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Corporate Fraud is as Prevalent as it is Preventable

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by Chris Hamilton, CPA, CFE, CVA, DABFA

To kick off ACFE's Fraud Awareness Week, Author Chris Hamilton writes on the findings of this year's Global Fraud Study.

The 2012 Report to the Nations on Occupation Fraud and Abuse was published by the Association of Certified Fraud Examiners. For anyone who deals with prevention or detection of fraud there probably were no revelations in the report. The ACFE has been issuing a report for several years; what is most striking is that nothing really changes from year to year.

No Surprises from the ACFE

The executive summary of the report presents the summary of findings. If the reader of the summary is looking for a surprise it isn't in the findings. The big surprise every year is that in spite of all the advances in technology, techniques, and training, the report essentially says the same thing every year.

This is not a criticism of the report or an argument for giving up and letting the "bad guys" win. This is actually a call to reinvigorate the effort to educate business owners of the tremendous benefit of relatively easy preventive internal controls. Fraud is as prevalent as it is preventable.

3 Key Findings on Fraud

The following is a sampling of the major conclusions of the report with a brief description of preventive steps that are simple, inexpensive and effective in preventing fraud.

1. "Occupational fraud is more likely to be detected by a tip than by any other method."

A good system of internal control that divides function and authority over, and access to, assets may not always prevent fraud. But it likely will expose errors and malfeasance more quickly than waiting for a tip.

Waiting for a tip from an honest employee is inefficient and allows the theft to go on longer than necessary. This is also the conclusion of the report, "The presence of anti-fraud controls is notably correlated with the significant decreases in the cost and duration of occupational fraud schemes."

2. "The industries most commonly victimized in our current study were the banking and financial services, government and public administration, and manufacturing sectors."

Anyone who does significant fraud investigation work has experienced the natural inclination of management or ownership to cover-up, hide the bad news, and choose to not prosecute the white collar criminal civilly or criminally. This is acutely true of government and banking sectors.

This leads to another conclusion of the report that nearly half the victims do not recover any fraud losses. A vigorous pursuit of prosecution and recovery is expensive, time consuming, and generally feels like salt in the wound. However, a failure to do so sends a signal that the next person can also steal and probably get away with it.

3. "In 81% of cases, the fraudster displayed one or more behavioral red flags that are often associated with fraudulent conduct."

As noted in a previous blog post, business owners need to believe their eyes. Factors such as lifestyle, personal difficulties, strange behavior, moral failings and certain personality types are accurate predictors of fraudulent behavior. It is so common that investigators are accustomed to the victim looking back and saying "I should have known."

Implement Controls

Potential victims are the front-line of defense. There is no doubt that there are some sophisticated operators out there who know how to bypass controls and oversight to steal assets. They are the exception.

Mostly, fraud is a function of motivation and opportunity. Potential victims must understand that dynamic and manage accordingly.

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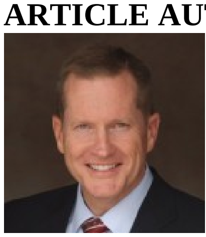

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