organization (SISO) charged with fraud
 - > Police allege the men used the charitable organization as a vehicle to defraud the federal government of millions of dollars
 - > Investigation revealed a sophisticated series of schemes spanning several years.
 - > Allegations include falsifying invoices, payroll and employee information.
 - > Estimated loss more than 4 million between 2008 and 2010
- <http://www.rcmp-grc.gc.ca>

"Building trust and confidence in our services is critical to our collective work and we must be diligent in doing our work in an ethical and responsible way. This is an expectation that the community has of us. I believe what has transpired is serious and therefore requires immediate and significant action"

Hamilton City Manager Chris Murray

Thank You

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