


Fraud in the Workplace

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Fraud Definition



Fraud includes any intentional or deliberate act to deprive another of property, money, or the gaining of advantage by false suggestions, suppression of the truth, or inappropriate action.

Fraud Epidemic



Total global annual fraud losses-

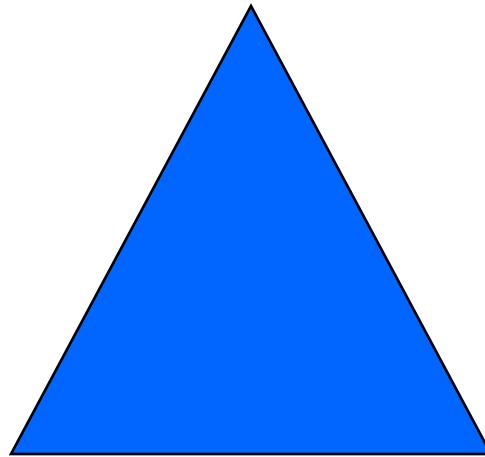
\$3.7 Trillion

See ACFE Report to the Nations 2014

Fraud Triangle Theory

Why do people do the wrong thing?

Perceived Pressure



Perceived Opportunity

Rationalization

Types of Fraud

- Financial Statement Fraud
- Asset Misappropriation
- Corruption

Fraud Risk Factors - FFR



➤ Incentives/Pressures

e.g., - significant management net worth or compensation tied to financial results

➤ Opportunities

e.g., - inadequate monitoring of internal controls

➤ Attitudes/Rationalization

e.g., - disregard for regulators and other authorities

Fraud Risk Factors – Asset Misappropriation



➤ **Incentives/Pressures**

e.g., - adverse relationships between entity and employees

➤ **Opportunities**

e.g., - high value, small size, high demand inventory

➤ **Attitudes/Rationalization**

e.g., - disregard for monitoring and controls

Management (F/S) Fraud

- Improper Revenue Recognition
early booking, holding the books open
- Improper Sales Accounting
fictitious sales, consignment sales
- Improper % of Completion Accounting
- Inadequate Disclosure of Related-Party Transactions
conflict-of-interest, sham transactions
- Improper Asset Valuation
inventory, accounts receivable
- Omission of Liabilities and Expenses

Employee Fraud

- Cash Schemes
skimming, voids, underrings, fictitious refunds, kiting
- Accounts Receivable Schemes
lapping, fictitious A/R
- Inventory Schemes
personal use, embezzlement of scrap proceeds
- Purchasing Schemes
duplicate pmts, excess purchasing
- Payroll Schemes
overtime abuses, ghost employees
- Personal Expense Reimbursement Schemes

Corruption

- Bribery
 - Kickbacks, Bid Rigging
- Conflict of Interest
 - Purchasing or Sales Schemes
- Extortion
- Illegal Gratuities

Red Flags: The Client

- large and/or unusual transactions near end of period
- decline in industry or business trends
- exceptionally aggressive mgmt. philosophy
- low quality internal controls
- previous disputes between mgmt. and auditors
- existence of significant balances with special valuation problems (e.g., inventory)

Red Flags: The Individual

- individuals w/ criminal history, faced w/ SEC civil proceedings, or violation of policies
- significant personal financial difficulty (e.g., high debt, gambling, inadequate income)
- significant instability in personal life
- disgruntled employees
- extreme need to succeed or be accepted

Prevention vs. Detection

- Employee Education
 - s/b positive and non-accusatory. illegal conduct eventually costs everyone in the company (e.g., lost profits, adverse publicity, and decreased morale and productivity)
- Reporting Programs
 - every employee should know where to report suspicious, unethical, or illegal acts
- Hotlines
 - very effective reporting mechanism
- Rewards
 - can be effective in motivating people
- Proactive Audit Policies
 - a company will aggressively seek out possible fraudulent conduct instead of waiting for cases to come to attention