ACFE Association of Certified Fraud Examiners | Together, Reducing Fraud Worldwide

2016 Global Fraud Study

Report to the Nations on occupational Fraud and Abuse

The 2016 edition of the Report is based on 2'410 cases of occupational fraud that occurred in more than 114 countries. All information was provided by Certified Fraud Examiners (CFEs) who investigated those cases.

Executive Summary

The CFEs who participated in our survey estimated that the typical organization **loses 5% of revenues in a given year** as a result of fraud.

The **total loss** caused by the cases in our study exceeded $6.3 billion, with an average loss per case of $2.7 million. The **median loss** for all cases in our study was $150,000, with 23.2% of cases causing losses of $1 million or more.

Asset misappropriation was by far the most common form of occupational fraud, occurring in more than 83% of cases, but causing the smallest median loss of $125,000. **Financial statement fraud** was on the other end of the spectrum, occurring in less than 10% of cases but causing a median loss of $975,000. **Corruption** cases fell in the middle, with 35.4% of cases and a median loss of $200,000.

Among the various forms of asset misappropriation, **billing schemes and check tampering** schemes posed the greatest risk based on their relative frequency and median loss.

The longer a fraud lasted, the greater the financial damage it caused. While the **median duration** of the frauds in our study was 18 months, the losses rose as the duration increased. At the extreme end, schemes that lasted more than five years caused a median loss of $850,000.

In 94.5% of the cases in our study, the perpetrator took some efforts to conceal the fraud. The most common **concealment** methods were creating and altering physical documents.

The most common **detection** method in our study was tips (39.1% of cases), but organizations that had reporting hotlines were much more likely to detect fraud through tips than organizations without hotlines (47.3% compared to 28.2%, respectively).

When fraud was uncovered through **active detection** methods, such as surveillance and monitoring or account reconciliation, the median loss and median duration of the schemes were lower than when the schemes were detected through **passive methods**, such as notification by police or by accidental discovery.

In cases detected by tip at organizations with formal fraud reporting mechanisms, **telephone hotlines** were the most commonly used method (39.5%). However, tips submitted via email (34.1%) and web-based or online form (23.5%) combined to make reporting more common through the Internet than by telephone. **Whistleblowers** were most likely to report fraud to their direct supervisors (20.6% of cases) or company executives (18%).

Approximately two-thirds of the cases reported to us targeted **privately held or publicly owned** companies. These for-profit organizations suffered the largest median losses among the types of organizations analysed, at $180,000 and $178,000, respectively.

Of the cases involving a **government victim**, those that occurred at the federal level reported the highest median loss ($194,000), compared to state or provincial ($100,000) and local entities ($80,000).

The median loss suffered by **small organizations** (those with fewer than 100 employees) was the same as that incurred by the largest organizations (those with more than 10,000 employees). However, this type of loss is likely to have a much **greater impact** on smaller organizations.

Organizations of different sizes tend to have **different fraud risks**. Corruption was more prevalent in larger organizations, while check tampering, skimming, payroll, and cash larceny schemes were twice as common in small organizations as in larger organizations.

The banking and financial services, government and public administration, and manufacturing industries were the most represented **sectors** in the fraud cases we examined. Although mining and wholesale trade had the fewest cases of any industry in our study, those industries reported the greatest median losses of $500,000 and $450,000, respectively.

As in previous studies, external audits of the financial statements were the most commonly implemented **anti-fraud control**; nearly 82% of the organizations in our study underwent independent audits. Similarly, 81.1% of organizations had a code of conduct in place at the time the fraud occurred.

Small organizations had a significantly **lower implementation rate** of anti-fraud controls than large organizations. This gap in fraud prevention and detection coverage leaves small organizations extremely susceptible to frauds that can cause significant damage to their limited resources.

While the implementation rates of anti-fraud controls varied by geographical region, several controls—external audits of the financial statements, code of conduct, and management certification of the financial statements—were consistently among the **most commonly implemented** across organizations in all locations.

The presence of anti-fraud controls was correlated with both **lower fraud losses and quicker detection**. We compared organizations that had specific anti-fraud controls in place against organizations lacking those controls and found that where controls were present, fraud losses were 14.3%–54% lower and frauds were detected 33.3%–50% more quickly.

The most prominent **organizational weakness** that contributed to the frauds in our study was a lack of internal controls, which was cited in 29.3% of cases, followed by an override of existing internal controls, which contributed to just over 20% of cases.

The **perpetrator's level of authority** was strongly correlated with the size of the fraud. The median loss in a scheme committed by an owner/executive was $703,000. This was more than four times higher than the median loss caused by managers ($173,000) and nearly 11 times higher than the loss caused by employees ($65,000).

More occupational frauds originated in the accounting department (16.6%) than in any other business unit. Of the frauds we analyzed, more than three-fourths were commit-ted by individuals working in **seven key departments**: accounting, operations, sales, executive/upper management, customer service, purchasing, and finance.

The more **individuals involved** in an occupational fraud scheme, the higher losses tended to be. The median loss caused by a single perpetrator was $85,000. When two people conspired, the median loss was $150,000; three conspirators caused $220,000 in losses; four caused $294,000; and for schemes with five or more perpetrators, the median loss was $633,000.

Fraud perpetrators tended to display behavioural warning signs when they were engaged in their crimes. The most common **red flags** were living beyond means, financial difficulties, unusually close association with a vendor or customer, excessive control issues, a general "wheeler-dealer" attitude involving unscrupulous behaviour, and recent divorce or family problems. At least one of these red flags was exhibited during the fraud in 78.9% of cases.

Most occupational fraudsters are **first-time offenders**. Only 5.2% of perpetrators in this study had previously been convicted of a fraud-related offense, and only 8.3% had previously been fired by an employer for fraud-related conduct.

In 40.7% of cases, the victim organizations decided not to refer their fraud cases to **law enforcement**, with fear of bad publicity being the most-cited reason.

Of the cases in our study, 23.1% resulted in a **civil suit**, and 80.8% of such completed suits led to either a judgment for the victim or a settlement.

In our study, 8.4% of the **victim organizations were fined** as a result of the fraud. The proportion of victim organizations fined was highest in the Western Europe (15.6%), Southern Asia (13.6%), and Asia-Pacific (11.7%) regions.

The full report is available at www.acfe.com/RTTN.