

Minimize Fraud Risk - Current Trends & Hot Topics

Business Disruption is Inevitable and Happening at an Accelerated Pace



Requiring a Recalibration of Vision to Uncover New Opportunities



Re-imagining
People Strategy



Empowering
Operations



Navigating
Disruption



Digital
Transformation

AREA OF FOCUS

Today, We're Covering

Navigating Disruption

KNOWLEDGE

Learning Objectives



Identify occupational fraud and schemes



Review findings on fraud from the ACFE Report to the Nations



Summarize keys to fraud prevention and detection



Discuss “Fraud War Stories” and how to conduct an investigation



Impact of the changing workforce on fraud

WELCOME

Today's Presenters



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Exploring New Areas

Agenda

- Occupational Fraud Categories & Schemes
- Findings from the ACFE 2022 Report to the Nations on Occupational Fraud & Abuse
- Impact of the Changing Workforce on Fraud
- Keys to Fraud Prevention & Detection
- Conducting a Fraud/Forensic Investigation
- Q & A

Questions to Consider

- Where could fraud occur in your organization?
- What is your fraud risk?
- Do you have adequate policies, controls and processes in place designed to prevent fraud from occurring or detect it early to lessen your financial losses?
- Have you reassessed your policies because of the pandemic and the economy?
- How often do you conduct a fraud risk assessment?

Occupational Fraud Categories & Schemes

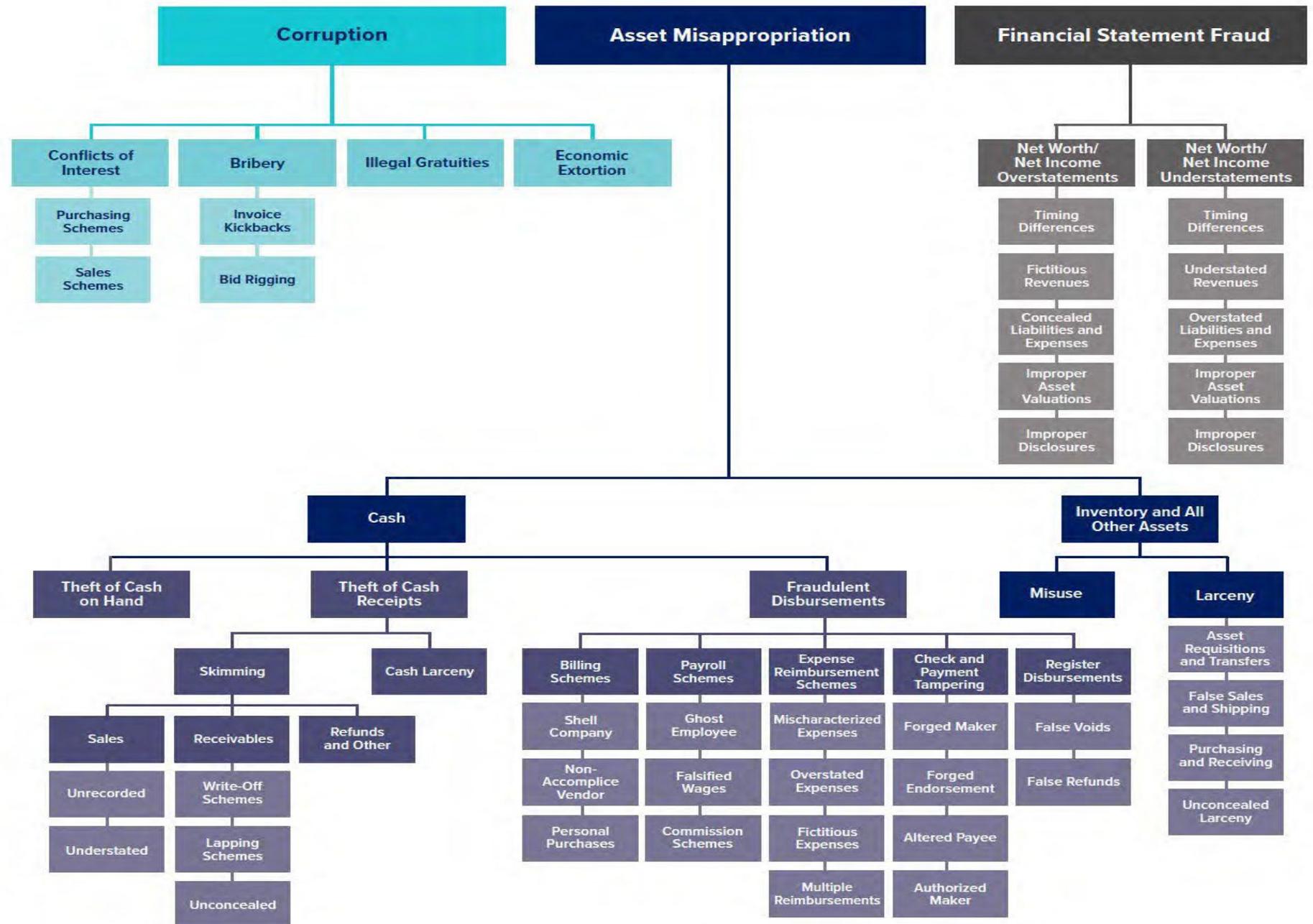
What is Occupational Fraud?

Use of one's occupation for personal enrichment through the deliberate misuse or application of the employing organization's resources/assets.

Three General Categories

1. **Asset misappropriation** – Employee steals or misuses an organization's resources.
2. **Corruption** – Employee's use of influence in business transactions in a way that violates duty to the employer for the purpose of obtaining benefit for self or someone else.
3. **Financial statement fraud** – Intentional misstatement or omission of material information in the organization's financial reports.

Association of Certified Fraud Examiners (ACFE) Fraud Tree



SOURCE: ACFE Report to the Nations: 2022 Global Study on Occupational Fraud and Abuse

Findings from the ACFE 2022 Report to the Nations on Occupational Fraud & Abuse

Key Findings

2022 ACFE Fraud Study

Estimated organizations lose 5% of annual revenue to fraud.

Asset misappropriation was most common, occurring in 86% of cases with median loss of \$100,000.

Financial statement fraud was least common, but most costly with median loss of \$593,000.

Fraud lasted a median of 12 months.

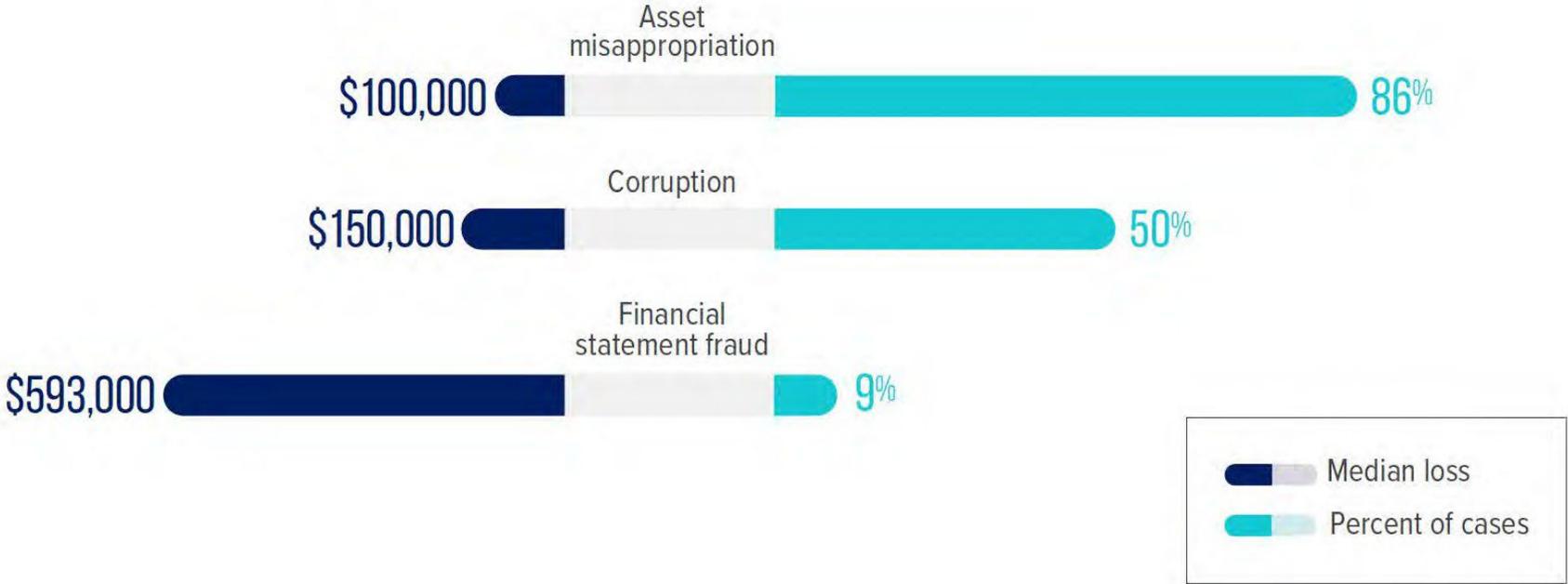
Occupational frauds are most likely to be detected by tips (42%); over half from employees.

85% of Fraud perpetrators displayed behavioral red flags.

Organizations that implemented anti-fraud controls (Ex., Hotline) realized lower fraud losses.

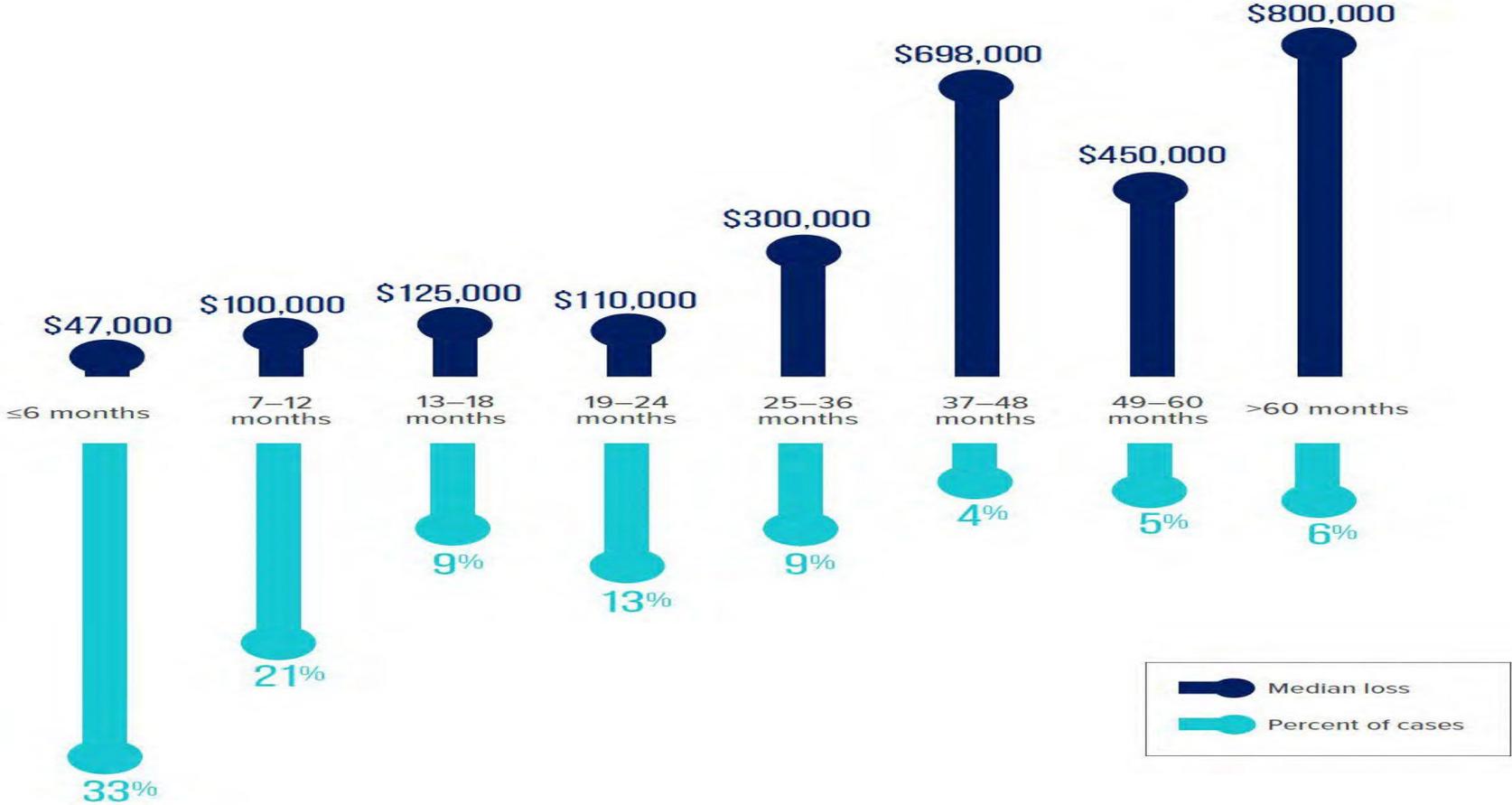
Nearly half of frauds occurred due to deficiencies in internal controls.

FIG. 2 HOW IS OCCUPATIONAL FRAUD COMMITTED?



SOURCE: ACFE Report to the Nations: 2022 Global Study on Occupational Fraud and Abuse

FIG. 6 HOW DOES THE DURATION OF A FRAUD RELATE TO MEDIAN LOSS?



SOURCE: ACFE Report to the Nations: 2022 Global Study on Occupational Fraud and Abuse

FIG. 10 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?

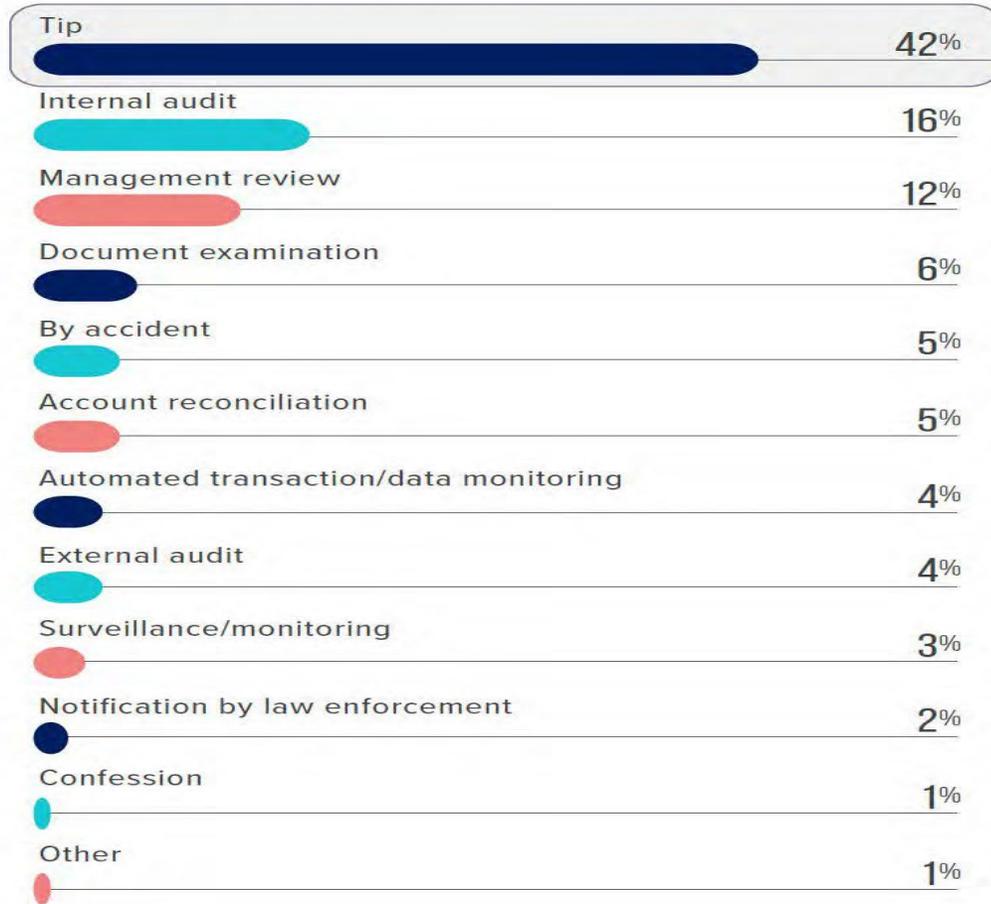


FIG. 11 WHO REPORTS OCCUPATIONAL FRAUD?



FIG. 12 HOW DOES DETECTION METHOD RELATE TO FRAUD LOSS AND DURATION?



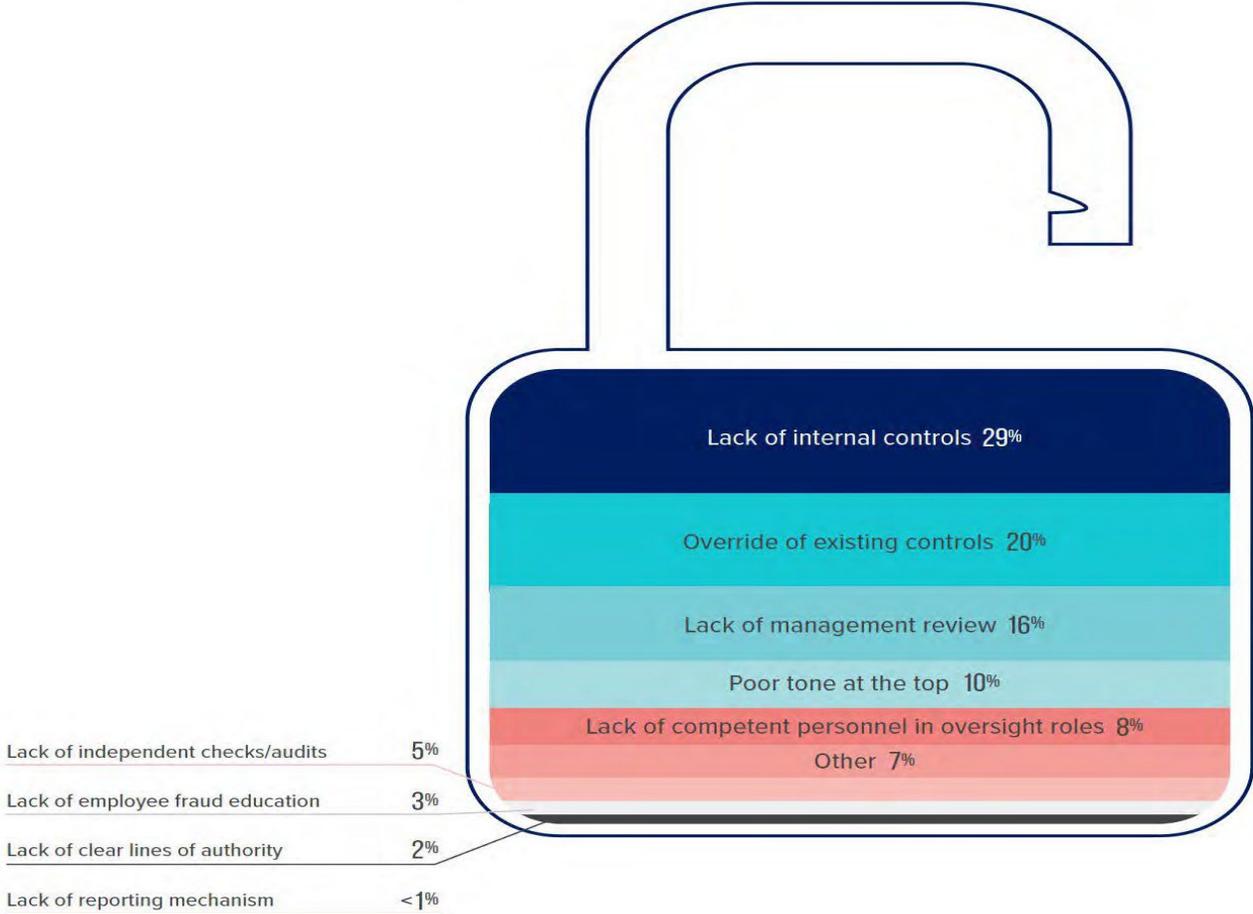
SOURCE: ACFE Report to the Nations: 2022 Global Study on Occupational Fraud and Abuse

Top 10 Industries (By Loss) Impacted by

INDUSTRY	MEDIAN LOSS	CASES
Real Estate	\$435,000	41
Wholesale Trade	\$400,000	28
Transportation and Warehousing	\$250,000	82
Construction	\$203,000	78
Utilities	\$200,000	30
Manufacturing	\$177,000	194
Mining	\$175,000	22
Agriculture, Forestry, Fishing, and Hunting	\$154,000	39
Government and Public Administration	\$150,000	198
Technology	\$150,000	84

SOURCE: ACFE Report to the Nations: 2022 Global Study on Occupational Fraud and Abuse

FIG. 29 WHAT ARE THE PRIMARY INTERNAL CONTROL WEAKNESSES THAT CONTRIBUTE TO OCCUPATIONAL FRAUD?

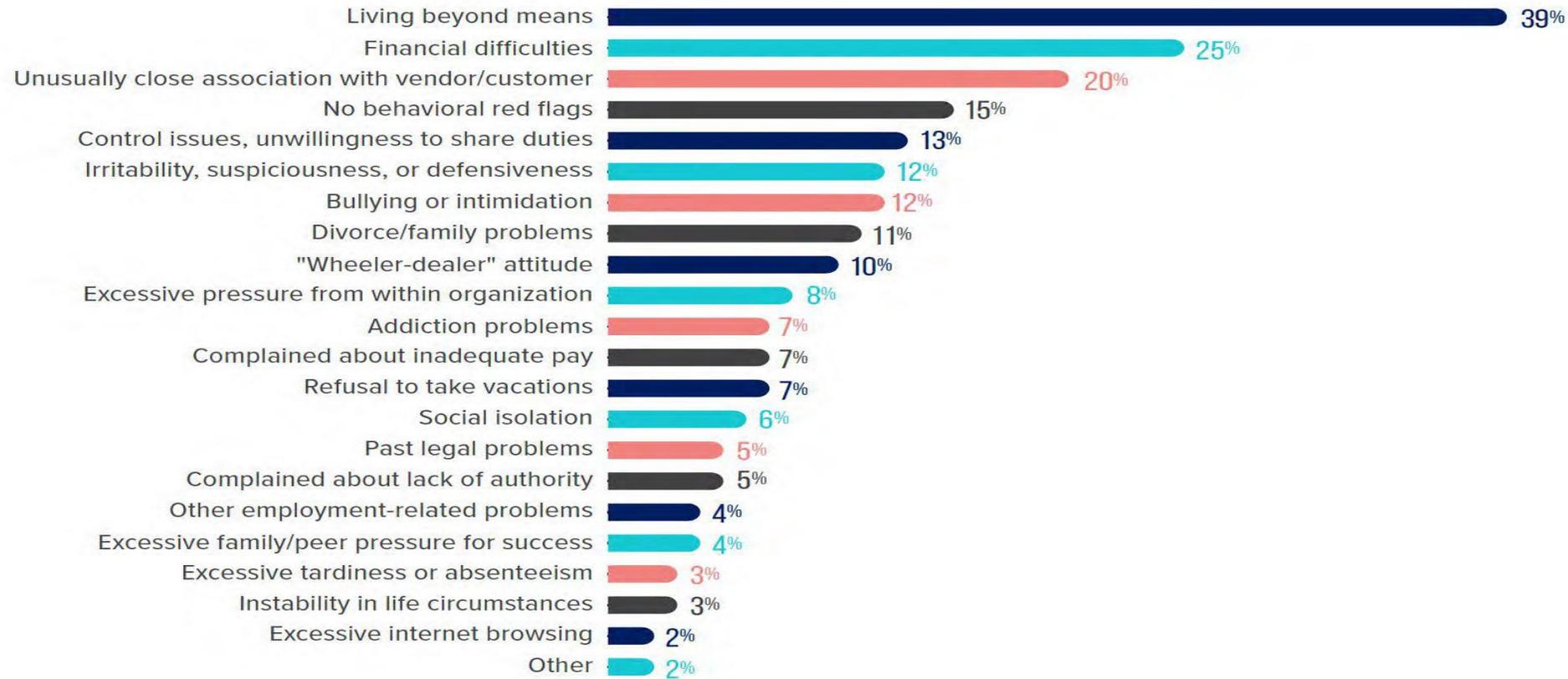


SOURCE: ACFE Report to the Nations: 2022 Global Study on Occupational Fraud and Abuse

How Does the Presence of Anti-Fraud Controls Relate to Median Loss?

Control	Percent of cases	Control in place	Control not in place	Percent reduction
Job rotation/mandatory vacation	25%	\$ 64,000	\$140,000	54%
Hotline	70%	\$100,000	\$200,000	50%
Surprise audits	42%	\$ 75,000	\$150,000	50%
Proactive data monitoring/analysis	45%	\$ 80,000	\$150,000	47%
Anti-fraud policy	60%	\$100,000	\$183,000	45%
Fraud training for employees	61%	\$ 97,000	\$177,000	45%
Formal fraud risk assessments	46%	\$ 82,000	\$150,000	45%
Code of conduct	82%	\$100,000	\$168,000	40%
Fraud training for managers/executives	59%	\$100,000	\$165,000	39%
Internal audit department	77%	\$100,000	\$150,000	33%
Dedicated fraud department, function, or team	48%	\$100,000	\$150,000	33%
External audit of internal controls over financial reporting	71%	\$100,000	\$150,000	33%
Management review	69%	\$100,000	\$150,000	33%
External audit of financial statements	82%	\$100,000	\$150,000	33%
Management certification of financial statements	74%	\$100,000	\$140,000	29%
Independent audit committee	67%	\$103,000	\$142,000	27%
Employee support programs	56%	\$ 90,000	\$120,000	25%
Rewards for whistleblowers	15%	\$100,000	\$105,000	5%

SOURCE: ACFE Report to the Nations: 2022 Global Study on Occupational Fraud and Abuse

FIG. 44 HOW OFTEN DO PERPETRATORS EXHIBIT BEHAVIORAL RED FLAGS?


Top 5 Concealment Methods

1. Created fraudulent physical documents – 39%
2. Altered physical documents – 32%
3. Created fraudulent electronic documents or files – 28%
4. Altered electronic documents or files – 25%
5. Destroyed or withheld physical documents – 23%



Impact of the Changing Workforce on Fraud

Background

- Through 2021 - 47.4 million workers voluntarily left their jobs.
 - Top three reasons:
 - ✓ Career opportunities
 - ✓ Health and family
 - ✓ Work-life balance
 - Per McKinsey & Co's 2022 Great Attrition Survey – 40% of U.S. respondents were likely to leave their current job in next 3 to 6 months

Fraud Risks

- Heightened financial reporting risks and ineffective control over financial reporting due to loss of specialized experience
- Segregation of duties
- Employee data theft
- Data breaches
- Phishing
- Smishing
- Hiring the "wrong candidate"
- Third parties and vendors

Controls to Mitigate Potential Fraud Risks

- Train employees on cyber fraud risks
- Establish technological processes to secure hybrid work environments
- Implement IT controls for onboarding and offboarding
- Foster a culture of belonging and integrity where employees feel valued and do the right thing

Keys to Fraud Prevention & Detection

Establish a Fraud Risk Governance Program

- Make an organizational commitment to fraud risk management
- Establish a comprehensive fraud risk management policy
- Establish fraud risk governance roles and responsibilities
- Document the fraud risk management program
- Communicate fraud risk at all organizational levels and train
- Implement a Fraud Hotline

Conduct a Fraud Risk Assessment

- Include board, executive management, departments/divisions, operating units and functional levels
- Analyze internal and external factors related to ACFE Fraud categories and schemes
- Consider using a survey tool or questionnaire
- Consider various types of fraud
- Consider the risk of management override of controls
- Estimate the likelihood and significance of risks identified
- Assess personnel/departments involved and the fraud triangle
- Identify existing fraud control activities and assess their effectiveness
- Determine how to respond to risks
- Perform periodic reassessments and assess changes to fraud risk
- Document the risk assessment
- Consider risk assessment when planning your audits

Example of Fraud Risk Assessment Tool

Fraud Risks	Risk Likelihood Low = 1 Med = 2 High = 3	Risk Magnitude Low = 1 Med = 2 High = 3	Inherent Fraud Risk Assessment	Control Activity	Control Prevention/Detection Assessment Low = 3 Med = 2 High = 1	Overall Risk Assessment	Risk Priority	Deficiency	Recommendation
Asset Misappropriation - Theft of Cash on Hand.			-			-			
Asset Misappropriation - Theft of Cash Receipts - Skimming (Cash stolen before recording in books - sales, receivables, refunds/credits).									
Asset Misappropriation - Theft of Cash Receipts - Cash Larceny (Cash stolen after recording in books).									
Asset Misappropriation - Fraudulent Disbursements - Check Tampering (Steal employer funds by intercepting, forging or altering a check drawn on the organization's bank account.).									
Asset Misappropriation - Fraudulent Disbursements - Cash Register Disbursements (Employee makes false entries on cash register to conceal the fraudulent removal of cash).									

Example of Fraud Risk Assessment Summary

Potential Occupational Fraud Schemes	OCCUPATIONAL FRAUD RISK							
	DEPT A	DEPT B	DEPT C	DEPT E	DEPT F	DEPT G	DEPT H	DEPT I
Asset Misappropriation - Theft of Cash on Hand.	High	High	Low	Low	Low	High	Moderate	Low
Asset Misappropriation - Skimming (Receipts stolen before recording in books - sales, receivables, refunds/credits).	High	High	Low	Low	Low	High	Low	Low
Asset Misappropriation - Cash Larceny (Receipts stolen after recording in books).	High	High	Low	Low	Low	High	Low	Low
Asset Misappropriation - Check Tampering (Intercept, forge or alter a check drawn on the organization's bank account.).	Low	Low	Low	Low	Low	Low	Low	Low
Asset Misappropriation - Cash Register Disbursements (False entries on cash register to conceal the fraudulent removal of cash).	High	High	Low	Low	Low	High	Low	Low
Asset Misappropriation - Purchasing/Billing (Invoices for fictitious goods or services, inflated invoices or invoices for personal purchases).	Moderate	Moderate	Low	Moderate	Moderate	Moderate	Low	Low
Asset Misappropriation - Payroll (False claims for compensation).	Moderate	Moderate	Low	Moderate	Moderate	Moderate	Low	Low
Asset Misappropriation - Expense Reimbursements (Fictitious or inflated business expenses).	Low	Low	Low	Low	Moderate	Moderate	Low	Low
Asset Misappropriation - Inventory (Theft or misuse of organization inventory)	High	High	Low	Low	Moderate	Low	Low	Low
Asset Misappropriation - Fixed Assets/Supplies/ etc. (Theft or misuse of organization assets)	High	Moderate	Low	Moderate	High	Low	Moderate	Low
Corruption - Conflict of Interest	Low	Low	Low	Low	Low	Moderate	Low	Low
Corruption - Bribery	Low	Low	Low	Low	Low	Moderate	Low	Low
Financial Statement Fraud - Asset/Revenue Overstatement	Low	Low	Low	Low	Low	Moderate	Low	Low
Financial Statement Fraud - Asset/Revenue Understatement.	Low	Low	Low	Low	Low	Moderate	Low	Low

Implement Fraud Prevention & Detection

- Promote fraud deterrence through preventative and detective control activities
- Integrate with the fraud risk assessment
- Consider organization-specific factors and relevant business processes
- Consider the application of control activities to different levels of the organization
- Utilize a combination of fraud control activities
 - Preventative controls (e.g., Segregation of duties, limited system access, etc.)
 - Detective controls (e.g., Bank reconciliations, surprise cash counts, etc.)
 - Human Resource Procedures (e.g., Background investigations, segregation of duties, Whistleblower System, etc.)
- Consider management override of controls
- Use proactive data analytic procedures
- Deploy control activities through policies and procedures

Conduct Fraud Investigations & Take Corrective Action

- Establish fraud investigation and response protocols
- Conduct investigations
- Communicate investigation results
- Take corrective action
- Evaluate investigation performance

Conducting a Fraud/Forensic Investigation

Fraud and Forensic Investigations – Framework

Establishing the focus of the investigation, key issues and approach.

Key establishing items/information:

- Key issues – financial statements, asset misappropriation, etc.?
- Who might be involved?
- What is the time period in question?
- What documents and information may be available?

Establishing this framework, on an initial basis is key. Keep in mind, these may change over time as more information is gathered.

Establish an Approach and Team

As information about the issue is obtained, an investigative approach and team is established.

Key items:

- Running a conflicts check

- Preparing an engagement letter

- Putting a project plan in place

- Establishing an engagement team

Investigative Steps

Key items:

- Obtaining documents and information
- Working on-site or remotely?
- Key contacts on the client side
- Maintaining confidentiality
- Conducting interviews

Finalizing and Summarizing Findings

Key items:

- Work with counsel and client on form of deliverable
- Work product should align with intended reader (Board Meeting, counsel, court, etc.)
- Maintain documentation and file as directed and in line with standard practice

Investigations – Real World Examples

Investigations relating to potential fraudulent behavior:

- Public officials - corruption and misappropriation
- Project manager - stale vendor to make payments to himself
- Nonprofit executive director - T&E, purchase card, and other suspicious activities
- Vendor invoicing – time entries, dates, rate issues

Q&A

Thank you for
attending

Additional Questions?

Contact us:

- Patrick.Chylinski@armanino.com
- Ron.Steinkamp@armanino.com
- Experts@armanino.com

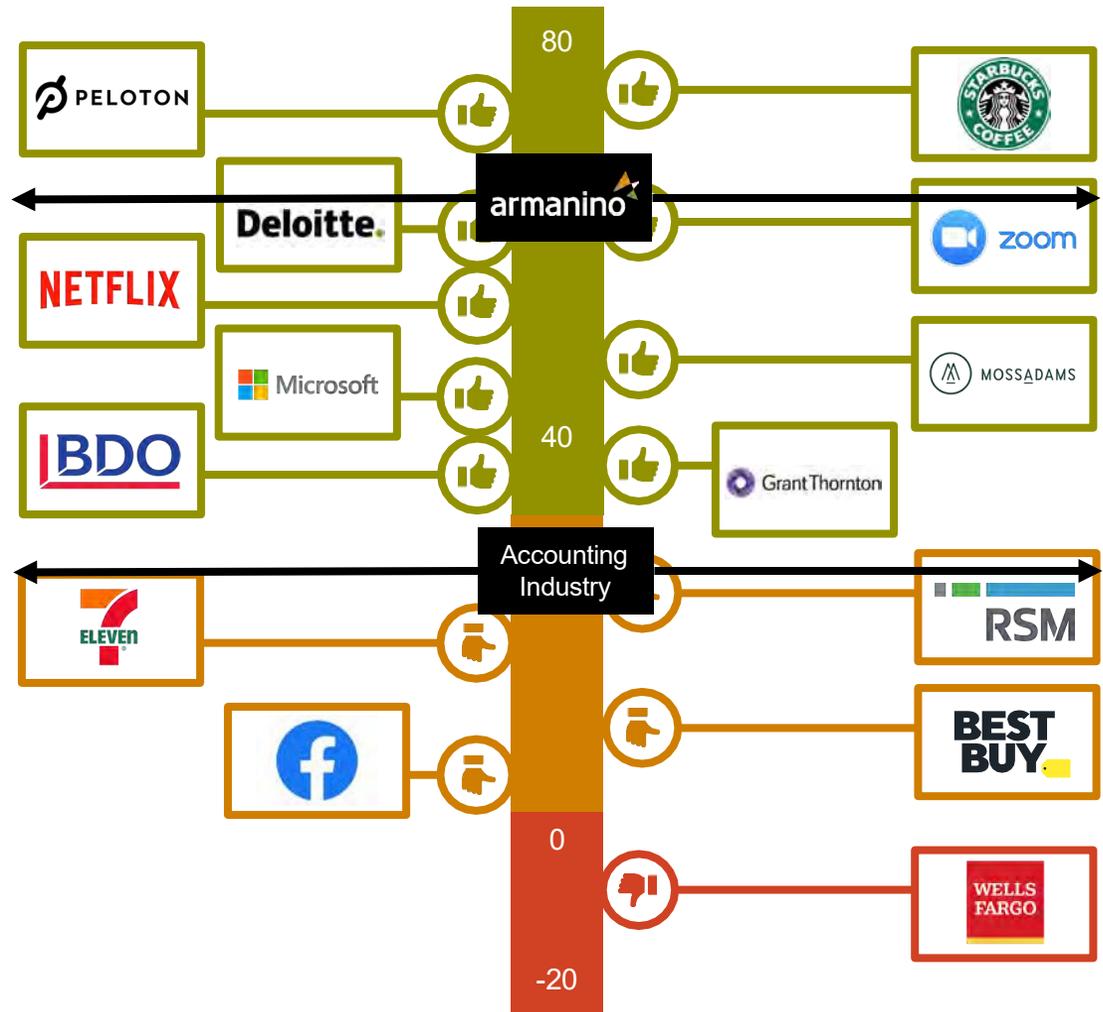


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