Association of Certified Fraud Examiners – ACFE

2018 GLOBAL STUDY ON OCCUPATIONAL FRAUD AND ABUSE

2,690 real cases of occupational fraud from 125 countries in 23 industry categories

$7 BILLION+ in total losses

$130,000 median loss per case

22% of cases caused losses of $1 million+

Median duration of a fraud scheme

16 months
Key Findings

FRAUDSTERS WHO HAD BEEN WITH THEIR COMPANY LONGER STOLE TWICE AS MUCH

MORE THAN 5 YEARS' TENURE
$200,000
MEDIAN LOSS

LESS THAN 5 YEARS' TENURE
$100,000
MEDIAN LOSS

OVER THE PAST 10 YEARS, OCCUPATIONAL FRAUD REFERRALS TO PROSECUTION DECLINED 16%

TOP REASON FOR NON-REFERRALS WAS FEAR OF BAD PUBLICITY - 16%


ONLY 4% OF PERPETRATORS HAD A PRIOR FRAUD CONVICTION

A MAJORITY OF THE VICTIMS RECOVERED NOTHING

LOSSES CAUSED BY MEN WERE 75% LARGER than losses caused by women
The Red Flags of Fraud

Understanding and recognizing the behavioral red flags displayed by fraud perpetrators can help organizations detect fraud and mitigate losses.

85% of cases show that fraudsters displayed at least one behavioral red flag. Additionally, 50% of cases exhibit multiple red flags. These 6 behavioral red flags have been common in every one of our studies dating back to 2008, with a remarkably consistent distribution.
Fraud Types and Identification

**Asset Misappropriation Schemes**
- Are the most common and least costly
- $114,000 median loss
- 89% of cases

**Financial Statement Fraud Schemes**
- Are the least common and most costly
- 10% of cases

**TIPS**
- Are by far the most common initial detection method
  - TIPS 40%
  - Internal Audit 15%
  - Management Review 13%

**Employees**
- Provide over half of tips, and nearly 1/3 come from outside parties

**Organizations with Hotlines**
- Detect fraud by tips more often
  - 46% of cases detected by tip
  - 30% of cases detected by tip

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Finance
University of Michigan

Office of University Audits
University of Michigan
NOT ALL TIPS COME THROUGH HOTLINES

When a reporting mechanism is not used, whistleblowers are most likely to report to:

- Direct Supervisor 32%
- Executive 15%
- Fraud Investigation Team 13%
- Coworker 12%
- Internal Audit 10%
Internal Control Weaknesses that Contribute to Fraud

- Lack of Internal Controls: 30%
- Override of Existing Controls: 19%
- Lack of Management Review: 18%
- Poor Tone at the Top: 10%
- Lack of Competent Personnel in Oversight Roles: 8%
- Other: 6%
- Lack of Independent Checks/Audits: 4%
- Lack of Employee Fraud Education: 2%
- Lack of Clear Lines of Authority: 2%
- Lack of Reporting Mechanism: 1%
It is estimated that the typical organization loses 5% of revenues to fraud each year\(^1\). Fraud can happen anywhere and unfortunately, it happens at the University of Michigan. Below are some examples of cases that have been investigated recently. These examples are presented for your awareness and to get you thinking about the risk of fraud in your unit and what controls you have in place to prevent it or detect it in a timely way.

An employee used the PCard to pay for personal expenses.

- **How was this discovered?** The employee did not submit the expenses through Concur. Email notifications/reports about unsubmitted expenses were not received by the supervisor or the department manager. Expenses were identified by Procurement Services reviewing expenses over 90-days old.
- **How did it turn out?** The employee was terminated.
- **What important control was missing?** No default approver was listed for the employee in Concur. If a default approver had been listed, the supervisor would have received an email about unsubmitted expenses and they would have been identified faster. The correct department manager was not listed in the system, so the burst reports on unsubmitted expenses were not received by the right person.

An employee processed customer refunds to their own credit card.

- **How was this identified?** A customer called to inquire about an expected refund that had not yet been received. The employee who typically handles refunds was out, so the call was handled by a co-worker.
- **What happened?** The employee is on administrative leave while a DPSS investigation is in progress.
- **What important control was missing?** The approval of refunds was verbally delegated to the employee performing the refunds and no compensating oversight control was in place to detect the fraud. This was a trusted employee, who was a “friend” of the supervisor. The employee was targeting older credit balances that customers may have forgotten.

A faculty advisor to a student group was being paid by the group to video its events.

- **Why was this a problem?** Students from the group called the hotline because of a conflict of interest situation. Because he was their faculty advisor, they felt obligated to use him for video services.
- **What was the result?** The faculty advisor was required to stop providing videography services to this group.
- **Why is this a critical example?** This is an abuse of power situation. Without a hotline, there may have been no place the students felt comfortable raising their concerns. The perception of a conflict can create problems. Real and potential conflicts of interest must be disclosed, discussed, and managed.

An employee was not reporting time off on their university timesheet to save vacation days.

- **How was this discovered?** Coworkers noticed discrepancies between actual attendance and time reports and called the hotline.
- **So what?** Theft of time from the university might seem small at an individual or department level, but from a university-wide perspective, the loss may be significant.
- **Why is this a critical example?** A supervisor’s sloppiness can allow a fraud to continue. A supervisor with local knowledge about what was truly worked and who can attest to the accuracy of the timesheet is the key control. No report can be run centrally to identify this fraud.

Any suspicious activity should be reported to University Audits (734) 647-7500 or to the Compliance Hotline at 1-866-990-0111 or compliance hotline.umich.edu. Callers to the Compliance Hotline can remain anonymous. Departments that will likely be involved in a fraud investigation include DPSS, HR, OGC, University Audits, and Risk Management.

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\(^1\) From the ACFE’s 2018 Global Fraud Study, Report to the Nations on Occupational Fraud and Abuse.
Compliance Hotline Statistics

Below are some statistics about the Compliance Hotline. It is important to note that not all reports to the hotline are about fraud. Some are other forms of misconduct, but all are reviewed. It is also important to note that not all fraud is reported through the Hotline. Sometimes reports are made directly to units (e.g., Procurement Services, University Audits, DPSS, HR, OGC). These and many other departments work together to safeguard university personnel and assets.

<table>
<thead>
<tr>
<th>Location</th>
<th>FY 2019</th>
<th>FY 2018</th>
<th>FY 2017</th>
</tr>
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<tbody>
<tr>
<td>Ann Arbor Campus</td>
<td>145</td>
<td>246</td>
<td>101</td>
</tr>
<tr>
<td>Dearborn Campus</td>
<td>2</td>
<td>5</td>
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<tr>
<td>Flint Campus</td>
<td>29</td>
<td>22</td>
<td>21</td>
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<tr>
<td>Michigan Medicine/Medical School</td>
<td>491</td>
<td>321</td>
<td>375</td>
</tr>
<tr>
<td>Total</td>
<td>667</td>
<td>594</td>
<td>499</td>
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<table>
<thead>
<tr>
<th>Method of Reporting</th>
<th>FY 2019</th>
<th>FY 2018</th>
<th>FY 2017</th>
</tr>
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<tbody>
<tr>
<td>Internet</td>
<td>433</td>
<td>404</td>
<td>351</td>
</tr>
<tr>
<td>Phone</td>
<td>234</td>
<td>190</td>
<td>148</td>
</tr>
<tr>
<td>Total</td>
<td>667</td>
<td>594</td>
<td>499</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Anonymous/Non-anonymous</th>
<th>FY 2019</th>
<th>FY 2018</th>
<th>FY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anonymous</td>
<td>449</td>
<td>206</td>
<td>364</td>
</tr>
<tr>
<td>Non-anonymous</td>
<td>218</td>
<td>388</td>
<td>135</td>
</tr>
<tr>
<td>Total</td>
<td>667</td>
<td>594</td>
<td>499</td>
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</tbody>
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Most commonly reported concerns:
- Financial Mismanagement
- Conflict of interest
- Data privacy issues
- Disruptive behavior
- Hostile work environment
- Discrimination
- Retaliation
- Theft of services or time
- Unsafe conditions

What can you do?
- Create strong internal control environment
- Exhibit ethical behavior
- Develop a positive work environment
- Promote Hotline awareness