



Audit Subcommittee of the Executive Committee

Advisory Services: Introduction to Fraud

Item 3d

July 23, 2024

Item #3d
Committee
Request

Subject

Advisory Services: Introduction to Fraud

Purpose

To provide information to the Board on occupational fraud

Introduction to Fraud

Presentation

1. Fraud Basics
2. Fraud Research



Fraud Basics

Fraud Basics

ACFE

- The Association of Certified Fraud Examiners (ACFE) is the world's largest anti-fraud organization.
- The mission of the ACFE is to reduce the incidence of fraud and white-collar crime and to assist the membership in fraud detection and deterrence.
- 90,000+ worldwide members founded in 1985
- Members include CPAs, auditors, lawyers, investigators, law enforcement officers, security professionals, executives, managers, and anyone whose job involves preventing, detecting, or deterring fraud

Fraud Basics

Fraud Defined

- “Fraud” is any activity that relies on deception in order to achieve a gain.
- Fraud becomes a crime when it is a “knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment” (Black’s Law Dictionary).
- In other words, if you lie in order to deprive a person or organization of their money or property, you’re committing fraud.

Source: Association of Certified Fraud Examiners (ACFE)

Fraud Basics

Why Do People Commit Fraud?

Fraud Triangle

- Unshareable Financial Need
- Perceived Opportunity
- Rationalization



Source: Association of Certified Fraud Examiners (ACFE)

Fraud Basics

ACFE Fraud Tree

Occupational Fraud

- Corruption
- Asset Misappropriation
- Financial Statement Fraud

Other Categories

- Against individuals
- External organizational fraud

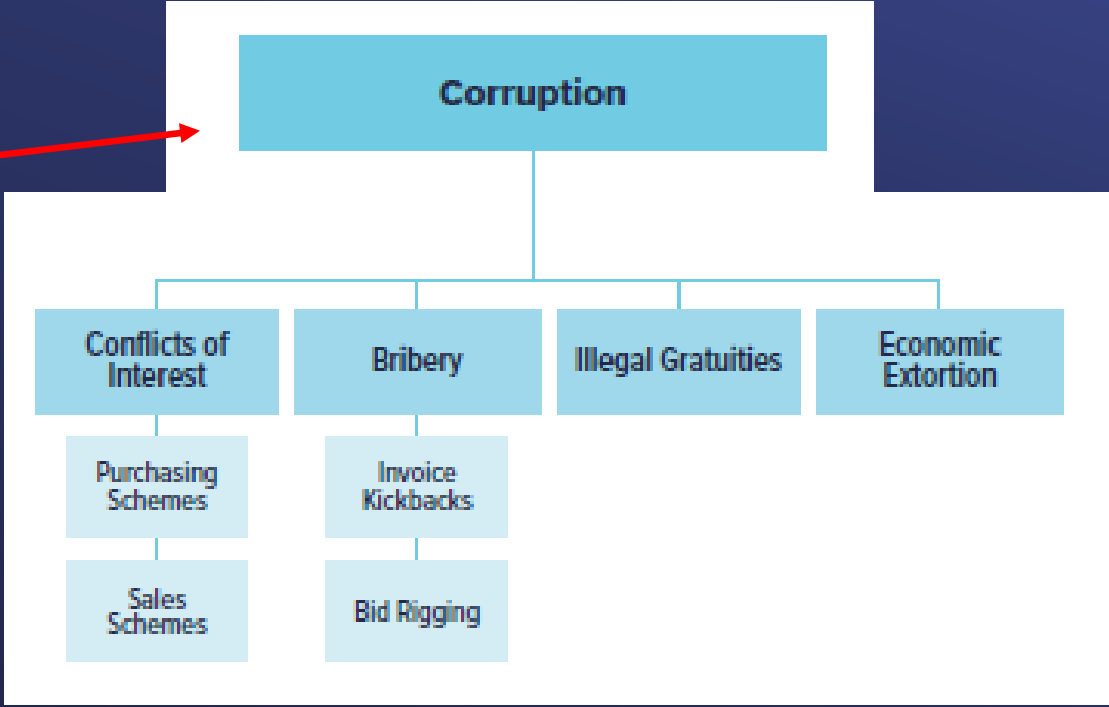


Source: ACFE Occupational Fraud 2024: A Report To The Nations

Corruption

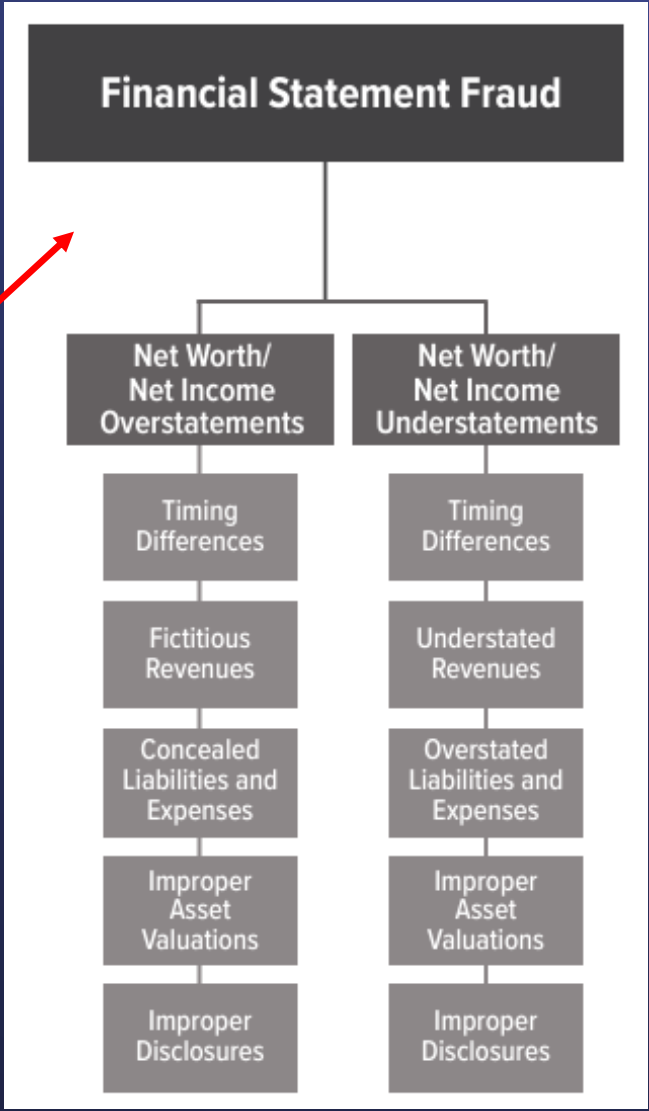
Includes conflicts of interest, bribery, illegal gratuities, and economic extortion

The Fraud Tree



Financial Statement Fraud

The Fraud Tree

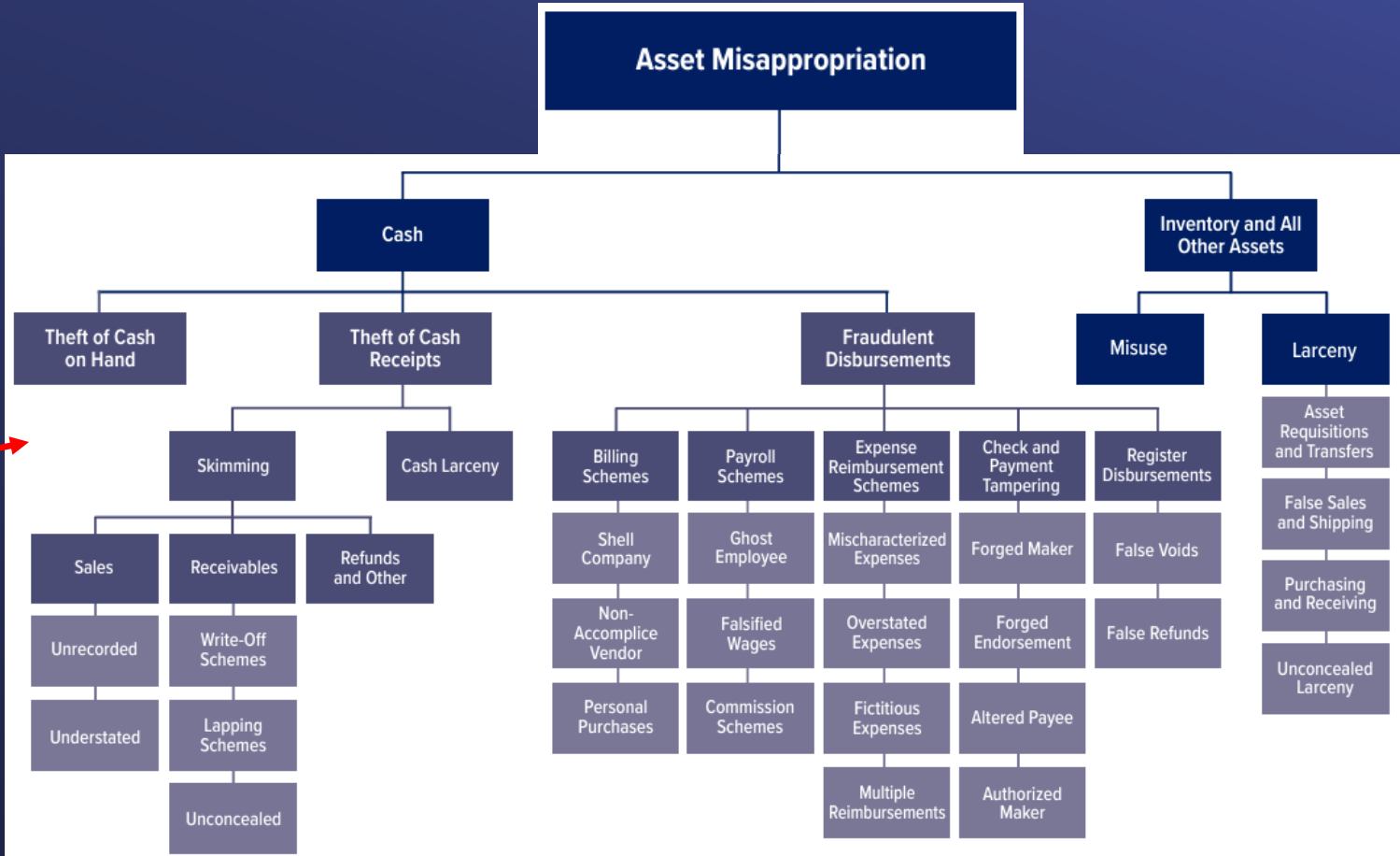


Includes overstatement of income/assets, understatement of expenses/liabilities

Asset Misappropriation

Includes theft of cash, fraudulent disbursements, misuse/theft of district property

The Fraud Tree



Fraud Cases

Magnolia School District

Orange County education official pleaded guilty to embezzling nearly \$16 million from a school district

City of Placentia

Financial services manager embezzled over \$5 million from the city

Dixon, Illinois

Comptroller embezzled over \$54 million from a city of 15,000; largest municipal fraud



Fraud Research

Fraud Research

ACFE

Occupational Fraud 2024:

A Report to the Nations[®]

- 13th edition
- Largest and most comprehensive study on the costs and effects of occupational fraud
- Objective is to help improve the collective ability to protect organizations from the harm caused by occupational fraud

Source: ACFE Occupational Fraud 2024: A Report To The Nations

Fraud Research

Concealment of Fraud

- Created fraudulent physical documents
- Altered physical documents
- Created fraudulent electronic documents or files
- Altered electronic documents or files
- Destroyed or withheld physical documents

Source: ACFE Occupational Fraud 2024: A Report To The Nations

Fraud Research

Fraud in Government Organizations

- Included 296 Cases of Occupational Fraud
 - National (47%)
 - State/Provincial (29%)
 - Local (23%)
- Median Loss \$150,000; Average Loss \$2,306,000
- Only 19% of fraudsters were at the executive level, but they caused the largest loss (Median Loss \$313,000)

Source: ACFE Occupational Fraud 2024: A Report To The Nations

Fraud Research

Fraud in Government Organizations (con't)

- Occupational Fraud Schemes
 - Corruption (56%)
 - Billing (26%)
 - Noncash (20%)
 - Payroll (16%)
 - Expense Reimbursements (15%)
- Top Three Ways Fraud is Detected
 - Tip (44%)
 - Internal Audit (18%)
 - Management Review (11%)

Source: ACFE Occupational Fraud 2024: A Report To The Nations

Fraud Research

Recommendations

- Develop fraud risk assessment
- Benchmark anti-fraud program
- Improve fraud prevention & detection efforts
- Sell fraud prevention to management & clients
- Understand who puts the organization at greatest risk
- Educate others about occupational fraud and ways to effectively combat it

Source: ACFE Occupational Fraud 2024: A Report To The Nations



Advisory Services:
Introduction to Fraud

Thank You

Questions?

