

A blurred background image of an audience seated in a conference room, viewed from behind. The audience members are mostly women with long hair, wearing professional attire. The room has a modern, bright aesthetic with large windows in the background.

FRAUD-

Current Trends and the Pandemic's Impact

PRESENTED BY: JULIA MAST, CPA/ABV/CFF, CFE
DIRECTOR
FORENSICS & VALUATION SERVICES

FORVIS

AGENDA

- Recent Trends in Fraud – 2022 Report to the Nations
- COVID's Impact on Fraud
- Fraud “War Stories”
- Ways to Mitigate the Risk

Occupational Fraud 2022:
A REPORT TO THE NATIONS®



KEY FINDINGS

OUR STUDY COVERED:



Remains at 5%

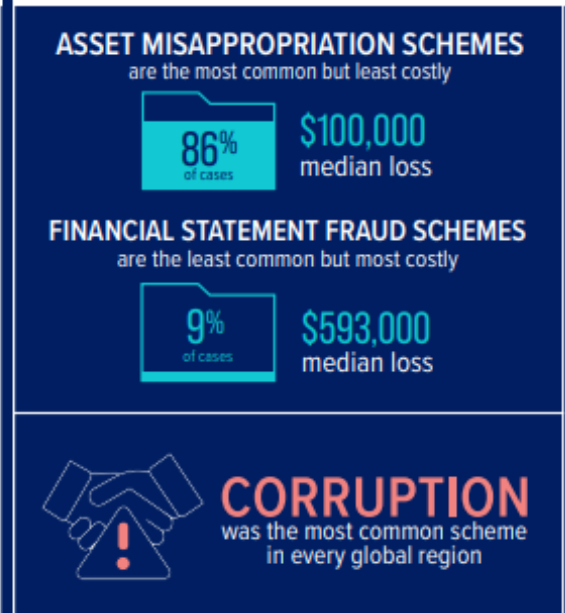
Median Loss:
Decrease: \$7,000

Average Loss per Case:
Increase: \$274,000

DETECTION



SCHEMES

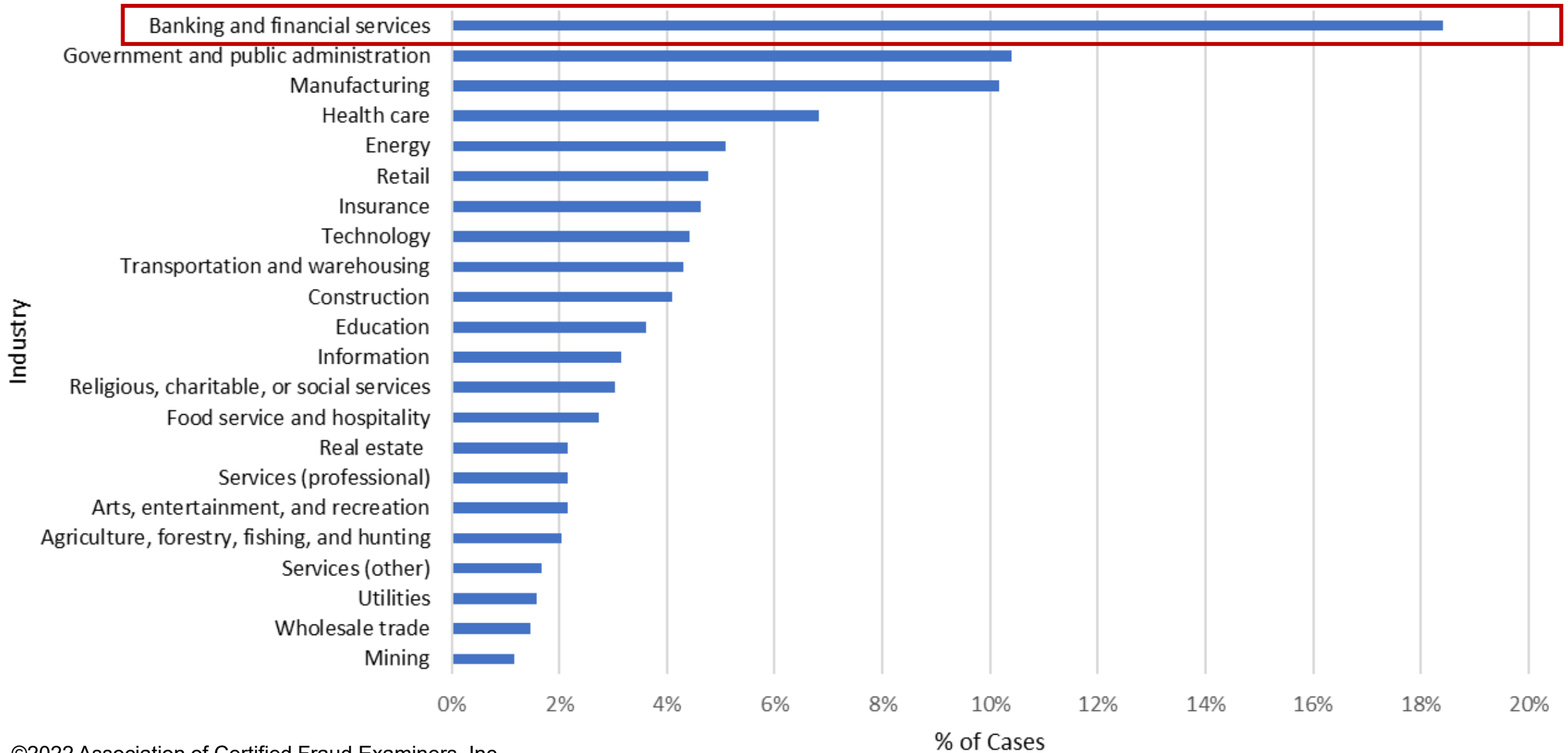


Asset Misappropriation
Still most common

Financial Statement Fraud
Decreased from 10%
& Median loss: \$954,000

Never Changing

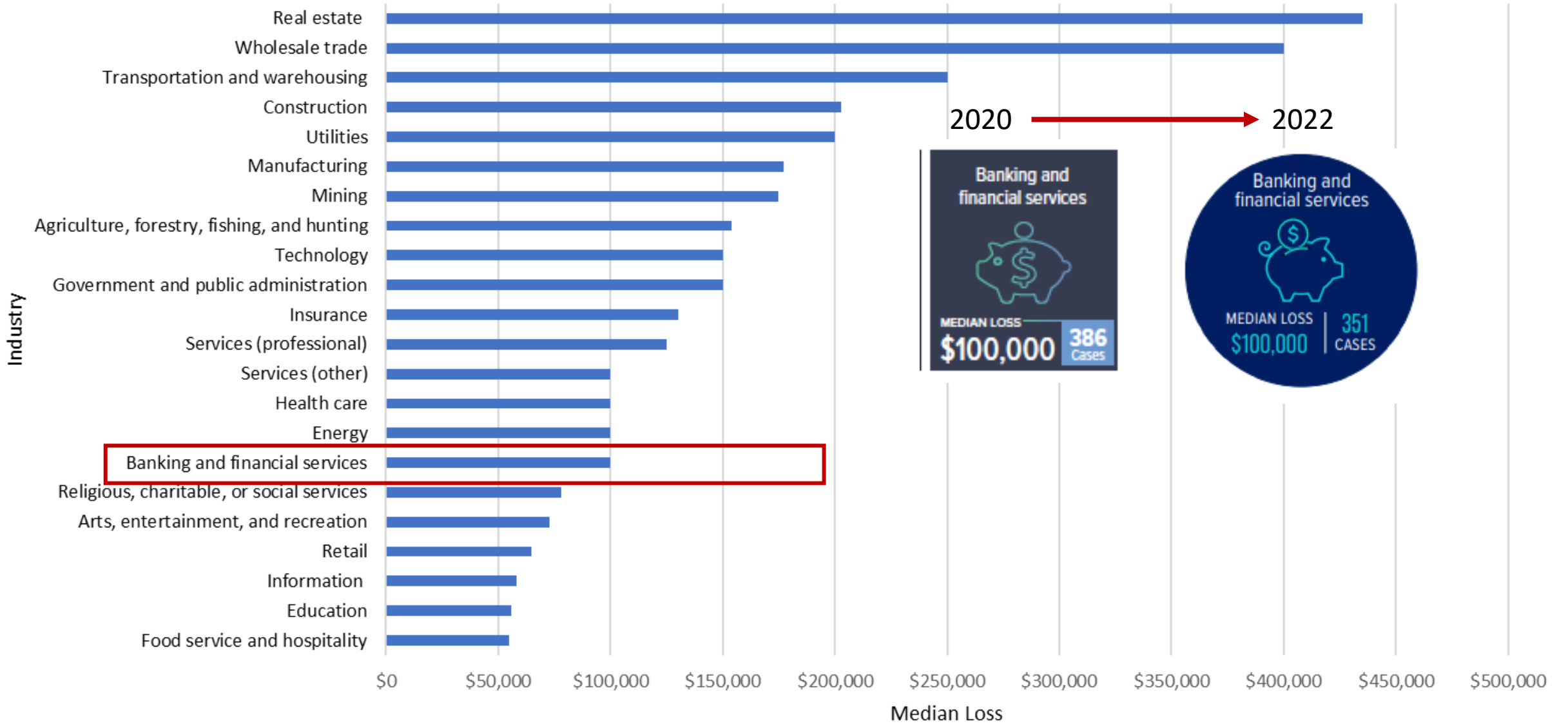
How does occupational fraud affect organizations in different industries?



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How does occupational fraud affect organizations in different industries?



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- #1- Corruption
- #2- Cash on Hand
- #3- Check & Payment Tampering

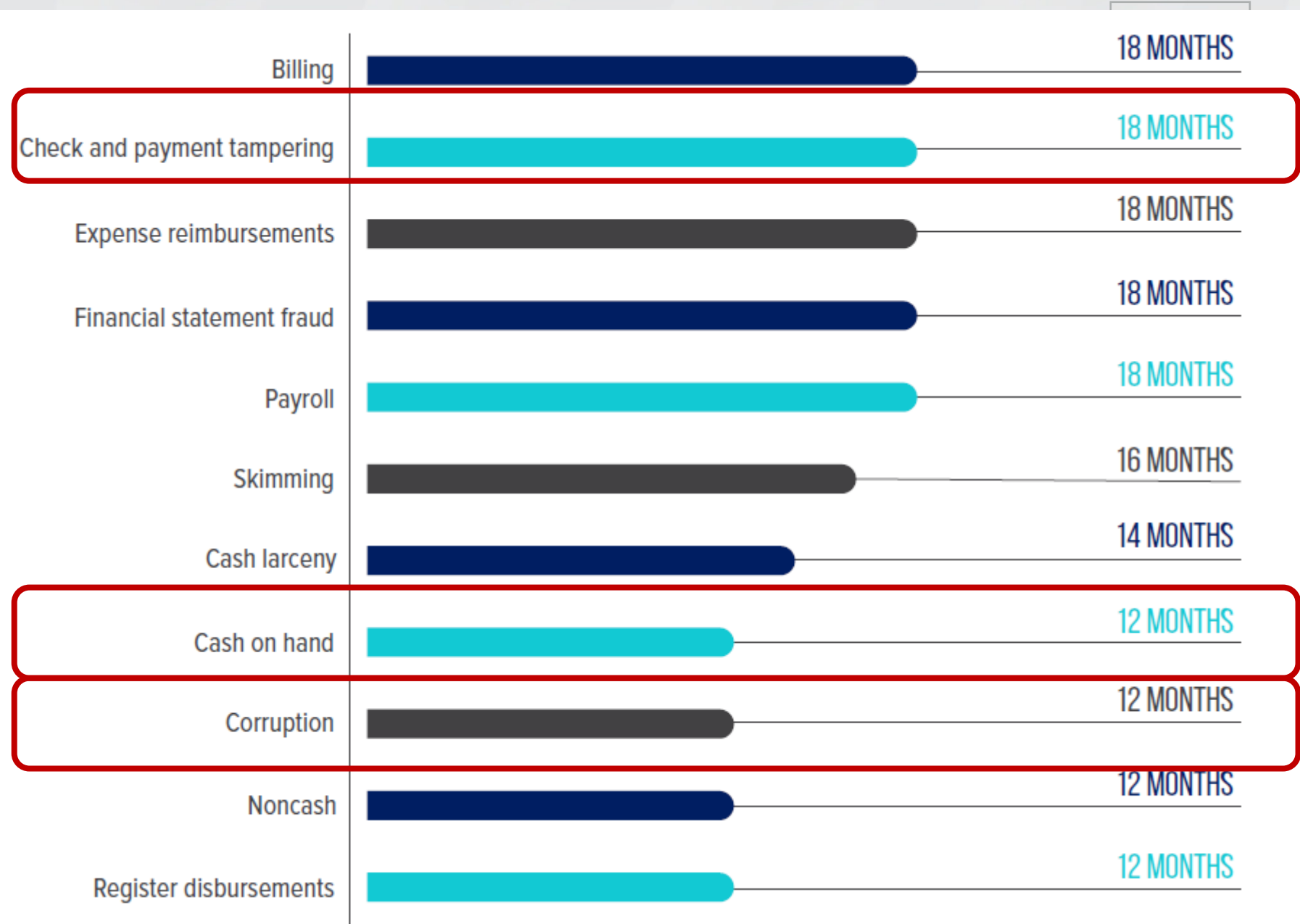
INDUSTRY	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Banking and financial services	351	10%	11%	14%	14%	46%	8%	11%	11%	4%	2%	10%
Government and public administration	198	21%	8%	7%	9%	57%	12%	8%	16%	16%	3%	8%
Manufacturing	194	26%	5%	9%	7%	59%	10%	12%	23%	10%	4%	8%
Health care	130	20%	6%	8%	8%	50%	11%	9%	18%	12%	2%	9%
Energy	97	24%	9%	6%	8%	64%	16%	8%	13%	6%	3%	2%
Retail	91	19%	10%	9%	9%	43%	7%	4%	24%	5%	7%	14%
Insurance	88	15%	9%	8%	10%	40%	9%	5%	8%	10%	2%	11%
Technology	84	21%	6%	10%	6%	54%	14%	8%	30%	5%	1%	1%
Transportation and warehousing	82	20%	9%	15%	4%	59%	11%	7%	22%	9%	4%	11%
Construction	78	24%	8%	10%	14%	56%	17%	18%	24%	24%	3%	9%
Education	69	26%	9%	12%	12%	49%	12%	12%	19%	14%	4%	12%
Information	60	15%	5%	5%	8%	58%	12%	12%	33%	7%	2%	7%
Food service and hospitality	52	19%	10%	21%	17%	54%	13%	13%	29%	19%	10%	17%



INDUSTRY	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Banking and financial services	351	10%	11%	14%	14%	46%	8%	11%	11%	4%	2%	10%



LENGTH OF SCHEMES



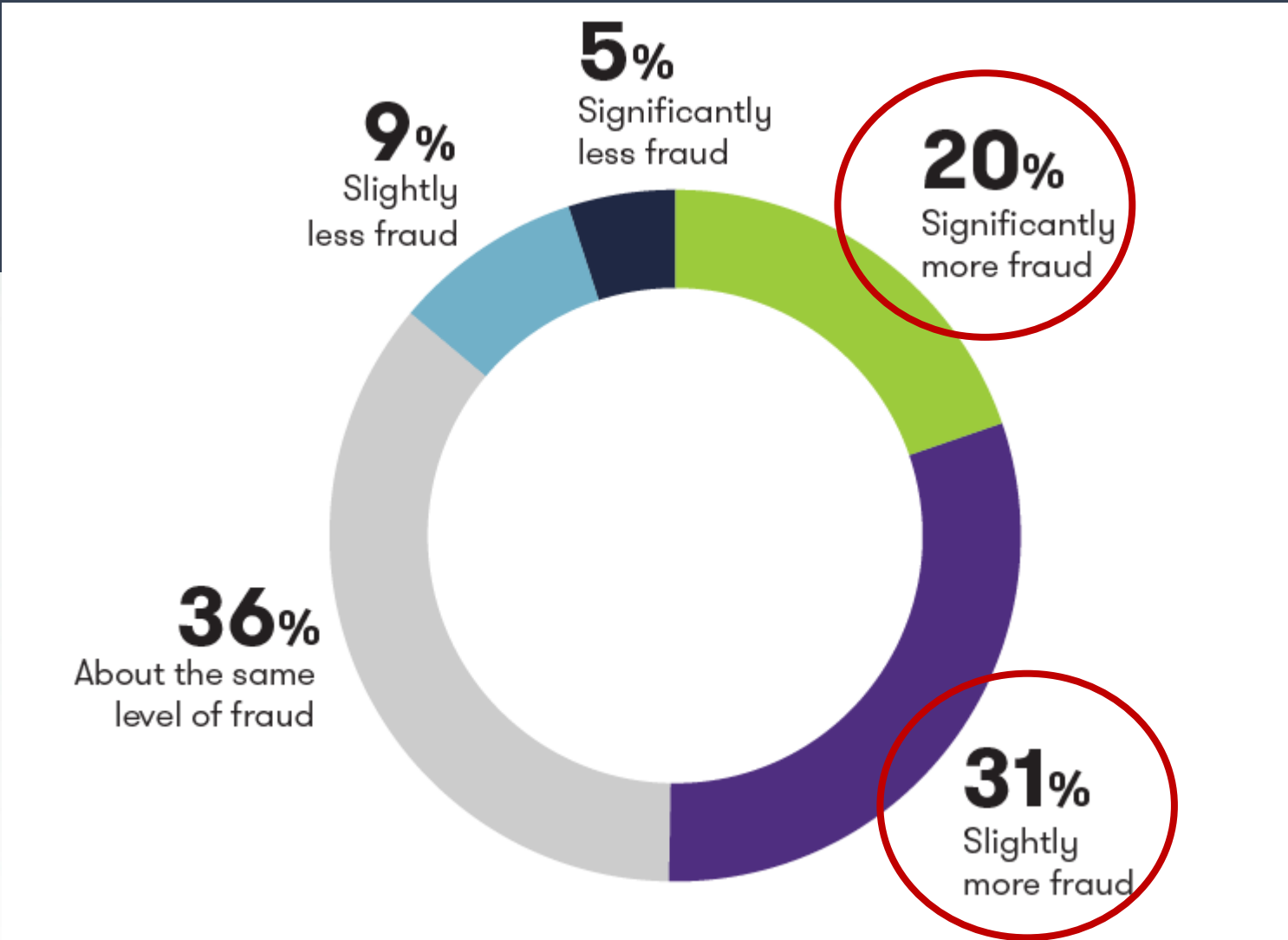
WHAT HAS THE PANDEMIC DONE TO FRAUD?

(AND WHERE DO WE GO FROM HERE?)



CHANGE IN THE AMOUNT OF FRAUD UNCOVERED?

(yes!)



Over 50%



Source: *The Next Normal: Preparing for a Post Pandemic Fraud Landscape*, ACFE, Grant Thornton



FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office.

More Statistics on COVID

51% of organizations have **uncovered more fraud** since the onset of the pandemic

71% expect the **level of fraud** impacting their organizations to **increase** over the next year



Shifts in **business operations** and **changing consumer behaviors** are the **top two risk factors** expected to impact the fraud risk landscape in the coming year

JOB UNCERTAINTY DURING COVID

DID JOB UNCERTAINTY DURING COVID CONTRIBUTE TO FRAUD?

These five HR-related issues all involve a fraudster's job or compensation security. **All five increased in 2022.**

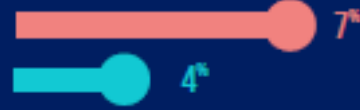
Fear of job loss



Denied raise or promotion



Cut in benefits



Cut in pay



Involuntary cut in hours



● 2022
● 2020

* Although all cases in our study were investigated in 2020–2021, some of the frauds may have predated COVID.



THE FRAUD TRIANGLE

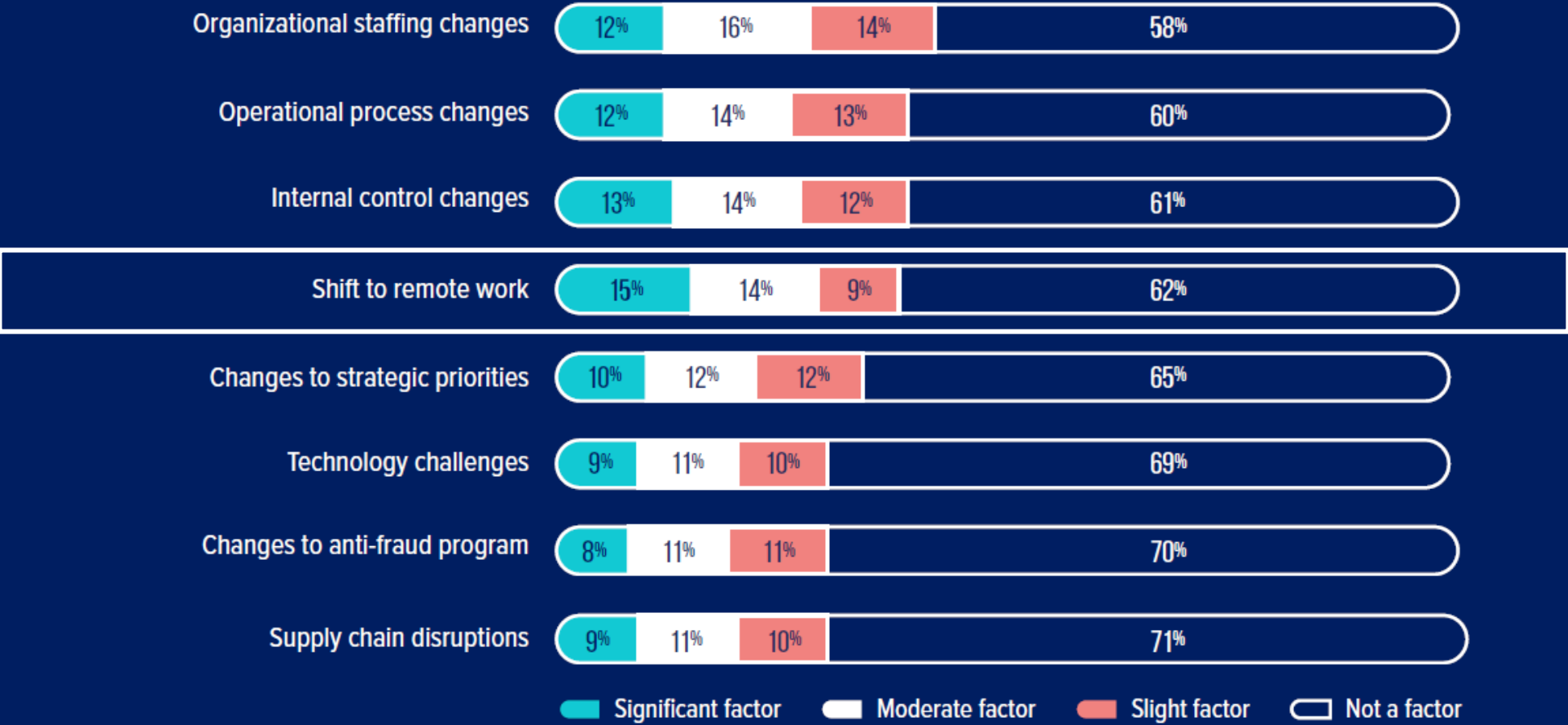
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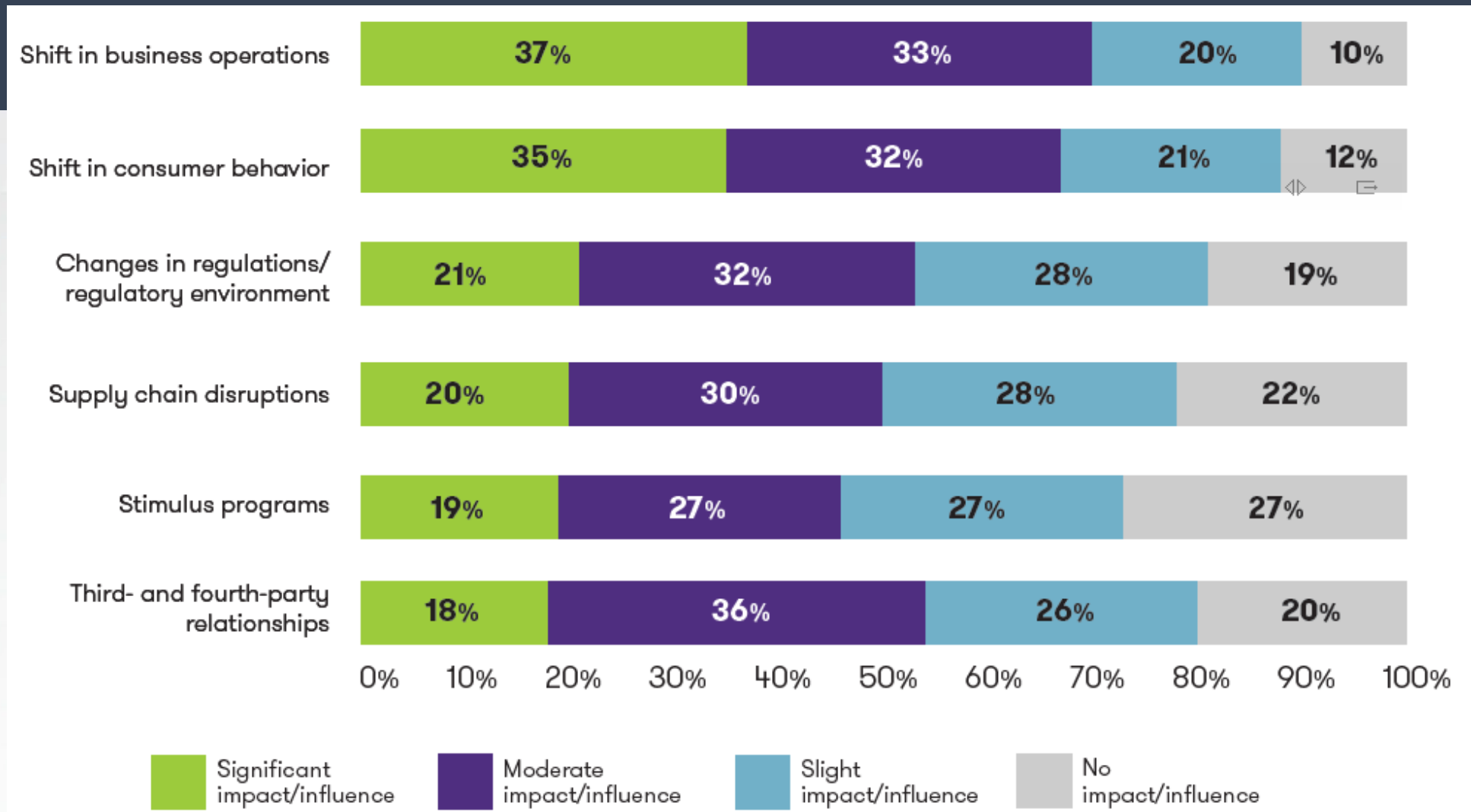
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TO WHAT EXTENT DID PANDEMIC-RELATED FACTORS CONTRIBUTE TO OCCUPATIONAL FRAUDS?



FRAUD RISK FACTORS SINCE ONSET OF THE PANDEMIC



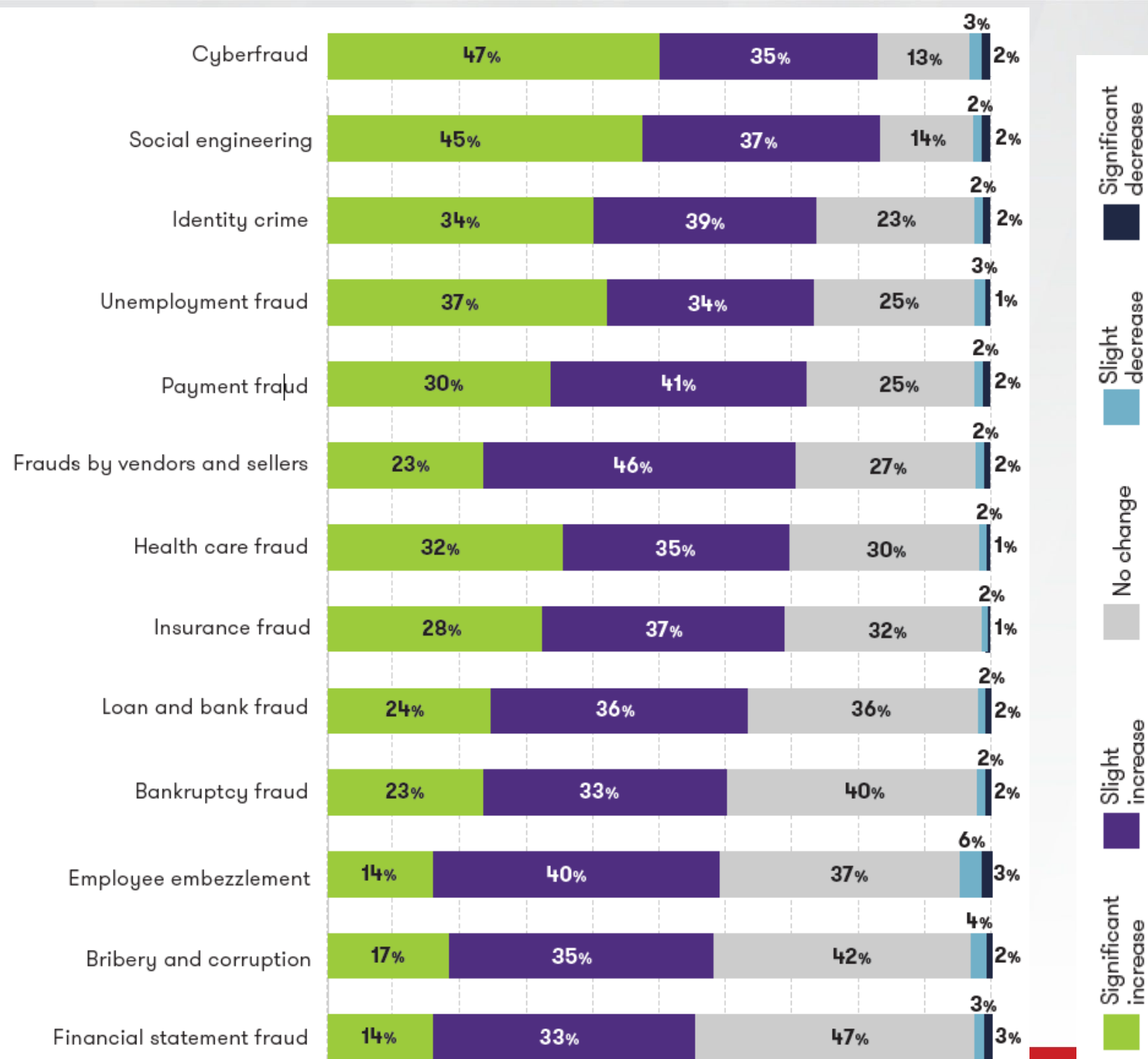
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Source: *The Next Normal: Preparing for a Post Pandemic Fraud Landscape*, ACFE, Grant Thornton

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EXPECTED CHANGE IN FRAUD RISKS OVER NEXT 12 MONTHS



Source: *The Next Normal: Preparing for a Post Pandemic Fraud Landscape*, ACFE, Grant Thornton

HOW BUSINESS ARE REACTING

38% of organizations increased their budget for **anti-fraud technology** for fiscal year 2021, making this the most common area for increased investment within anti-fraud programs



More than **80%** of organizations have already implemented one or more changes to their **anti-fraud programs** in response to the pandemic



Technological challenges are expected to affect an increasing number of organizations' anti-fraud programs



The most common **pandemic-related challenges** facing anti-fraud programs are changes to investigative processes and changes in the control/operating environment



FORV/S

The Next Normal: Preparing for a Post Pandemic Fraud Landscape, ACFE, Grant Thornton

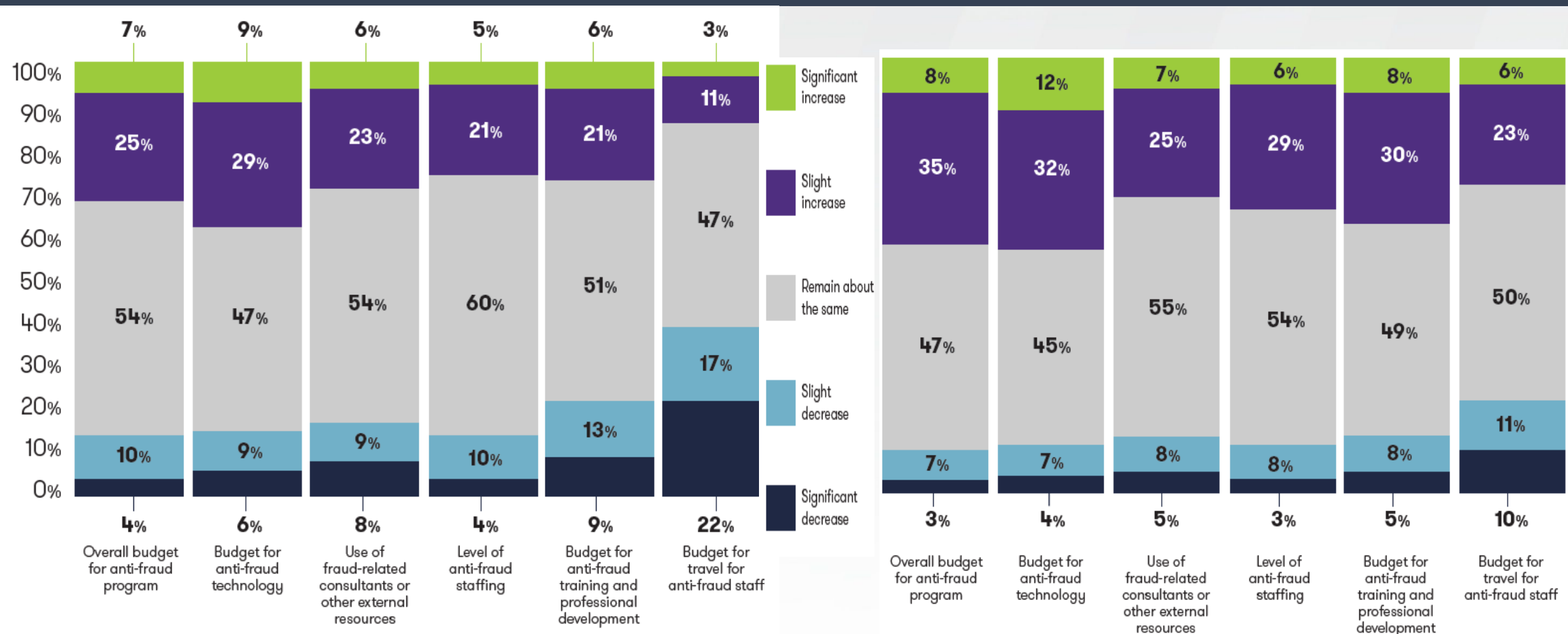
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BUSINESSES ARE INVESTING MORE IN ANTI-FRAUD

Budgets for fiscal year 2021 compared to pre-pandemic years

Budgets for fiscal year 2022 compared to 2021



Source: *The Next Normal: Preparing for a Post Pandemic Fraud Landscape*, ACFE, Grant Thornton

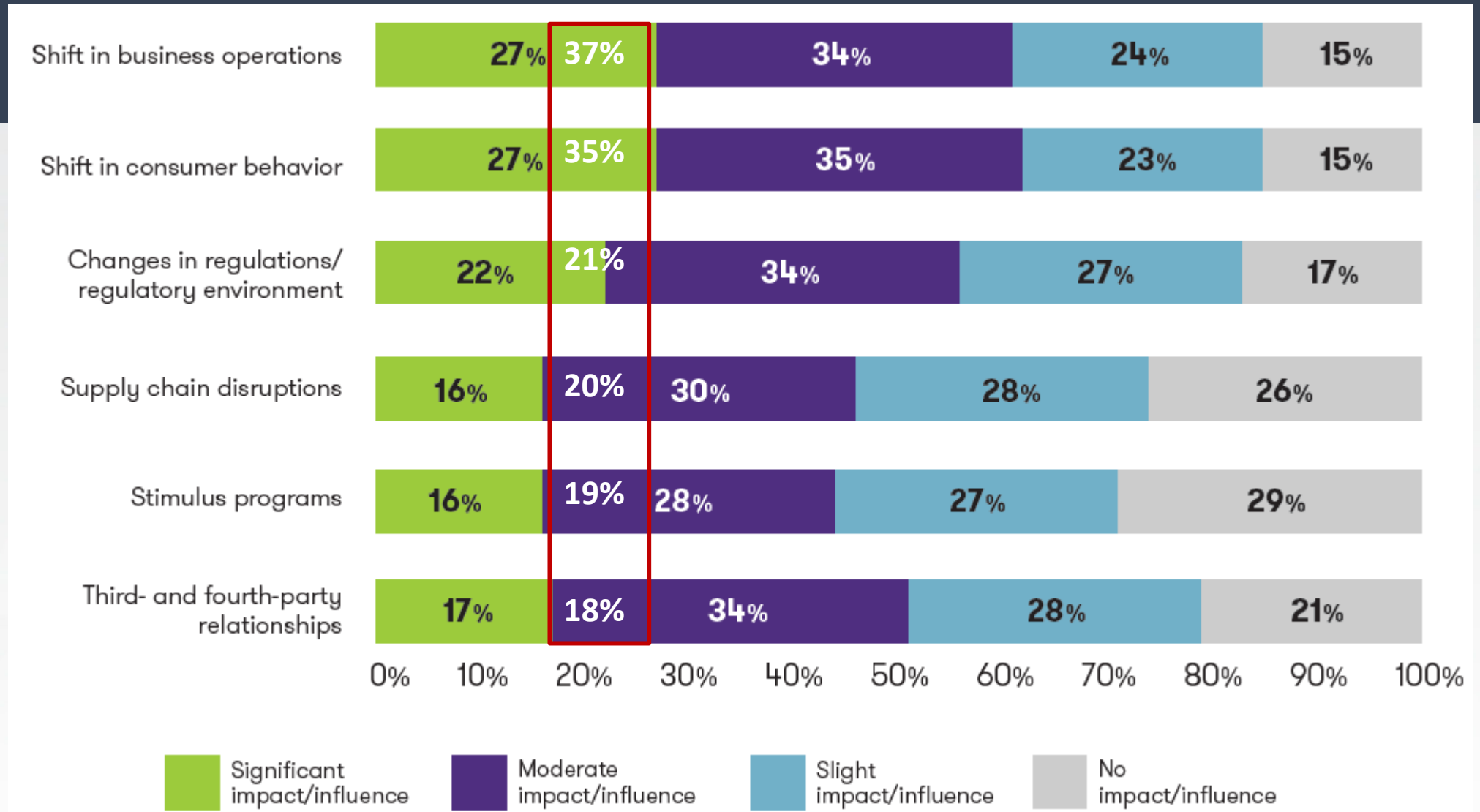
Budgets for fiscal year 2022 compared to 2021

CLOSER LOOK AT ANTI-FRAUD INVESTMENTS



Source: The Next Normal: Preparing for a Post Pandemic Fraud Landscape, ACFE, Grant Thornton

FRAUD RISK FACTORS EXPECTED IN NEXT 12 MONTHS



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Source: *The Next Normal: Preparing for a Post Pandemic Fraud Landscape*, ACFE, Grant Thornton

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Which One Looks Suspicious?

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\$3 million



\$4.6 million



\$1.0 million



\$31 million



\$900,000



\$1.1 million

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Profile of Fraud Perpetrator

- No prior criminal history (5%)
- Well liked by co-workers
- Likes to give gifts/compulsive shopper
- Gambling problems not unusual
- Long-term employee
- Rationalizes, starts small or “borrows”
- Lifestyle clues

8 KEY WARNING SIGNS

85%

OF ALL FRAUDSTERS displayed at least one **BEHAVIORAL RED FLAG**

These are the 8 most common behavioral clues of occupational fraud. **At least one of these red flags** was observed in 76% of all cases.



39%

Living beyond means



25%

Financial difficulties



20%

Unusually close association with vendor/customer



13%

Control issues, unwillingness to share duties



12%

Irritability, suspiciousness, or defensiveness



12%

Bullying or intimidation



11%

Divorce/family problems



10%

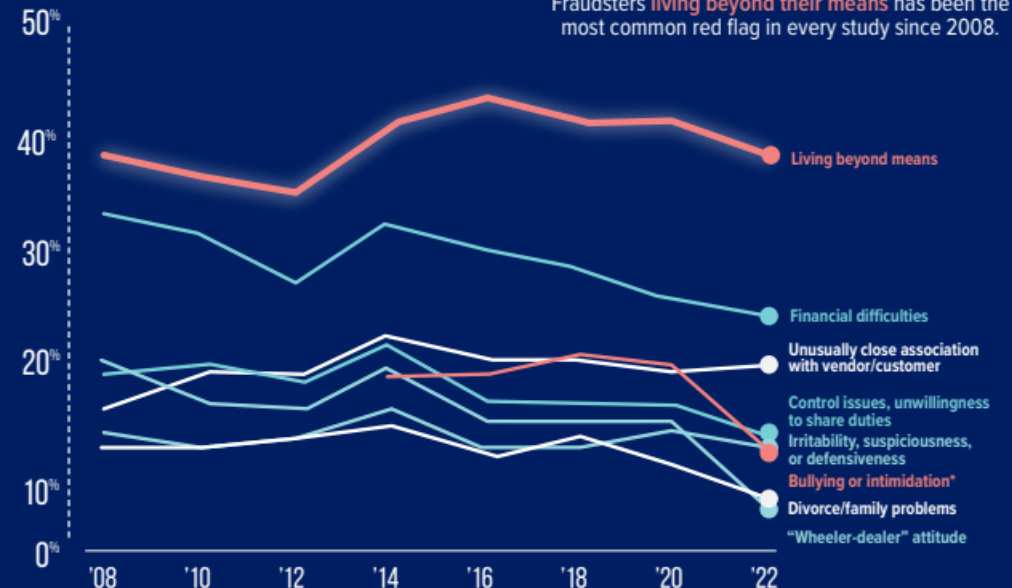
"Wheeler-dealer" attitude

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LIVING BEYOND MEANS



Fraudsters **living beyond their means** has been the most common red flag in every study since 2008.



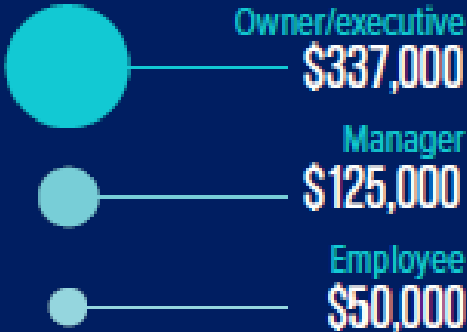
* "Bullying or intimidation" was included as an option in our survey beginning in 2014 and was asked in a separate question prior to 2022.

DEPARTMENT	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Operations	273	16%	7%	8%	11%	48%	9%	6%	16%	8%	1%	6%
Accounting	230	24%	15%	13%	29%	33%	10%	10%	7%	16%	3%	19%
Executive/upper management	206	31%	9%	10%	12%	65%	18%	22%	21%	13%	2%	12%
Sales	203	11%	6%	7%	2%	51%	8%	6%	18%	4%	2%	11%
Customer service	140	8%	10%	16%	11%	44%	6%	7%	17%	6%	3%	10%
Administrative support	131	23%	8%	15%	15%	37%	16%	5%	12%	12%	5%	10%
Purchasing	131	27%	1%	4%	2%	82%	5%	2%	14%	3%	0%	2%
Finance	95	26%	7%	11%	12%	48%	20%	14%	12%	7%	3%	12%



PERPETRATORS

Owners/executives committed only 23% of occupational frauds, but they caused the largest losses



Nearly half of all occupational frauds came from these four departments:



85% of fraudsters displayed BEHAVIORAL RED FLAGS of fraud

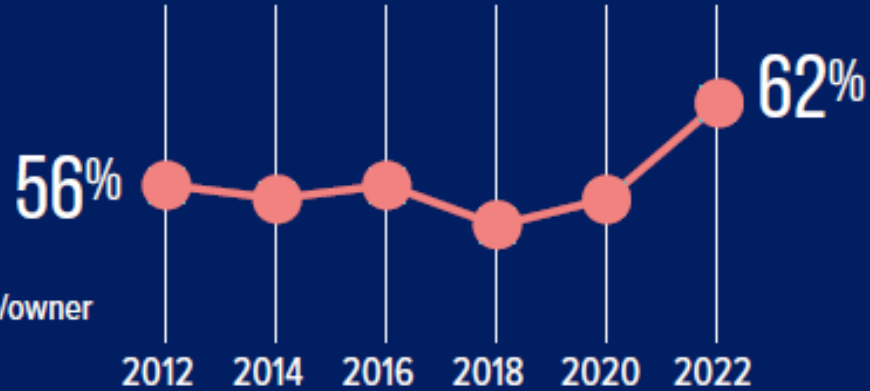


Only 6% of perpetrators had a prior fraud conviction

More perpetrators are in roles with **HIGHER LEVELS OF AUTHORITY**



Manager/executive/owner



RED FLAGS IN THE C-SUITE

These **5 red flags** were much more common among owner/executives

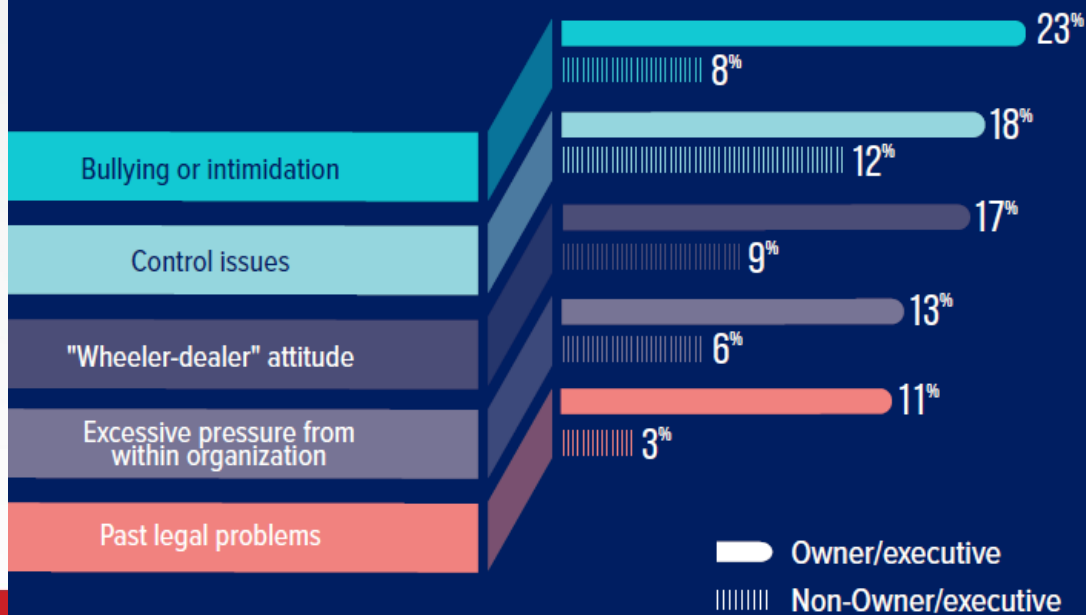
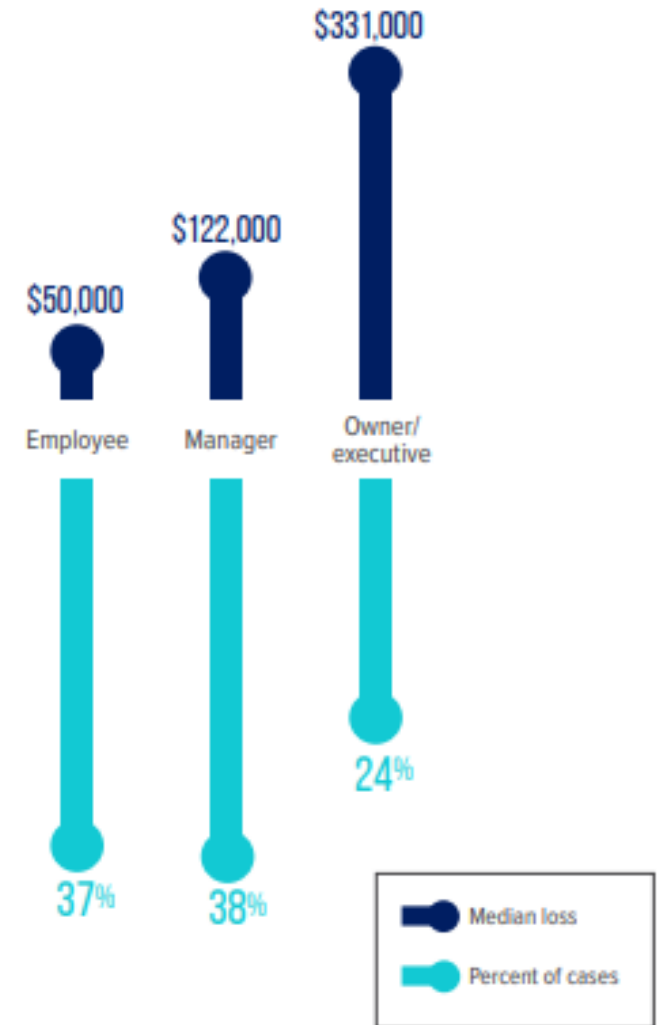


FIG. 87 HOW DOES THE PERPETRATOR'S LEVEL OF AUTHORITY RELATE TO OCCUPATIONAL FRAUD IN THE UNITED STATES AND CANADA?



HOW DO PERPETRATORS CONCEAL THEIR FRAUDS?

Examining the methods fraudsters use to conceal their crimes can assist organizations in more effectively detecting and preventing similar schemes moving forward.

TOP 5 CONCEALMENT METHODS USED BY FRAUDSTERS



39%

Created fraudulent physical documents



32%

Altered physical documents



28%

Created fraudulent electronic documents or files



25%

Altered electronic documents or files



23%

Destroyed or withheld physical documents

New Category in 2022



12% of cases did not involve any attempts to conceal the fraud

CONCEALMENT BY POSITION

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48%
of executive-level perpetrators
DESTROYED evidence.



61%
of managers **CREATED**
fraudulent evidence.



12% of cases did not involve any attempts to conceal the fraud

EVIDENCE



57% OF CASES involved
the creation of
fraudulent evidence

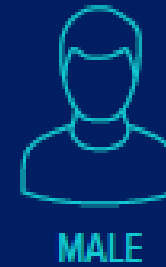
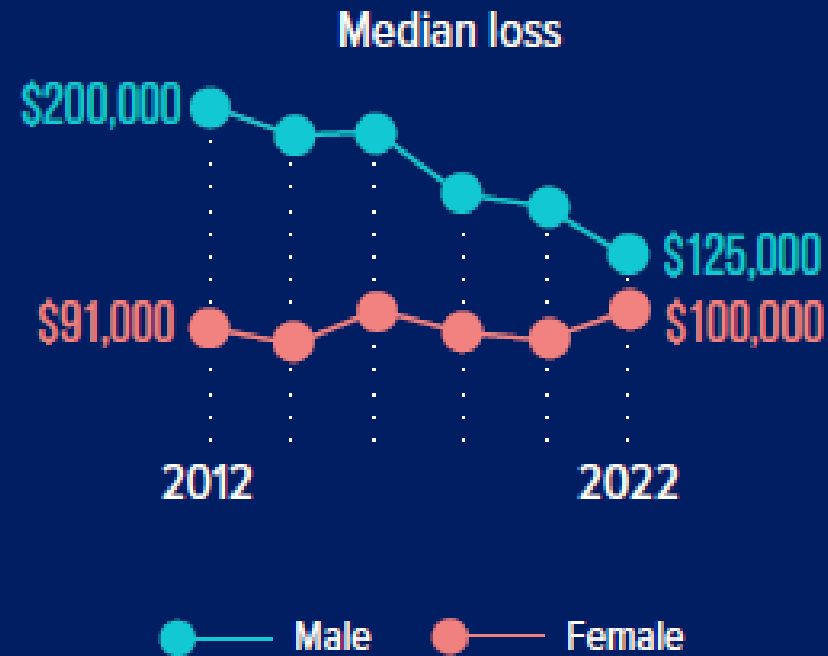



38% OF CASES involved concealment
methods affecting **BOTH** physical
and electronic evidence.

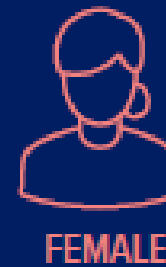


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MEN are perpetrating an **INCREASING** percentage of **FRAUDS**, but the gap in **LOSSES** has **NARROWED**.



65%
2012  73%
2022



35%
2012  27%
2022

CASE RESULTS



61%

of perpetrators were terminated by their employers



58%

of cases were referred to law enforcement



66%

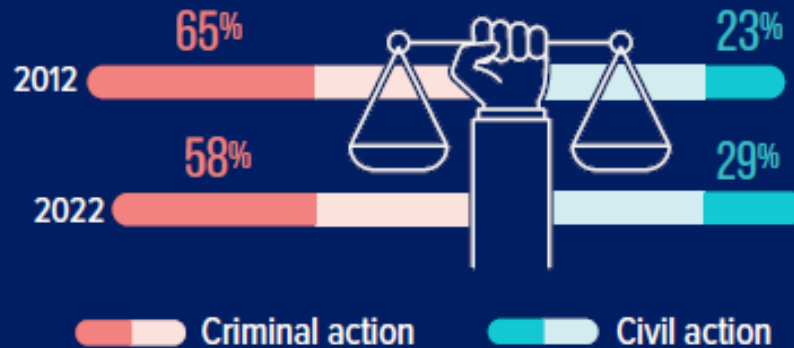
of cases referred to law enforcement resulted in a conviction



50%

of organizations that didn't refer cases to law enforcement cited internal discipline as the reason

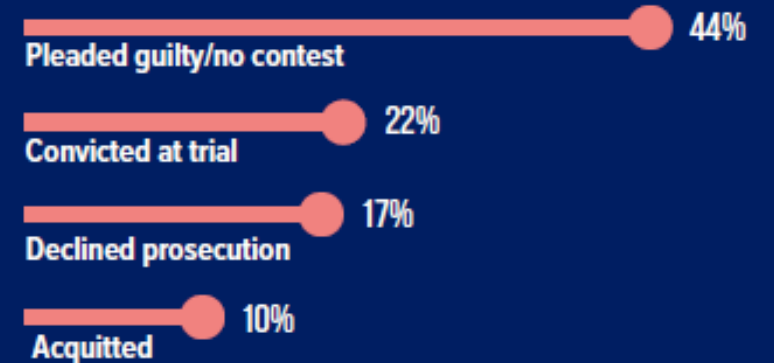
Fewer organizations are pursuing **CRIMINAL PROSECUTION**, but more are taking **CIVIL ACTION** against the perpetrator.



CRIMINAL REFERRALS

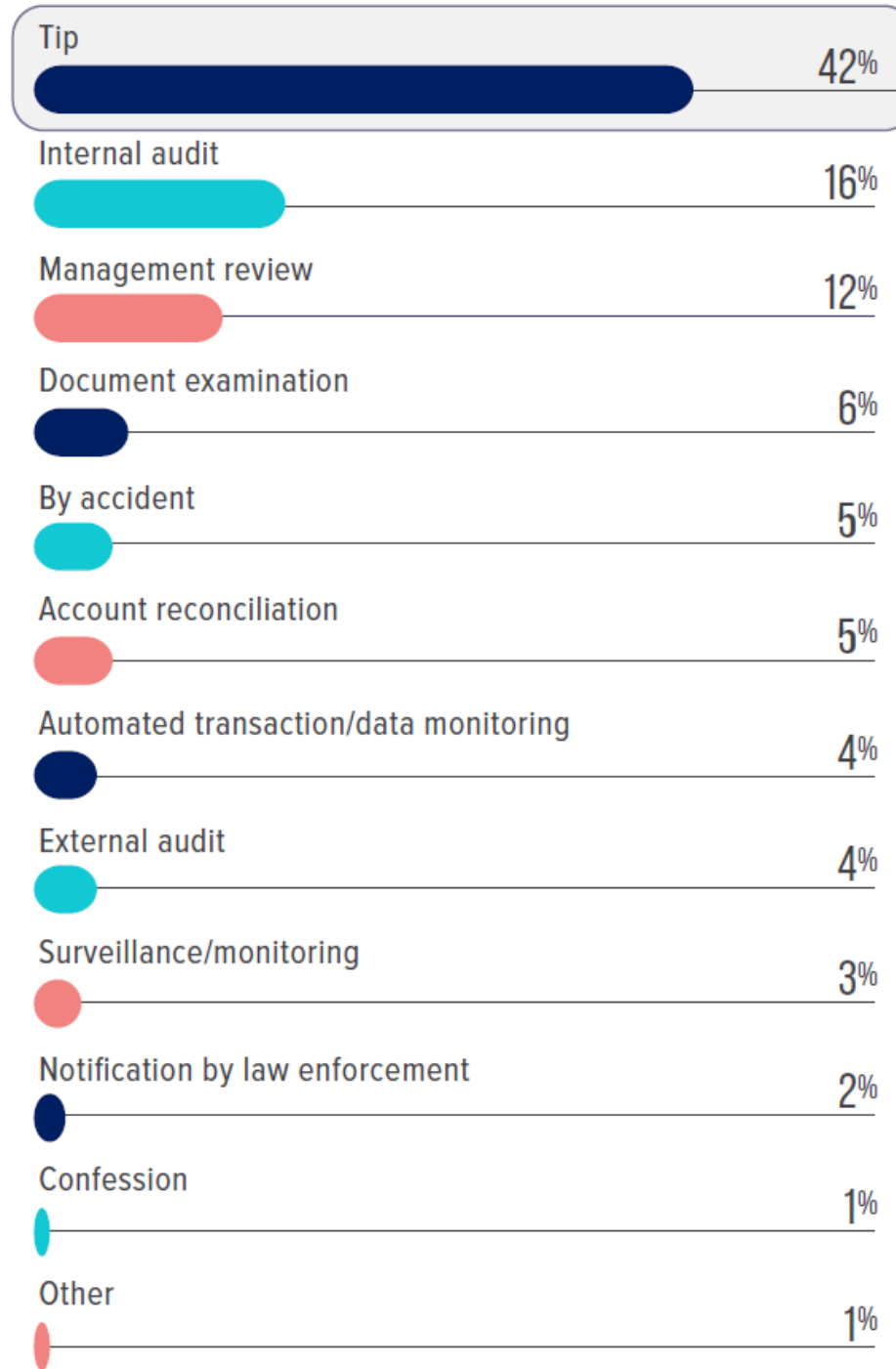
58% of cases resulted in **CRIMINAL REFERRAL**

MEDIAN LOSS in these cases: **\$200,000**



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DETECTION

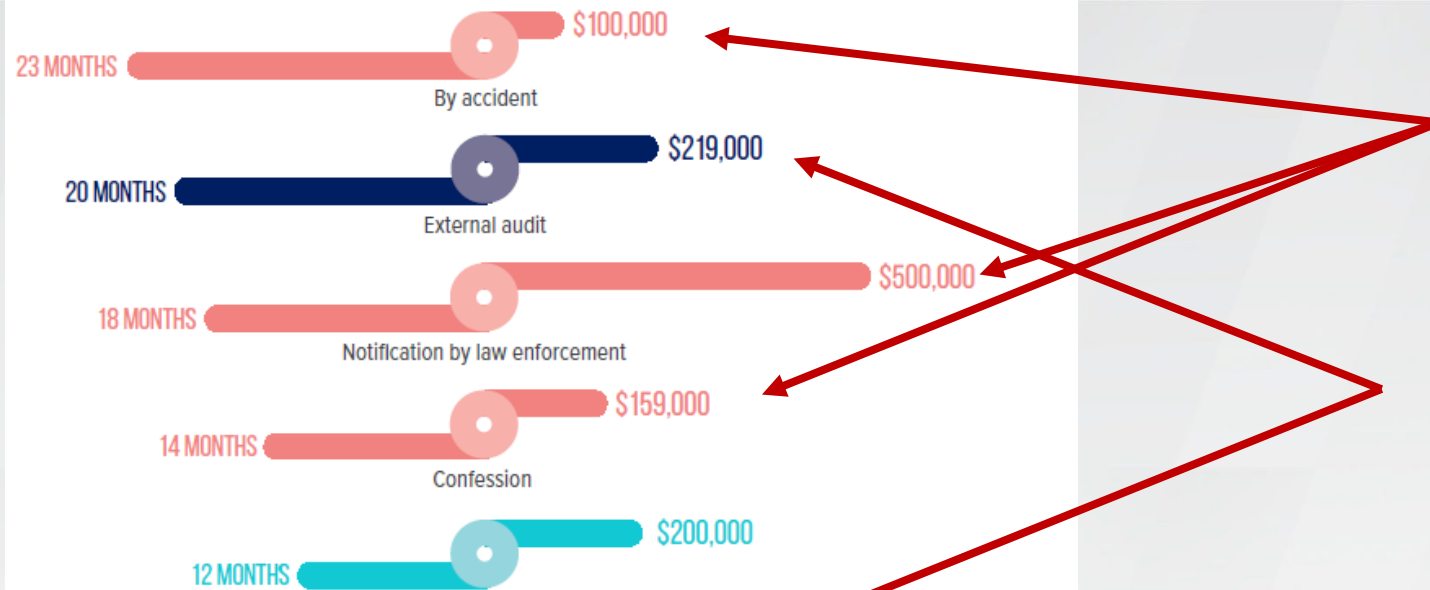


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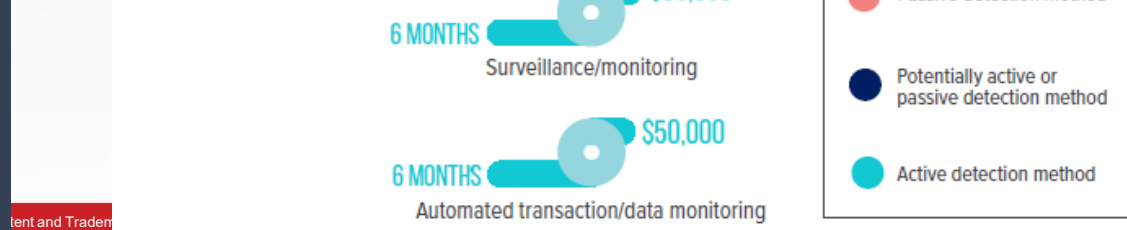
DETECTION METHOD

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ORGANIZATIONS WITHOUT HOTLINES ARE 3.5X MORE LIKELY
to discover fraud through an external audit and nearly **2X** more likely by accident

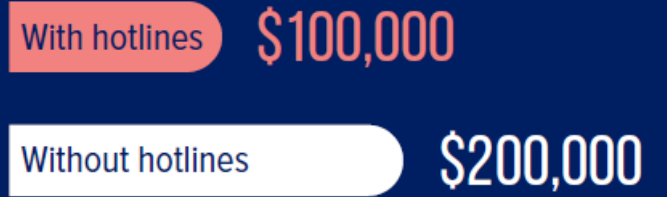
Detection Method	With hotline	Without hotline
External audit	2%	7%
By accident	4%	7%



HOTLINES

70% of
VICTIM
ORGANIZATIONS
had hotlines

Fraud losses were
2X HIGHER 
at organizations without hotlines



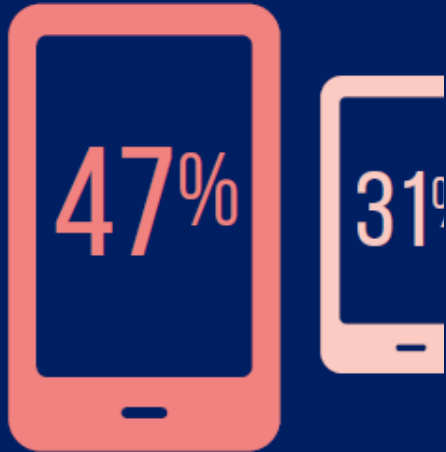
Organizations with hotlines
likely to detect fraud **B**

Organizations with **L**

Since 2012, the percent of tips made through
INCREASED DRAMATICALLY

LARGE ORGANIZATIONS are especially
likely to detect occupational fraud by tip

With
hotlines



Percent of cases detected

<100 employees



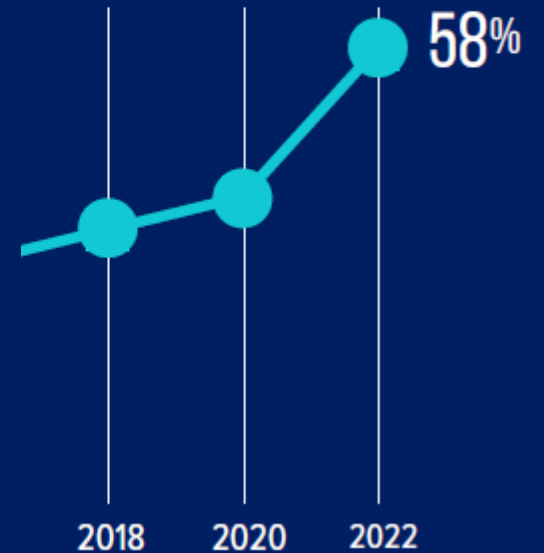
33%

Cases
detected
by tip

100+ employees



44%

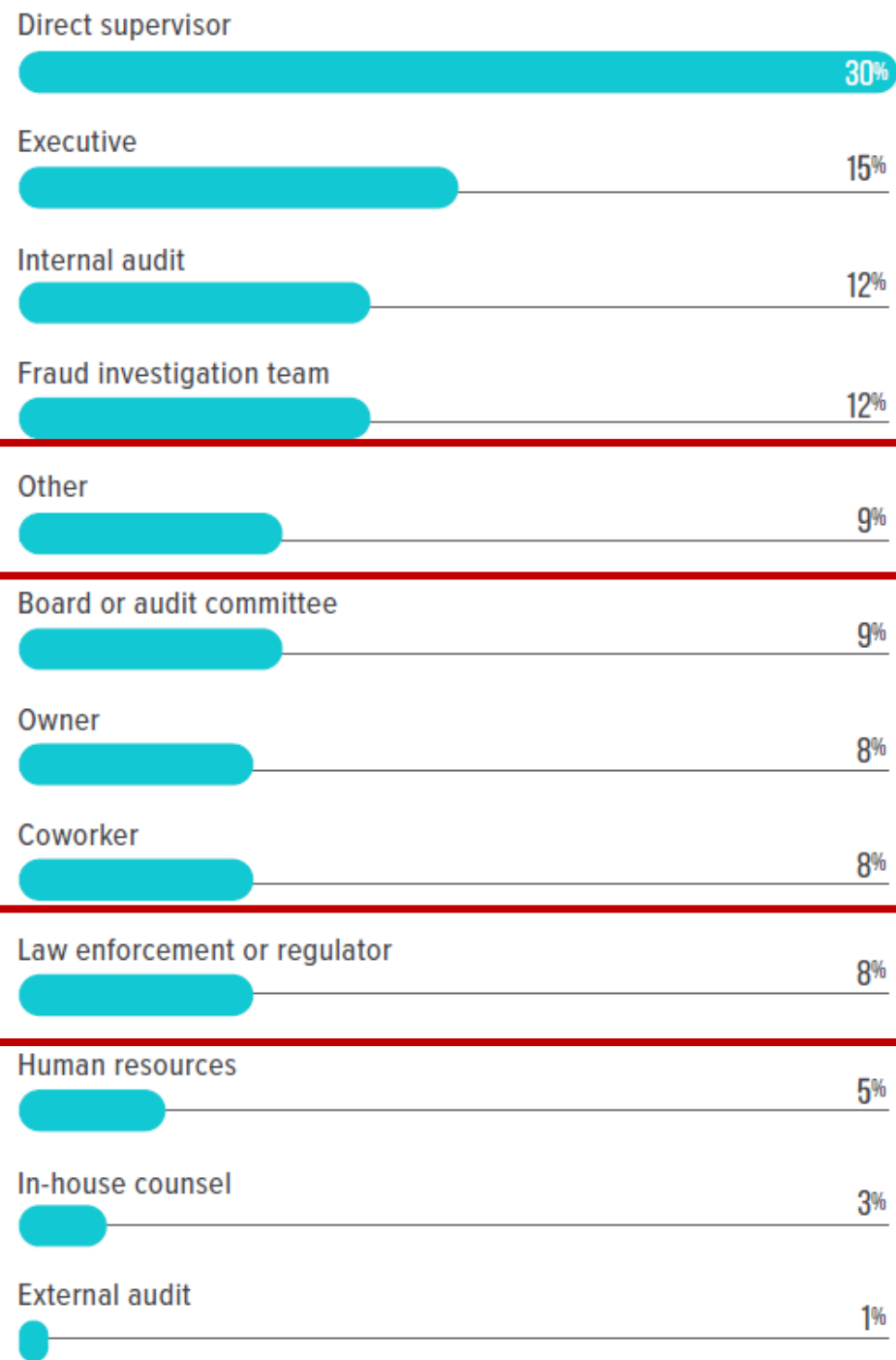


HOTLINES HOW REPORTED



WITHOUT A HOTLINE

WHERE REPORTED



OTHER ANTI-FRAUD MEASURES

FIG. 86 WHAT ANTI-FRAUD CONTROLS ARE THE MOST COMMON IN THE UNITED STATES AND CANADA?

	Control	Percent of cases
Passive	Code of conduct	74%
Medium	External audit of financial statements	72%
Passive	Employee support programs	66%
Active	Internal audit department	66%
Medium	Management certification of financial statements	65%
Medium	External audit of internal controls over financial reporting	63%
Medium	Hotline	63%
Active	Management review	63%
Passive	Independent audit committee	56%
Passive	Fraud training for employees	55%
Passive	Fraud training for managers/executives	55%
Passive	Anti-fraud policy	51%
Active	Proactive data monitoring/analysis	43%
Active	Formal fraud risk assessments	42%
Active	Dedicated fraud department, function, or team	41%
Active	Surprise audits	35%
Medium	Job rotation/mandatory vacation	20%
Passive	Rewards for whistleblowers	14%

Other Real Examples

DATE MAY 31 2005
DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL

	DOLLARS	CENTS
CURRENCY	4891	00
COIN		25
CHECKS LIST EACH SEPARATELY	12750	05
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		
TOTAL FROM OTHER SIDE OR ATTACHED LIST		
PLEASE RE-ENTER TOTAL HERE	17641	92

\$ 17641.92

\$2,924.02 went missing

	DOLLARS	CENTS
CURRENCY	1967	-
COIN		25
CHECKS LIST EACH SEPARATELY	12750	05
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		
TOTAL FROM OTHER SIDE OR ATTACHED LIST		
PLEASE RE-ENTER TOTAL HERE	14717	90

\$ 14717.90

How Can You Catch This?

- Compare carbon copy deposit slip to cleared deposit slip from bank statement



Amount: \$ 29,794.51

Sequence Number: 3920553724

46385

DATE	AMOUNT
15-Sep-99	* \$29,794.51 *

PAY: ***** \$29,794.51 exactly *****

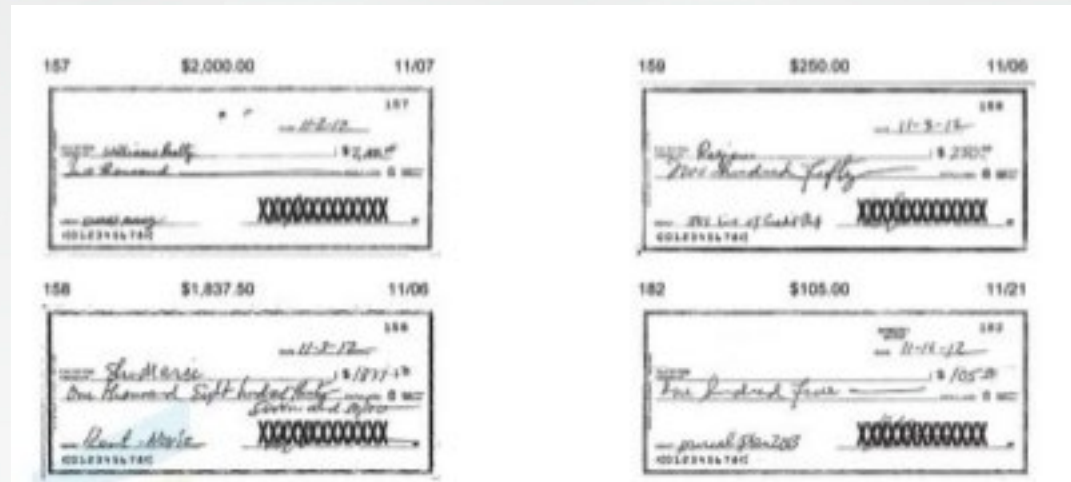
TO THE ORDER OF [Redacted] Medical Center
Tammy Phelps
% [Redacted] Medical Center
Attention: Patient Accounts
[Redacted] x N
[Redacted] 536

UP&UP Transmittal #46385

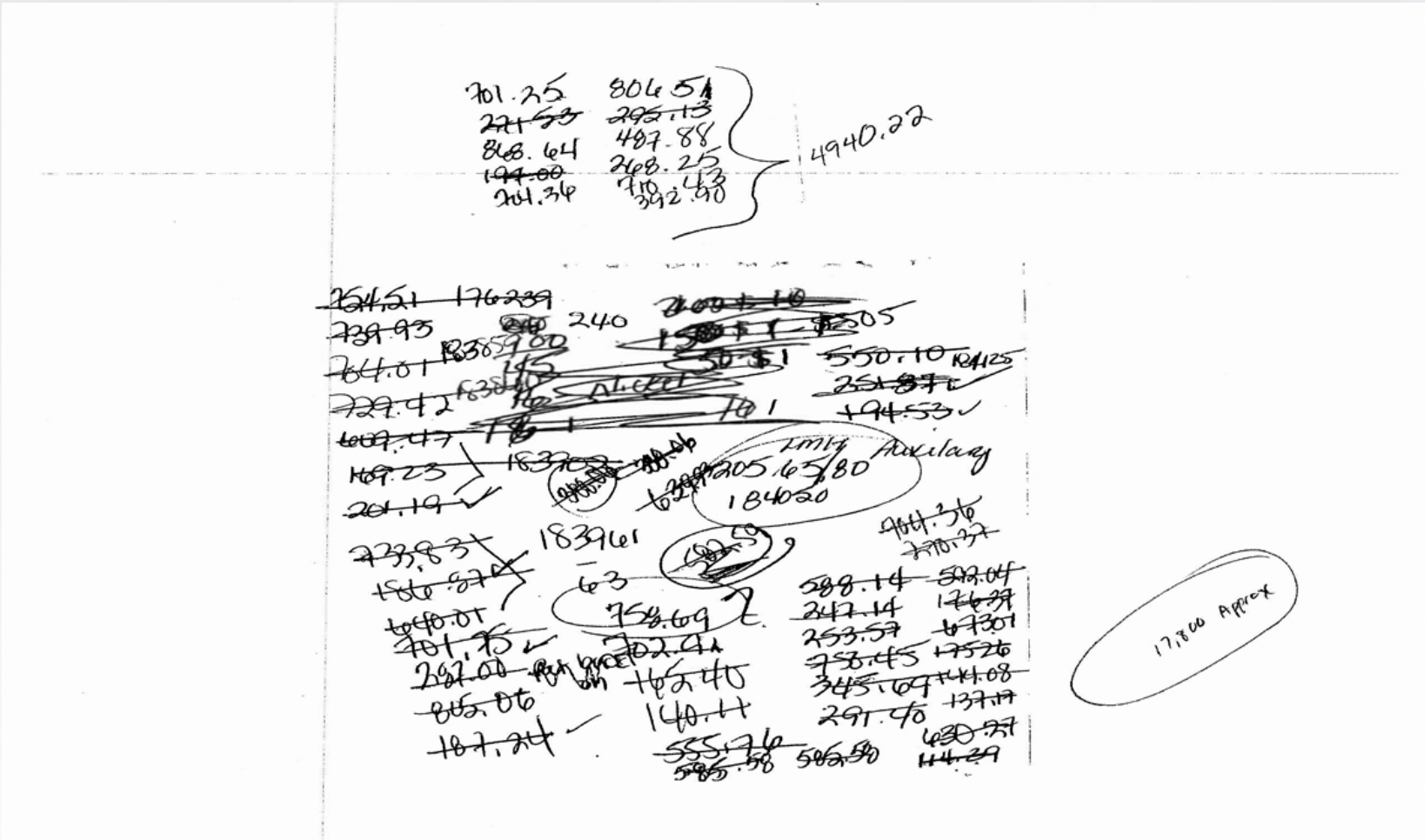
Charles Hill

How YOU Could Catch This

- Compare tiny check images to general ledger listing of checks
 - Is check there?
 - Payee the same?
 - Amount the same?



Actual Lapping tracking sheet from Hospital investigation



CONSIDER A/R COMPLAINT CALLS

- A/R Clerk or A/R Manager is assigned to take complaint calls
 - i.e. Why am I getting an invoice if I've already paid?
- Provided the ability to cover up issues
- CHANGE who receives these calls
 - Look into it without A/R's assistance
- MONITOR/LOG these calls.
 - Pattern?

DATA ANALYTICS BASICS

Definitions

Big Data

Information of extreme size, diversity and complexity.

- Gartner, Inc.

Source: <http://www.gartner.com/technology/topics/big-data.jsp>

Data Analytics

*...processes and activities designed to obtain and evaluate data to extract **useful information** and **answer strategic questions**...*

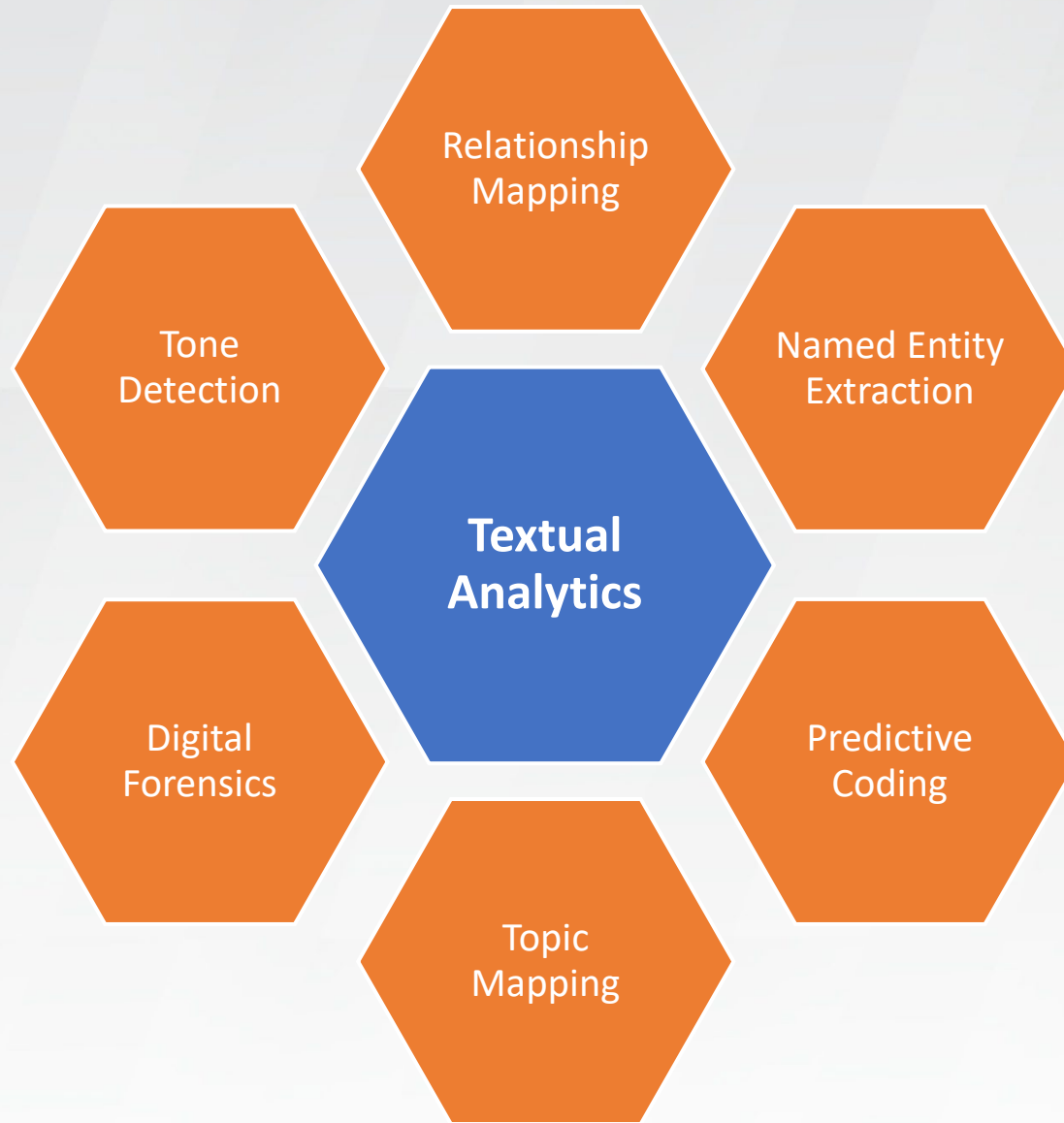
Summary of Categories

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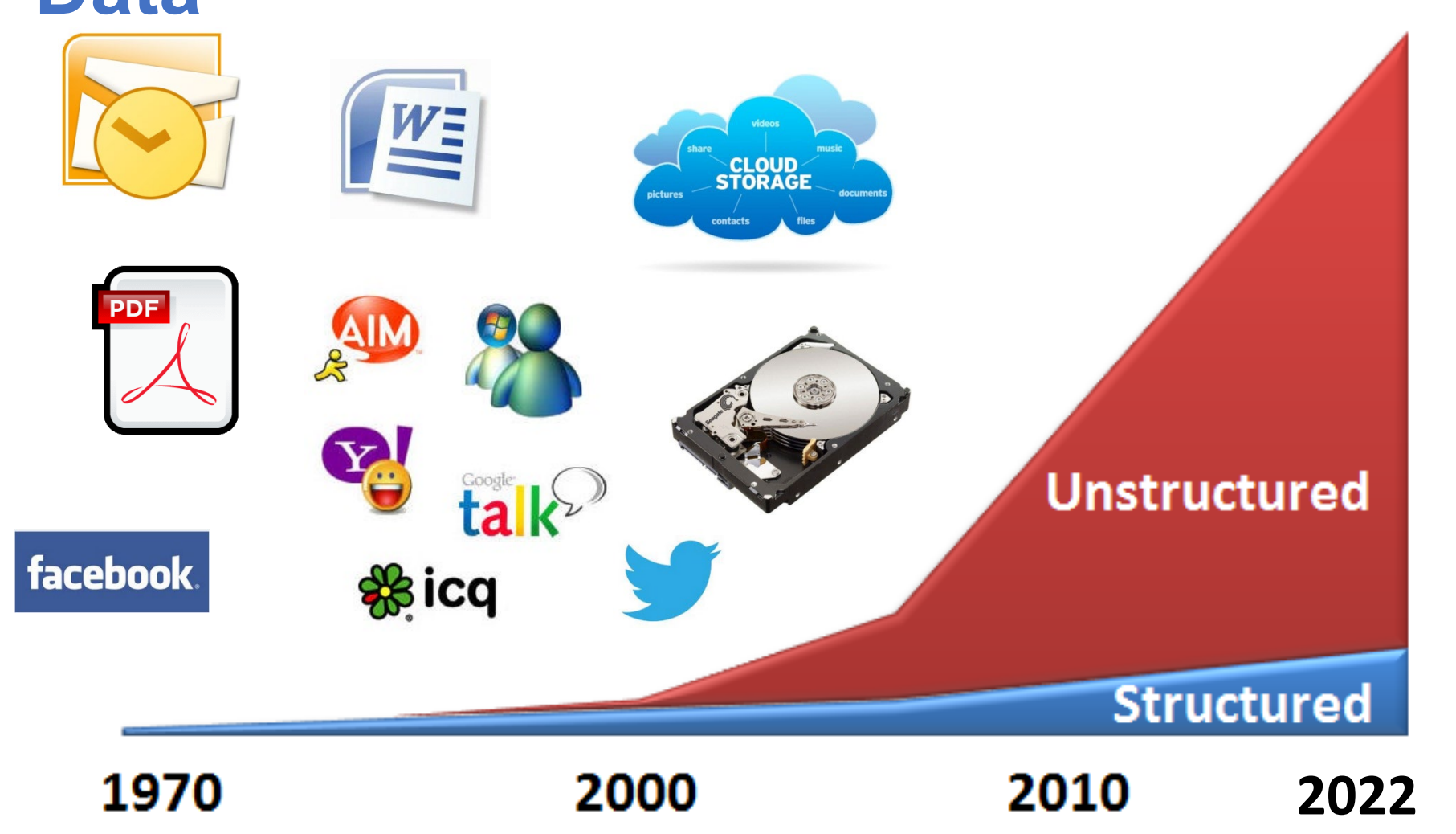
Job	Total Transactions	Transaction Count	Categorical Hits	Holiday Transactions	Transactions with Keywords	Transactions at Merchants of Interest	Potential Split Transactions	Transactions on PTO	Round Hundred Dollar Transactions	Weekend Transactions
Sales Representative	1,239,885.17	16,131	6	52	215	178	-	81	21	1,463
Vice President Sales	564,654.06	4,112	6	15	7	62	-	13	4	459
Technical Sales Rep	524,032.93	5,504	6	19	61	34	-	40	2	587
Business Unit Manager	495,998.25	5,001	6	16	10	79	-	12	2	454
Customer Service Rep	270,665.16	3,272	6	13	3	56	-	22	1	300
Executive Vice President	263,505.40	1,724	6	14	7	31	-	2	7	189
Regional Vice President	223,448.47	1,819	6	5	59	11	-	15	2	178
VP Operations	194,824.17	1,433	6	11	1	7	-	5	1	181
Print Production Manager	190,866.42	2,310	6	9	4	19	-	10	2	185
General Manager	156,892.40	1,915	6	5	21	4	-	23	2	215
Plant Manager	101,922.90	1,324	6	2	5	6	-	15	2	141
Production Manager	87,231.55	949	6	1	12	3	-	13	5	72
n/a	406,902.25	3,704	5	10	20	75	-	-	2	316
Sales Division Manager	297,656.65	2,470	5	10	3	31	-	3	-	217
Operations Manager	106,736.03	1,221	5	4	5	20	-	7	-	106
IT Manager	100,892.16	759	5	2	5	29	-	2	-	132
Finance Manager	79,946.48	507	5	1	-	7	-	1	4	39
Chief Financial Officer	77,086.00	317	5	1	15	1	-	1	-	27
CEO & President	72,371.44	433	5	6	5	1	-	1	-	60
Business Development Mgr	64,449.41	803	5	1	3	15	-	-	1	58
Quality Control Manager	50,332.81	634	5	1	-	7	-	5	1	42



TEXTUAL ANALYTICS



Growth and Types of Unstructured Data

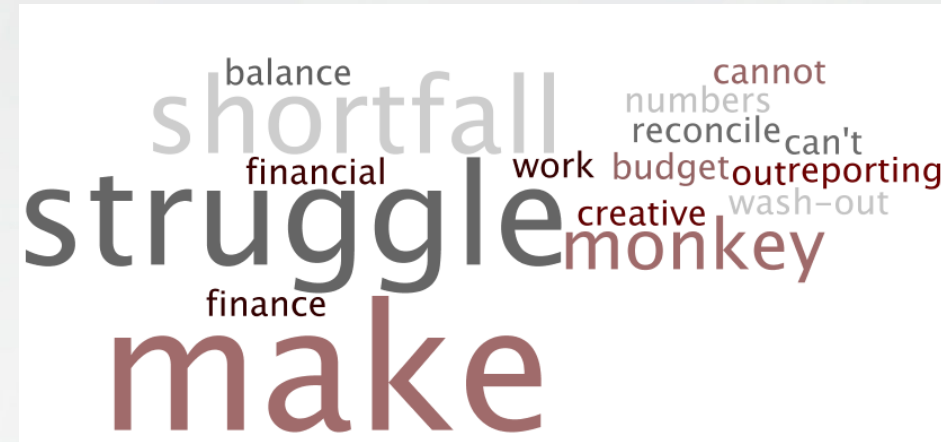


Topic Maps and Themes

“Normal” Finance Department



Financial Statement Fraud

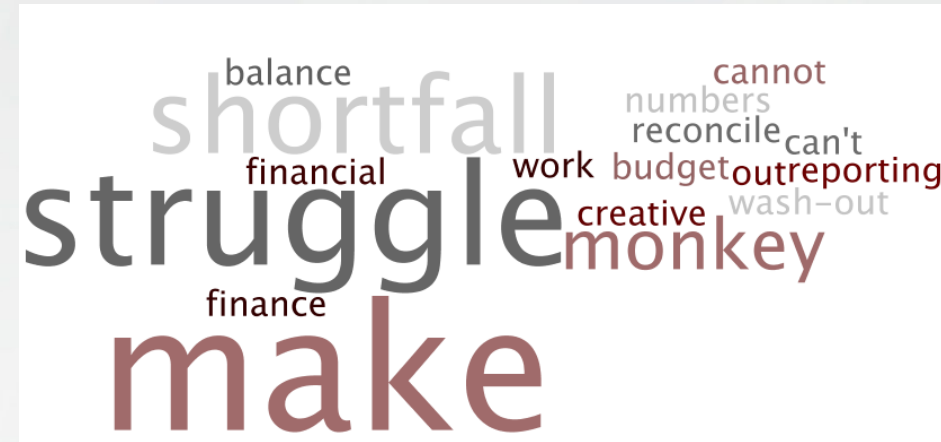


Topic Maps and Themes

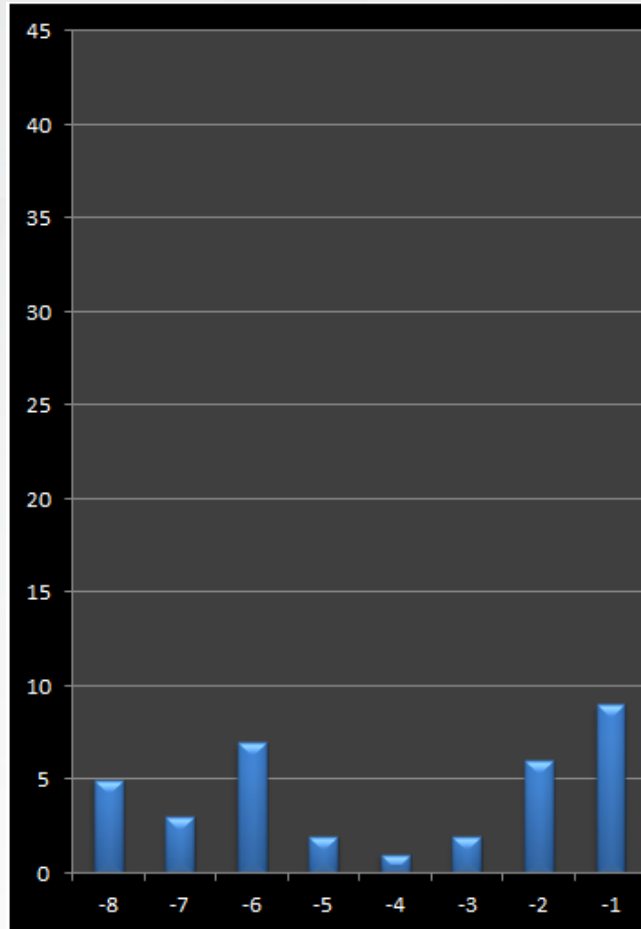
“Normal” Finance Department



Financial Statement Fraud



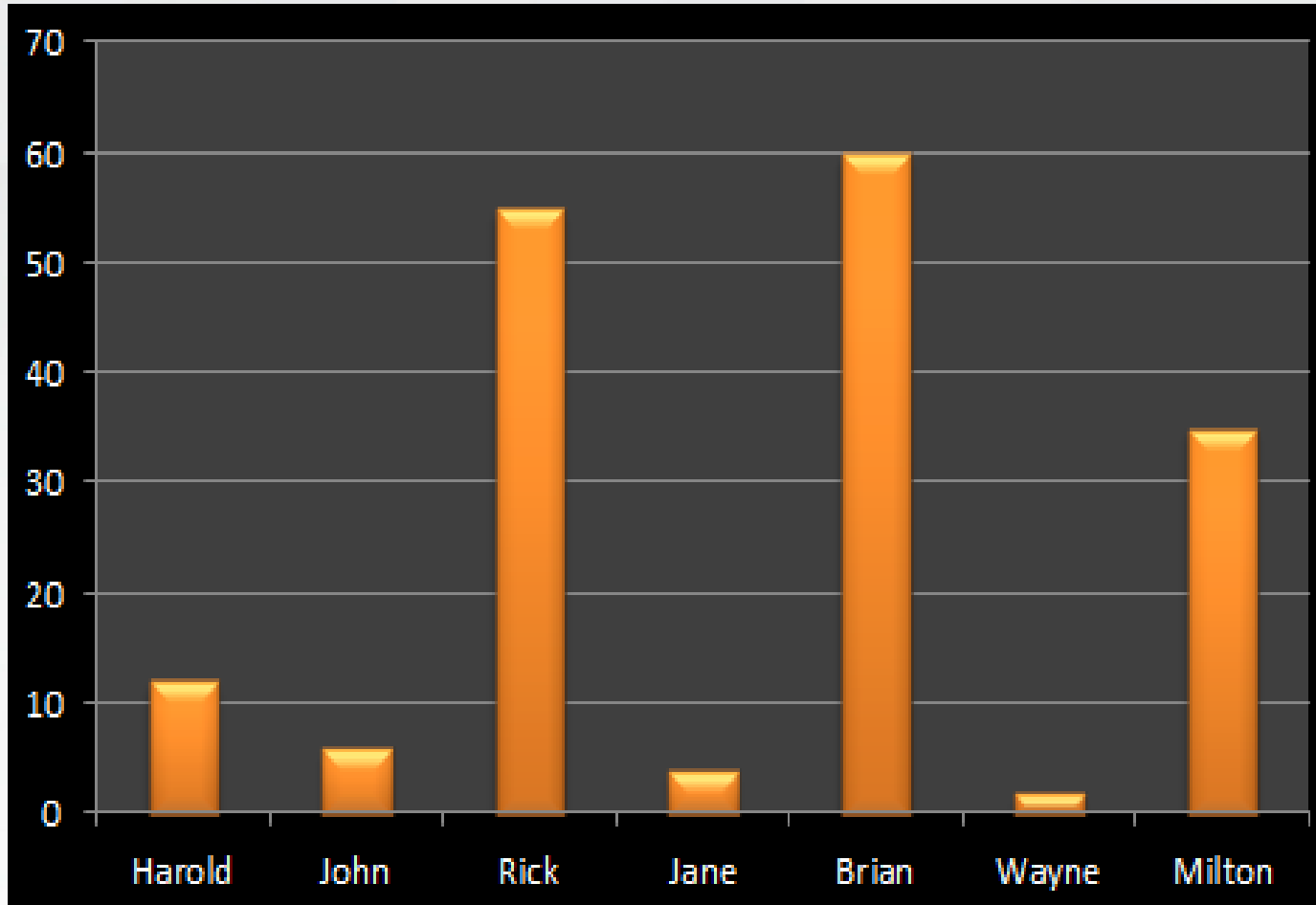
Tone Detection Case Study



Evasiveness
Vagueness
Tension,
Nervousness

Tone Detection Case Study

Evasiveness
Vagueness
Tension,
Nervousness



Questions?



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Thank you!

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