



Fraud Update: Latest Trends and How to Fight Back

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AGENDA

- Recent Trends in Fraud – 2018 Report to the Nations
- Fraud “War Stories”
- Ways to Mitigate the Risk

REPORT TO THE NATIONS

2018 GLOBAL STUDY ON OCCUPATIONAL FRAUD AND ABUSE



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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



MONTHS

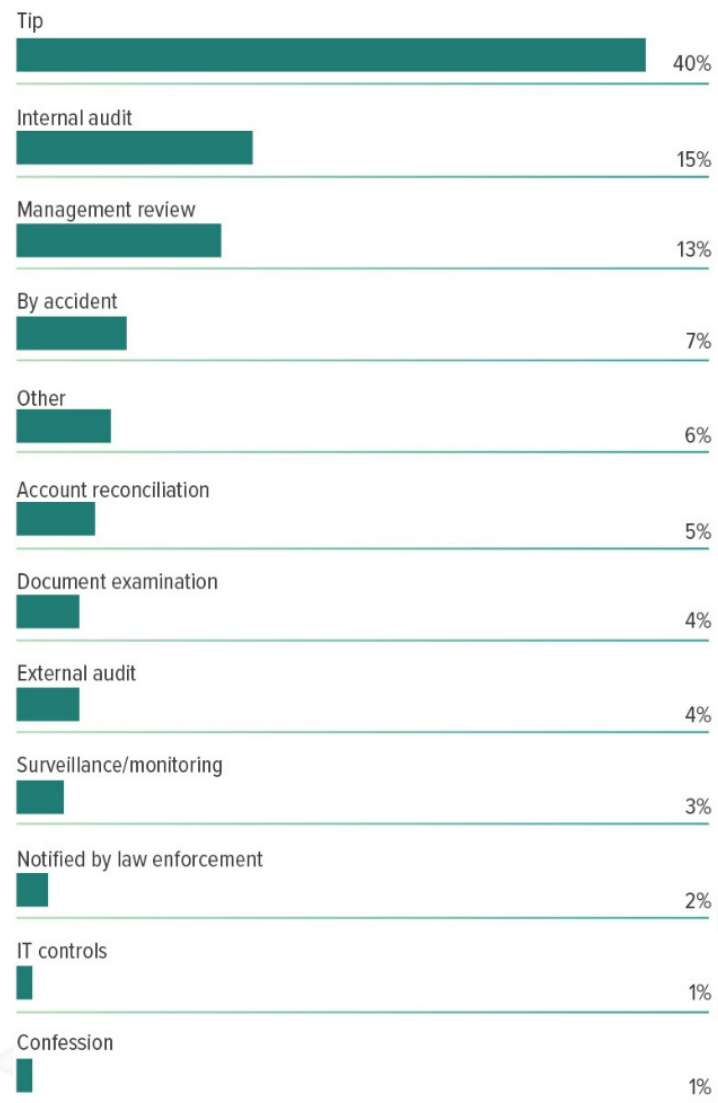
CORRUPTION

was the most common scheme
in every global region

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FIG. 9 How is occupational fraud initially detected?



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FIG. 36 Do perpetrators tend to have prior fraud convictions?



- Never charged or convicted (89%)
- Charged but not convicted (6%)
- Had prior convictions (4%)
- Other (1%)

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IN
85%
OF CASES

FRAUDSTERS DISPLAYED AT LEAST
ONE BEHAVIORAL RED FLAG

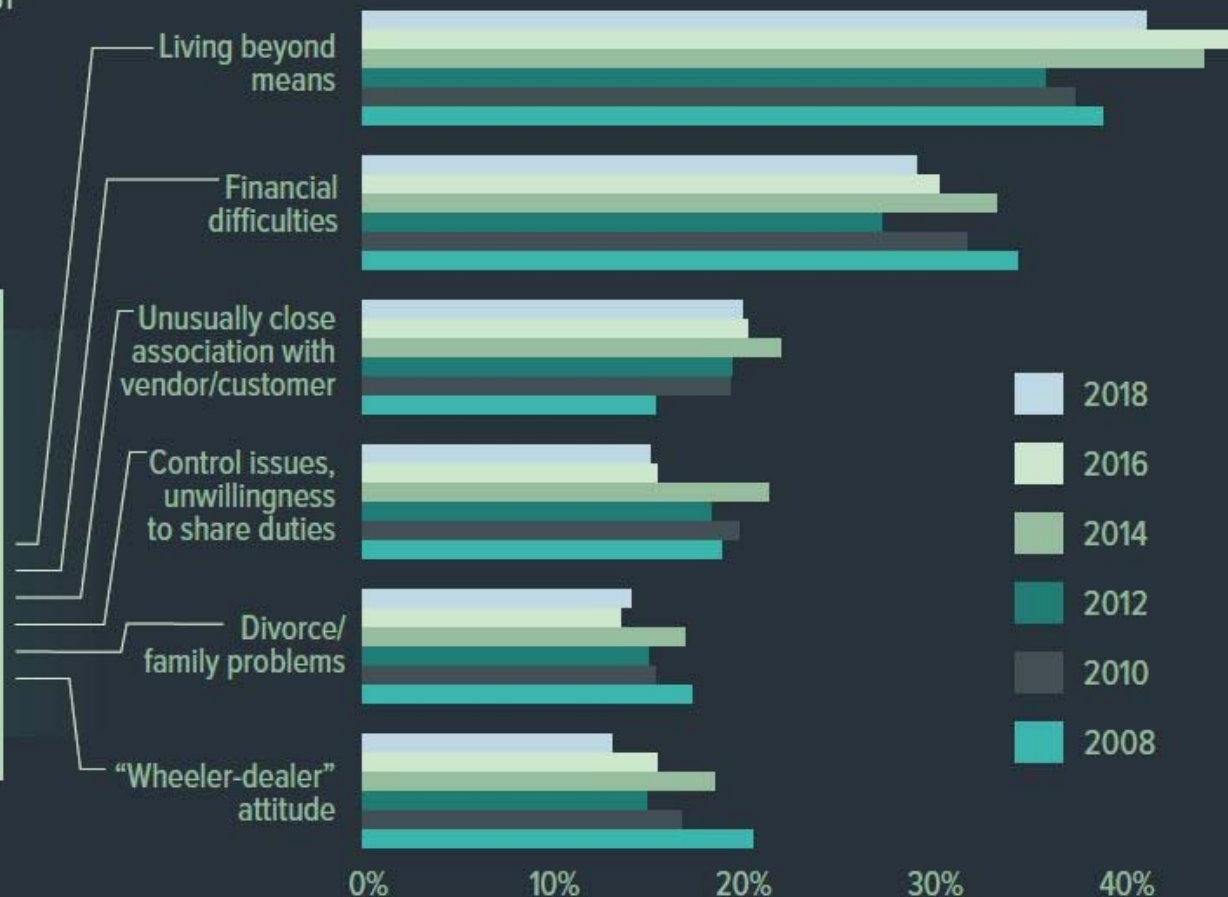
AND IN

50%
OF CASES

THEY EXHIBITED
MULTIPLE RED FLAGS

These
**6 BEHAVIORAL
RED FLAGS**

have been the most common in
every one of our studies dating
back to 2008, with a remarkably
consistent distribution



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FIG. 88 How does the perpetrator's level of authority relate to occupational fraud in the United States?



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FIG. 30 How does the perpetrator's gender relate to occupational fraud?

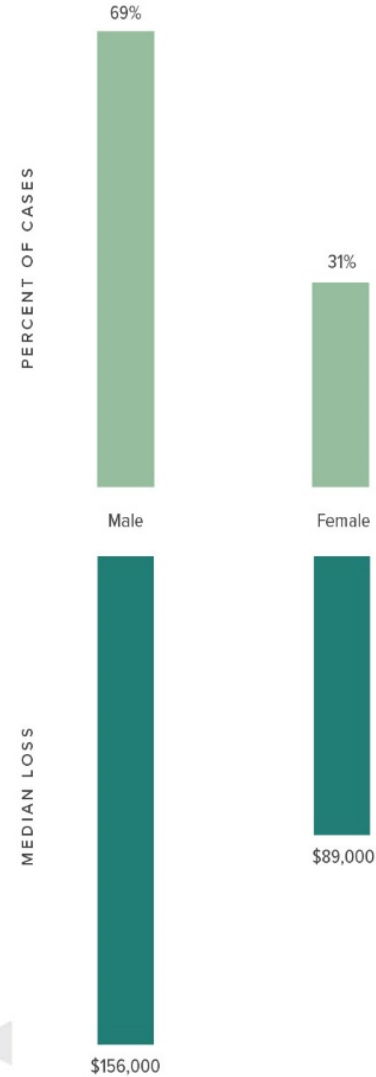


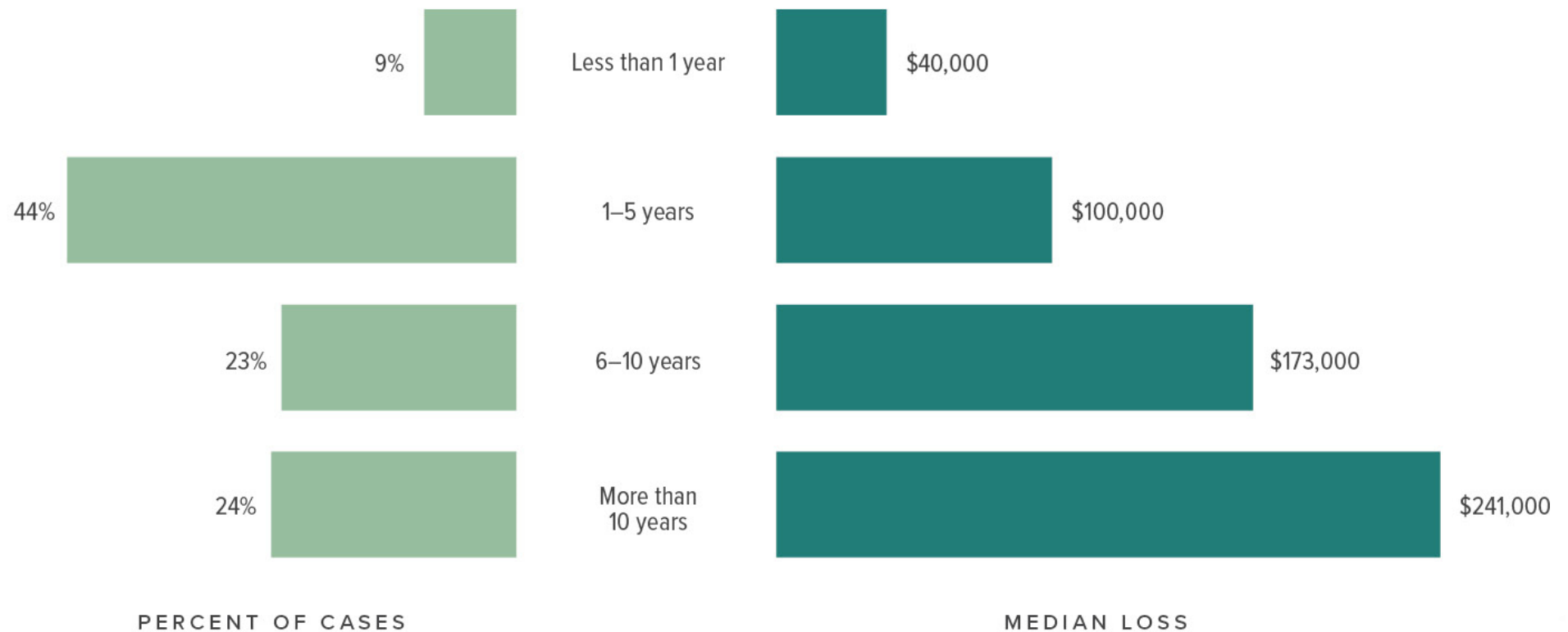
FIG. 32 How does gender distribution and median loss vary based on the perpetrator's level of authority?



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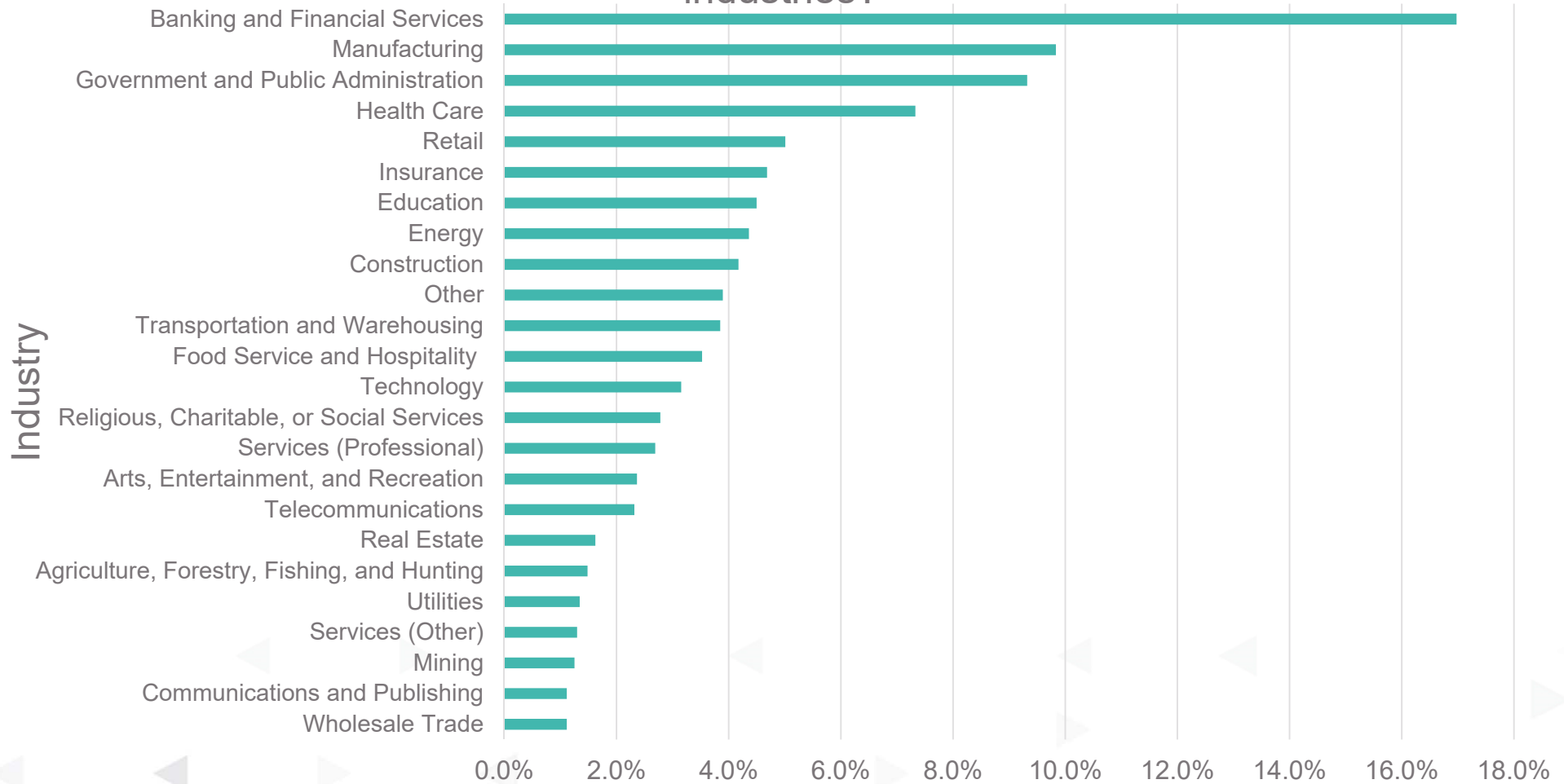
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FIG. 26 How does the perpetrator's tenure relate to occupational fraud?



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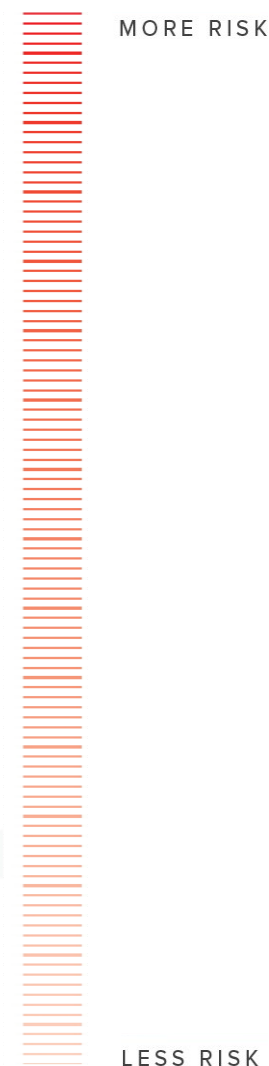
Fig. 15 How does occupational fraud affect organization in different industries?



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FIG. 16 What are the most common occupational fraud schemes in various industries?

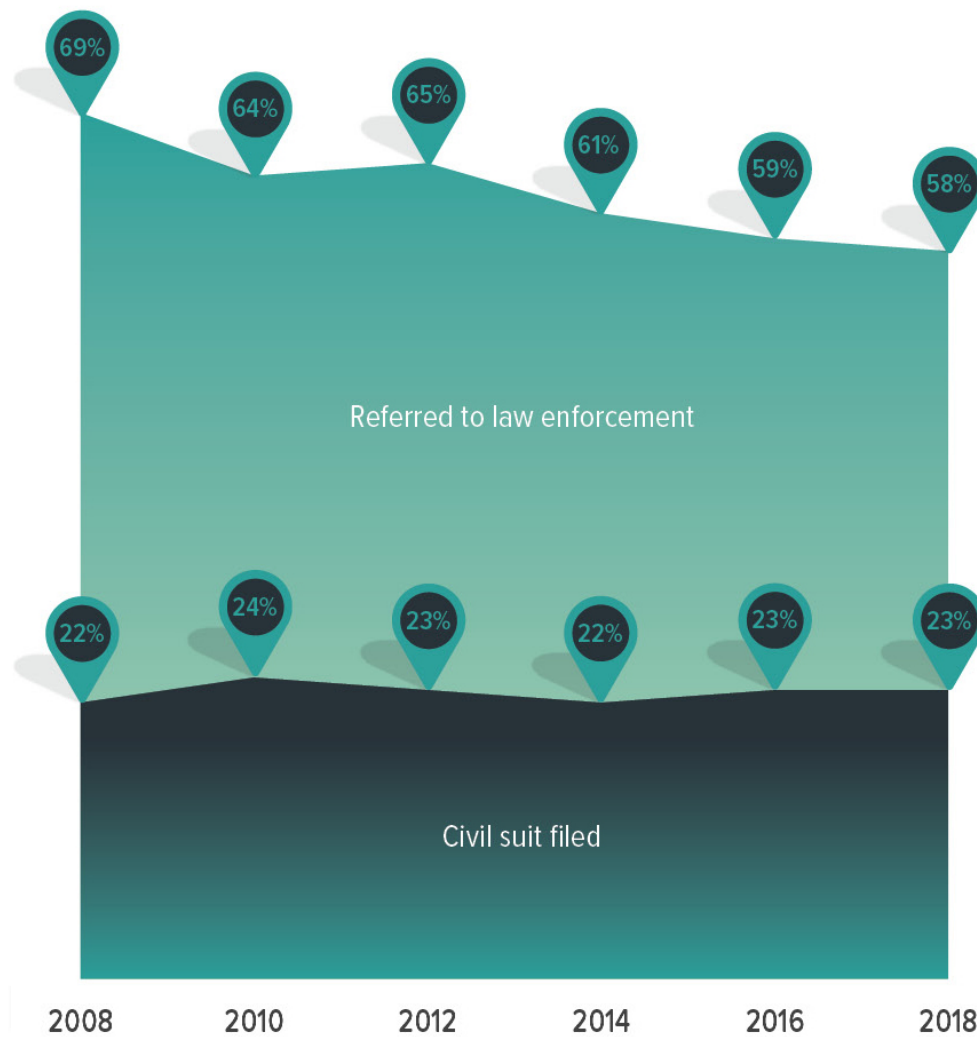
INDUSTRY	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Banking and financial services	338	11%	14%	23%	12%	36%	7%	8%	11%	2%	3%	9%
Manufacturing	201	27%	8%	15%	12%	51%	18%	10%	28%	5%	3%	7%
Government and public administration	184	15%	11%	11%	9%	50%	11%	5%	22%	7%	2%	11%
Health care	149	26%	7%	13%	13%	36%	16%	11%	19%	17%	1%	12%
Retail	104	20%	10%	19%	9%	28%	8%	12%	34%	5%	13%	13%
Education	96	23%	19%	19%	6%	38%	18%	6%	19%	6%	0%	14%
Insurance	87	20%	9%	3%	18%	45%	8%	7%	11%	3%	1%	11%
Energy	86	20%	2%	10%	12%	53%	10%	3%	27%	7%	2%	10%
Construction	83	37%	12%	8%	19%	42%	23%	16%	23%	14%	1%	13%
Transportation and warehousing	79	25%	8%	8%	9%	46%	15%	8%	28%	3%	3%	13%
Food service and hospitality	75	17%	16%	20%	11%	29%	12%	12%	24%	7%	0%	23%
Technology	62	26%	5%	10%	8%	42%	21%	16%	32%	8%	0%	6%
Religious, charitable, or social services	58	40%	9%	22%	19%	34%	29%	10%	19%	22%	3%	17%
Services (professional)	54	26%	17%	15%	26%	17%	30%	13%	13%	15%	0%	15%
Arts, entertainment, and recreation	50	14%	20%	36%	6%	32%	12%	8%	18%	4%	8%	28%



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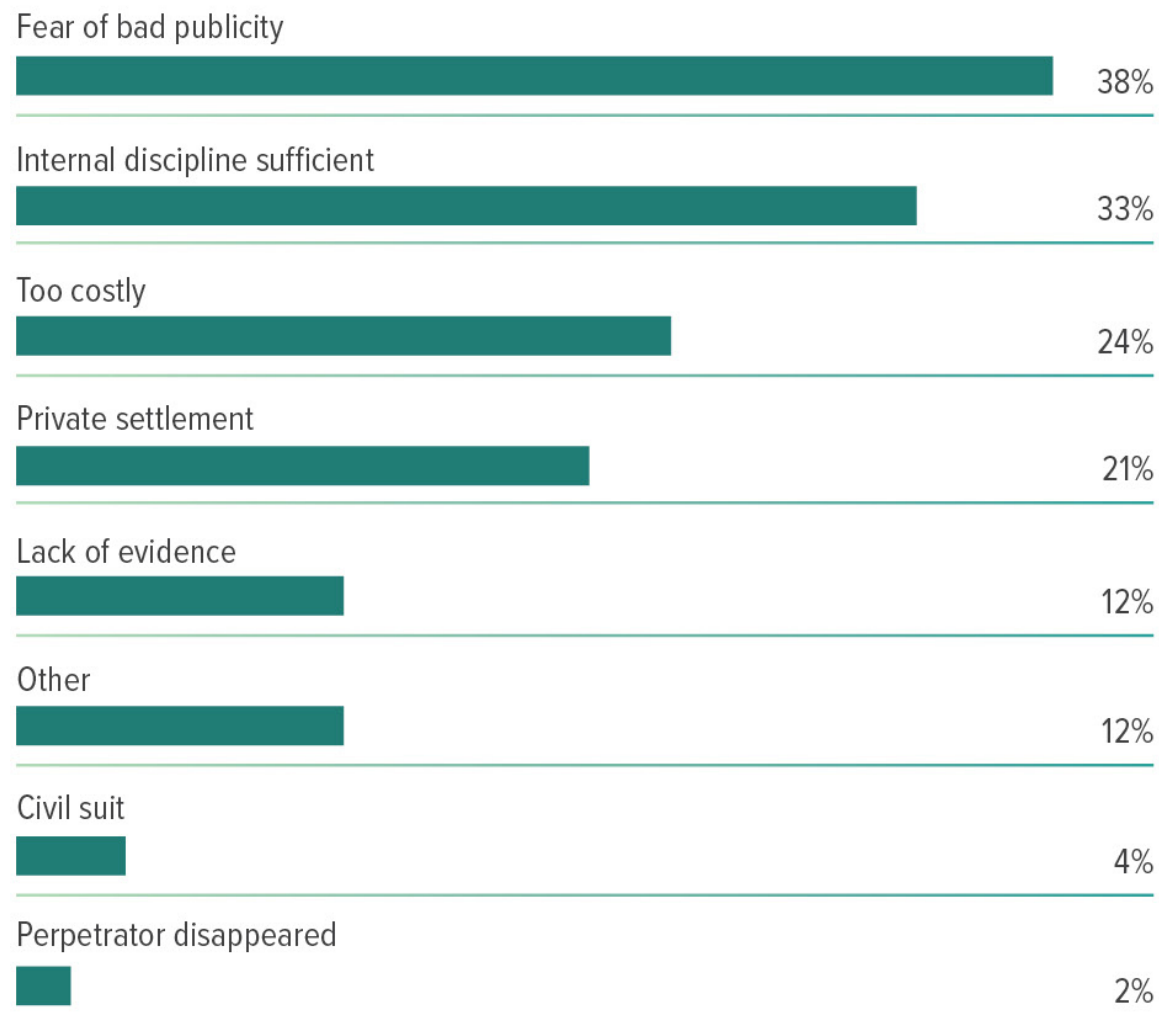
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FIG. 43 How often is litigation pursued against occupational fraud perpetrators?

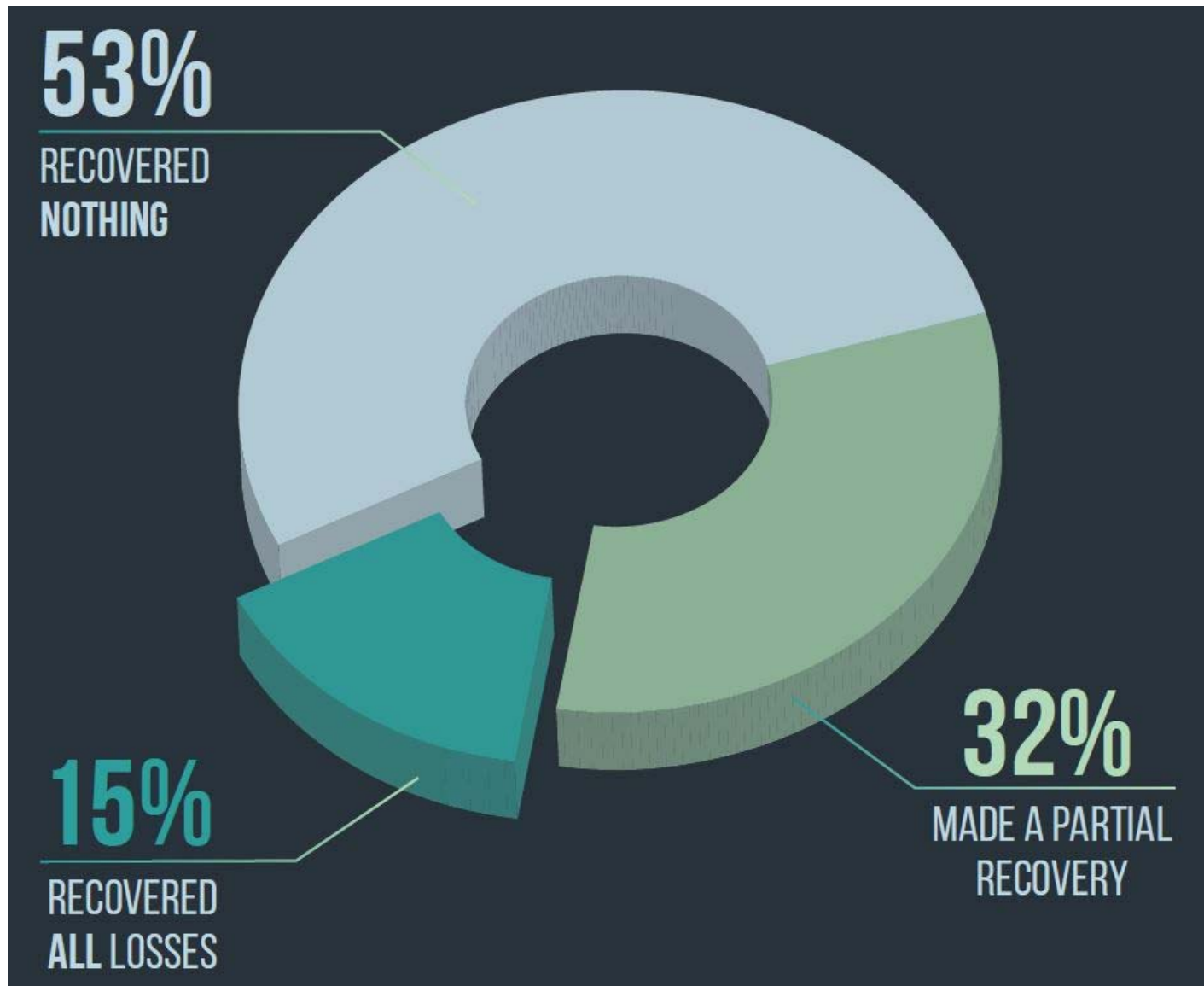


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FIG. 46 Why do organizations decide not to refer cases to law enforcement?



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Profile of Fraud Perpetrator

- No prior criminal history (5%)
- Well liked by co-workers
- Likes to give gifts/compulsive shopper
- Gambling problems not unusual
- Long-term employee
- Rationalizes, starts small or “borrows”
- Lifestyle clues

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Which One Looks Suspicious?



\$3 million



\$4.6 million



\$1.0 million



\$31 million



\$900,000



\$1.1 million

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Real Example #1

- Acted alone
- Did not have credit card in his/her name
- Used his/her supervisor's card (memorized #)
- Long-term employee
- Red flags noted
- Amount

Real Example #2

- Top Exec
- Former E&Y employee
- “Hard working, smart, trusted”
- Insider knowledge of contracts/bids
- Other employees notice budget discrepancies
- A little digging reveals big problems
- Contractor connected to him - \$3.0 million

Filed with Secretary of State

The undersigned is doing business under the following name, and at the following address:

Business name to be registered: Gateway Technical Solutions, LLC

Business address:

1355 McKinley Ave

(PO Box may only be used in addition to a physical street address)

**Residential
Address**

City, State and Zip Code:

Saint Louis MO 63119

Owner Information:

If a business entity is an owner, indicate business name and percentage owned. If all parties are jointly and severally liable, percentage of ownership need not be listed. Please attach a separate page for more than three owners. The parties having an interest in the business, and the percentage they own are:

Name of Owners, Individual or Business Entity	Charter # Required If Business Entity	Street and Number, City and State, Zip Code	If listed, Percentage of ownership must equal 100%
Gateway Technical Solutions, LLC	LC0834218	1355 McKinley Ave Saint Louis, MO 63119	100%

All owners must affirm by signing below

In Affirmation thereof, the facts stated above are true and correct:

(The undersigned understands that false statements made in this filing are subject to the penalties of a false declaration under Section 575.060 RSMo)

Electronically Signed By:

David Neff

Authorized Signature

Fake

David Neff

Printed Name

08/17/2012

Date

MISSOURI SECRETARY OF STATE JASON KANDER



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Filed Documents

Date: 10/23/2013
(Click above to view filed documents that are available.)

Business Name History

Name	Name Type
David Neff	Legal

Fictitious Registration - Domestic - Information

Charter Number:	X00834217
Status:	Fictitious Active
Entity Creation Date:	8/5/2007
State of Business.:	MO
Expiration Date:	8/5/2017

Owners

Name:	Edward Mueth
Address:	453 Gray Ave Saint Louis MO 63119

From Google Maps - Large Contractor??



Movin' On Up -- \$1.5 million mansion



Red Flags Abound

- Contractor had no website
- No one knew the owner (he was fake)
- Simple address check revealed small home
- Phone # connected to a cell (no one answered)
- Executive living beyond means

Few Vendor/Subcontractor Verification Tips

- A fake company might be a “real” company (registered w/secretary of state)
- Free and easy internet resources – use them
 - Secretary of State websites are great
 - Google Maps/Streetview
 - Hit the vendor/subcontractor website
 - Look at the principals behind the company
- Use caution with fee based searches on internet

Real Example #3

- Senior Accountant
- 6 year employee
- Mr. Popular
- Odd text
- The trust factor
- The “other” factors

The Process

- Download of file, etc.
- Reconciliation between debit to Cardmember Service and VISA payable – one issue
- Terminated employees
- 325 transactions (168 on cards from text)

The Cover Up

Credit Card Transactions For Calendar Year 2015

Month	Total Transactions		Transaction
	K:Drive	Website	Difference
January	\$ 30,741.92	\$ 34,343.26	\$ 3,601.34
February	32,643.78	35,728.37	3,084.59
March	56,082.89	57,576.64	1,493.75
April	60,073.40	63,111.76	3,038.36
May	51,326.83	54,914.11	3,587.28
June	65,334.86	68,306.29	2,971.43
July	45,154.28	46,893.52	1,739.24
August	51,810.37	53,998.49	2,188.12
September	32,045.84	34,757.00	2,711.16
October	51,601.01	54,866.10	3,265.09
November	43,305.93	45,836.25	2,530.32
December	28,624.00	32,407.12	3,783.12
TOTAL	\$ 548,745.11	\$ 582,738.91	\$33,993.80

Total was \$112k 2014-2017

The logo for BKD, consisting of the letters 'BKD' in a bold, white, sans-serif font. The logo is positioned in the bottom right corner of the slide, overlaid on a dark blue background that features a faint, stylized image of a calculator.



DATA ANALYTICS BASICS

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Definitions

Big Data

Information of extreme size, diversity and complexity.

- Gartner, Inc.

Source: <http://www.gartner.com/technology/topics/big-data.jsp>

Data Analytics

*...processes and activities designed to obtain and evaluate data to extract **useful information** and **answer strategic questions**...*

Fig. 18 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
Code of conduct	80%	\$ 110,000	\$250,000	56%
Proactive data monitoring/analysis	37%	\$ 80,000	\$ 165,000	52%
Surprise audits	37%	\$ 75,000	\$ 152,000	51%
External audit of internal controls over financial reporting	67%	\$100,000	\$200,000	50%
Management review	66%	\$100,000	\$200,000	50%
Hotline	63%	\$100,000	\$200,000	50%
Anti-fraud policy	54%	\$100,000	\$ 190,000	47%
Internal audit department	73%	\$108,000	\$200,000	46%
Management certification of financial statements	72%	\$109,000	\$ 192,000	43%
Fraud training for employees	53%	\$100,000	\$ 169,000	41%
Formal fraud risk assessments	41%	\$100,000	\$ 162,000	38%
Employee support programs	54%	\$100,000	\$ 160,000	38%
Fraud training for managers/executives	52%	\$100,000	\$ 153,000	35%
Dedicated fraud department, function, or team	41%	\$100,000	\$ 150,000	33%
External audit of financial statements	80%	\$120,000	\$ 170,000	29%
Job rotation/mandatory vacation	19%	\$100,000	\$ 130,000	23%
Independent audit committee	61%	\$120,000	\$ 150,000	20%
Rewards for whistleblowers	12%	\$ 110,000	\$ 125,000	12%

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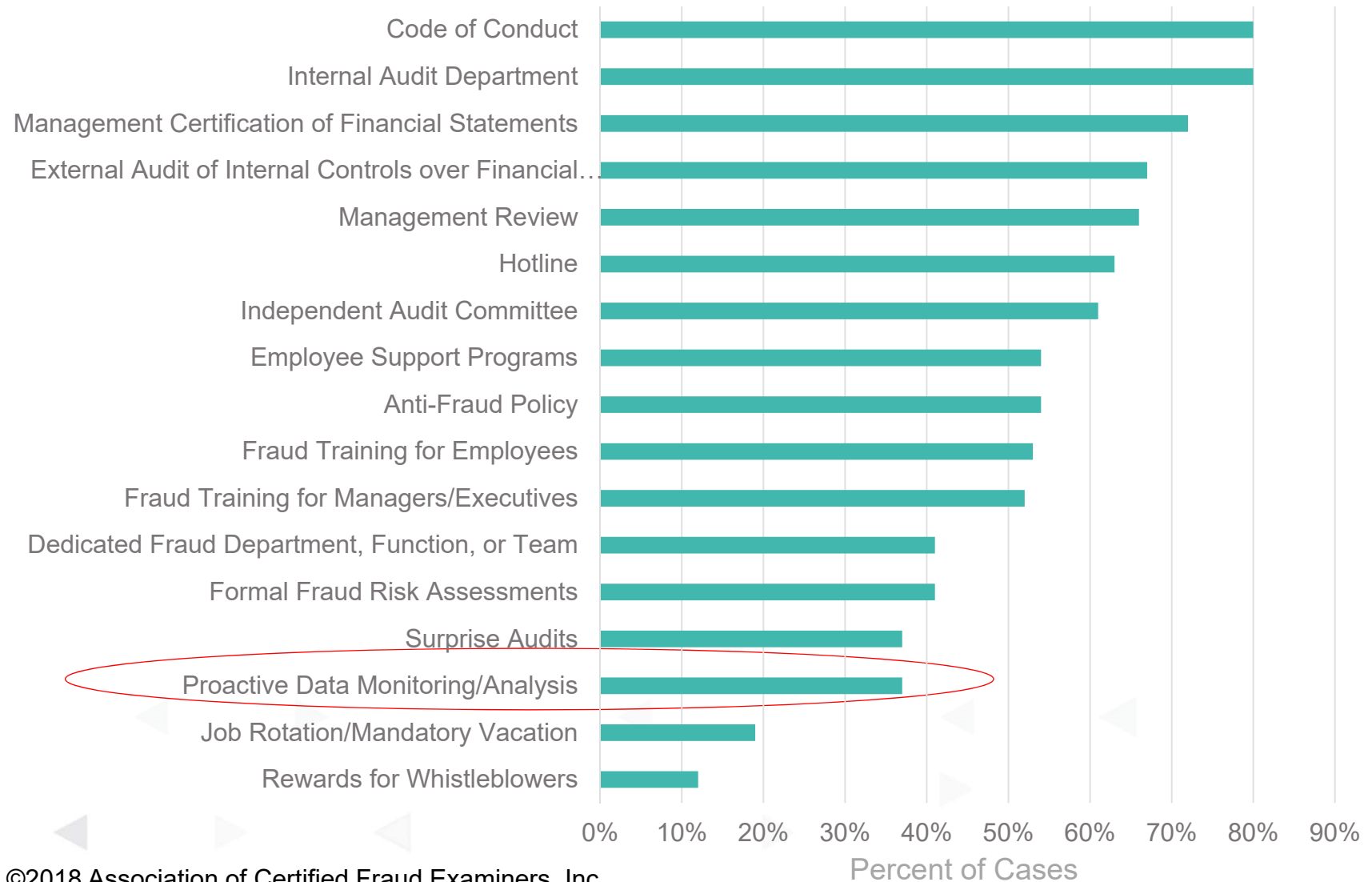
Fig. 19 How does the presence of anti-fraud controls relate to the duration of fraud?

Control	Percent of cases	Control in place	Control not in place	Percent reduction
Proactive data monitoring/analysis	37%	10 months	24 months	58%
Surprise audits	37%	11 months	24 months	54%
Internal audit department	73%	12 months	24 months	50%
Management certification of financial statements	72%	12 months	24 months	50%
External audit of internal controls over financial reporting	67%	12 months	24 months	50%
Management review	66%	12 months	24 months	50%
Hotline	63%	12 months	24 months	50%
Anti-fraud policy	54%	12 months	24 months	50%
Fraud training for employees	53%	12 months	24 months	50%
Fraud training for managers/executives	52%	12 months	24 months	50%
Formal fraud risk assessments	41%	12 months	24 months	50%
Rewards for whistleblowers	12%	9 months	18 months	50%
Independent audit committee	61%	12 months	23 months	48%
Code of conduct	80%	13 months	24 months	46%
Job rotation/mandatory vacation	19%	10 months	18 months	44%
Dedicated fraud department, function, or team	41%	12 months	20 months	40%
External audit of financial statements	80%	15 months	24 months	38%
Employee support programs	54%	12 months	18 months	33%

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Fig. 17 What anti-fraud controls are most common?

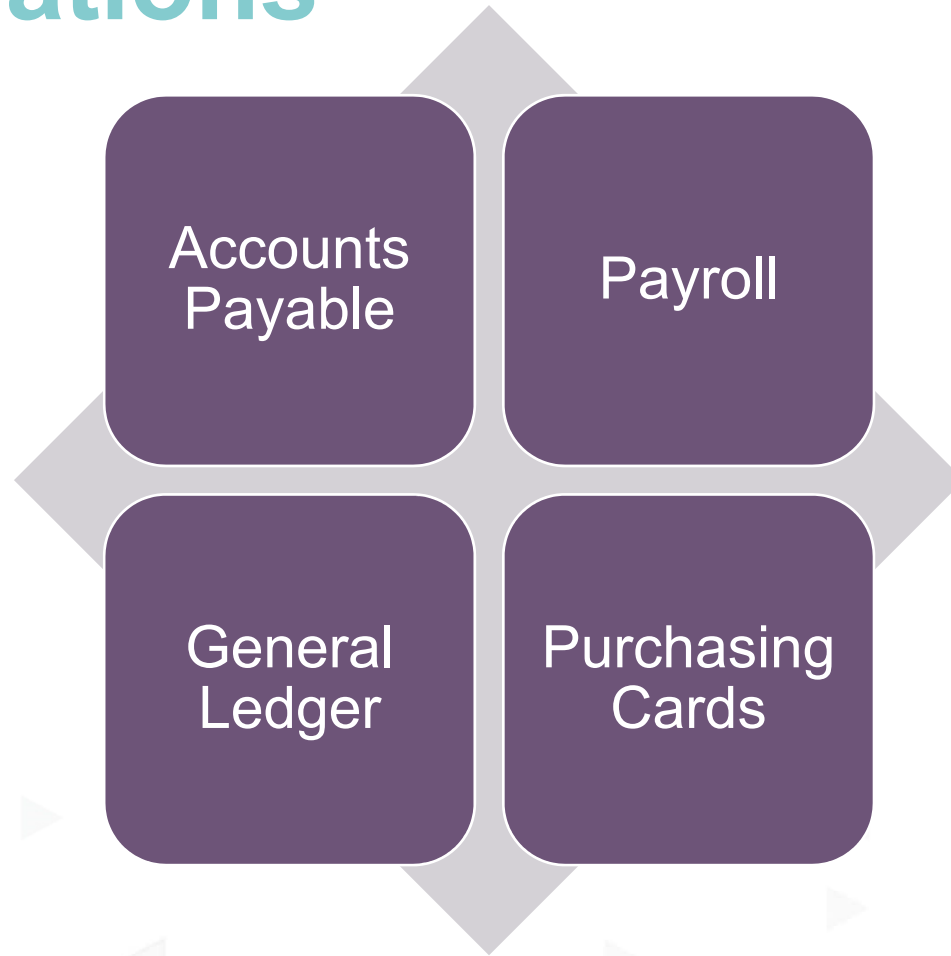


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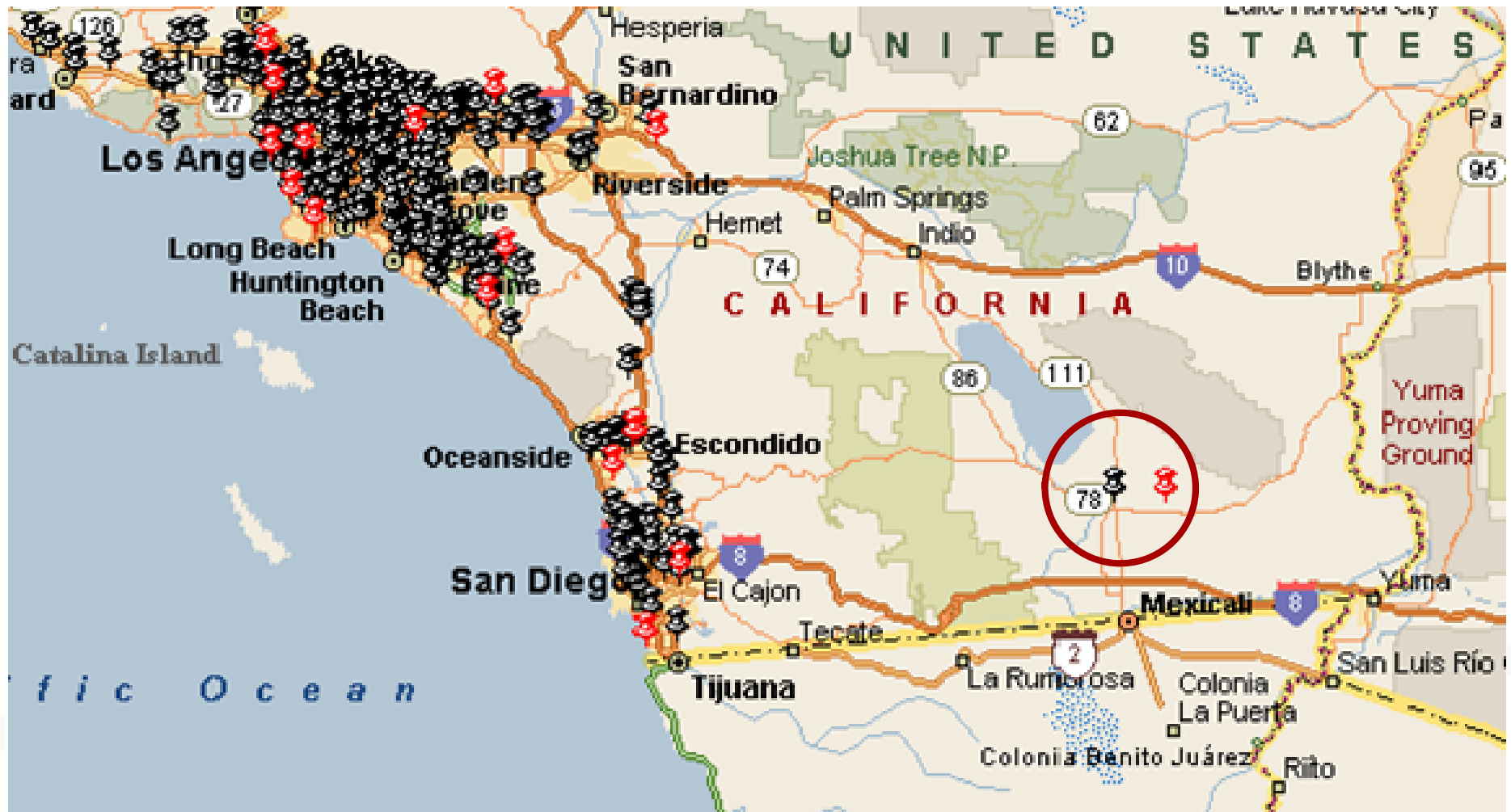
Summary of Categories

Job	Total Transactions	Transaction Count	Categorical Hits	Holiday Transactions	Transactions with Keywords	Transactions at Merchants of Interest	Potential Split Transactions	Transactions on PTO	Round Hundred Dollar Transactions	Weekend Transactions
Sales Representative	1,239,885.17	16,131	6	52	215	178	-	81	21	1,463
Vice President Sales	564,654.06	4,112	6	15	7	62	-	13	4	459
Technical Sales Rep	524,032.93	5,504	6	19	61	34	-	40	2	587
Business Unit Manager	495,998.25	5,001	6	16	10	79	-	12	2	454
Customer Service Rep	270,665.16	3,272	6	13	3	56	-	22	1	300
Executive Vice President	263,505.40	1,724	6	14	7	31	-	2	7	189
Regional Vice President	223,448.47	1,819	6	5	59	11	-	15	2	178
VP Operations	194,824.17	1,433	6	11	1	7	-	5	1	181
Print Production Manager	190,866.42	2,310	6	9	4	19	-	10	2	185
General Manager	156,892.40	1,915	6	5	21	4	-	23	2	215
Plant Manager	101,922.90	1,324	6	2	5	6	-	15	2	141
Production Manager	87,231.55	949	6	1	12	3	-	13	5	72
n/a	406,902.25	3,704	5	10	20	75	-	-	2	316
Sales Division Manager	297,656.65	2,470	5	10	3	31	-	3	-	217
Operations Manager	106,736.03	1,221	5	4	5	20	-	7	-	106
IT Manager	100,892.16	759	5	2	5	29	-	2	-	132
Finance Manager	79,946.48	507	5	1	-	7	-	1	4	39
Chief Financial Officer	77,086.00	317	5	1	15	1	-	1	-	27
CEO & President	72,371.44	433	5	6	5	1	-	1	-	60
Business Development Mgr	64,449.41	803	5	1	3	15	-	-	1	58
Quality Control Manager	50,332.81	634	5	1	-	7	-	5	1	42

Examples of Uses in Examinations



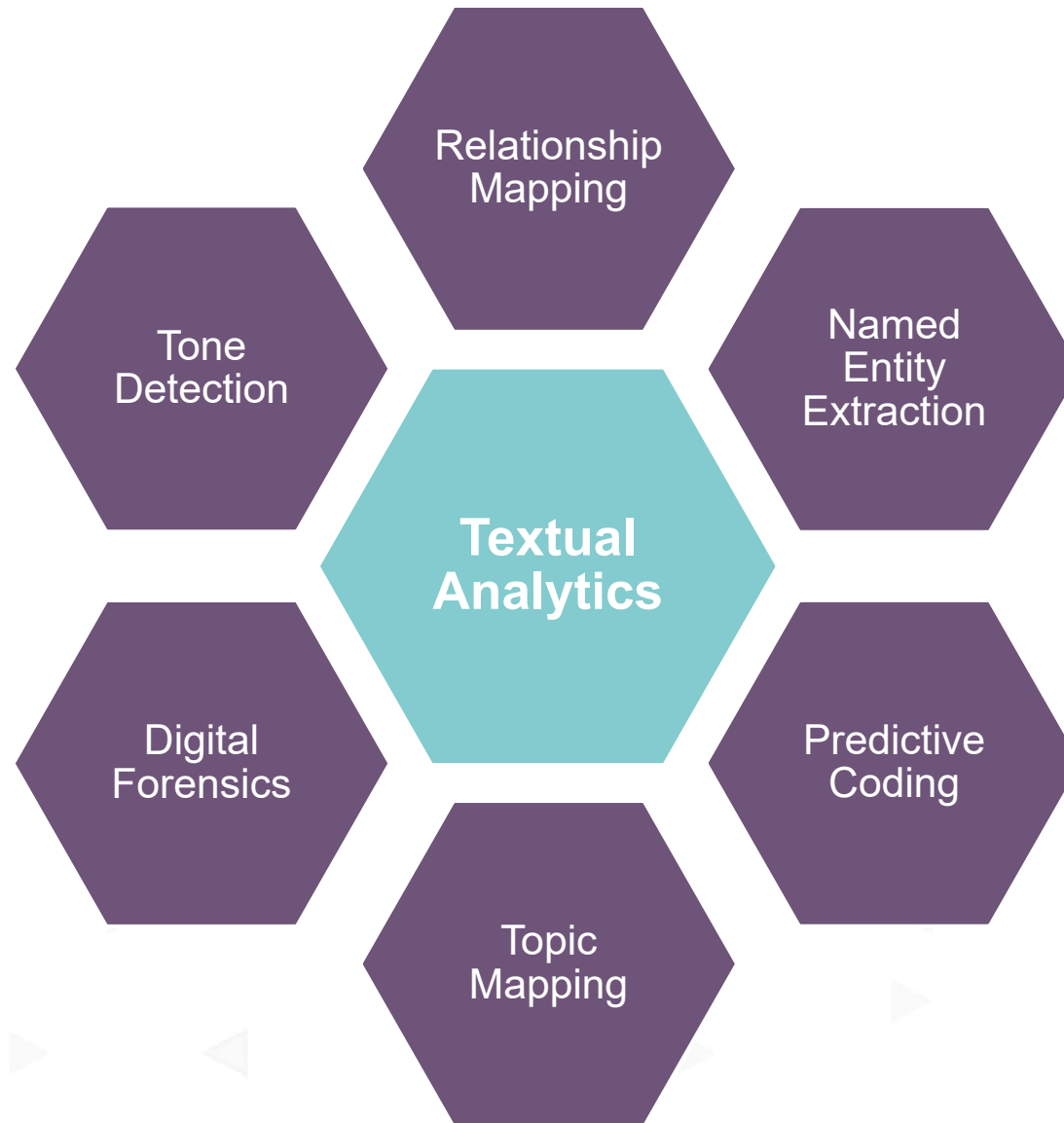
Employee-Vendor Proximity



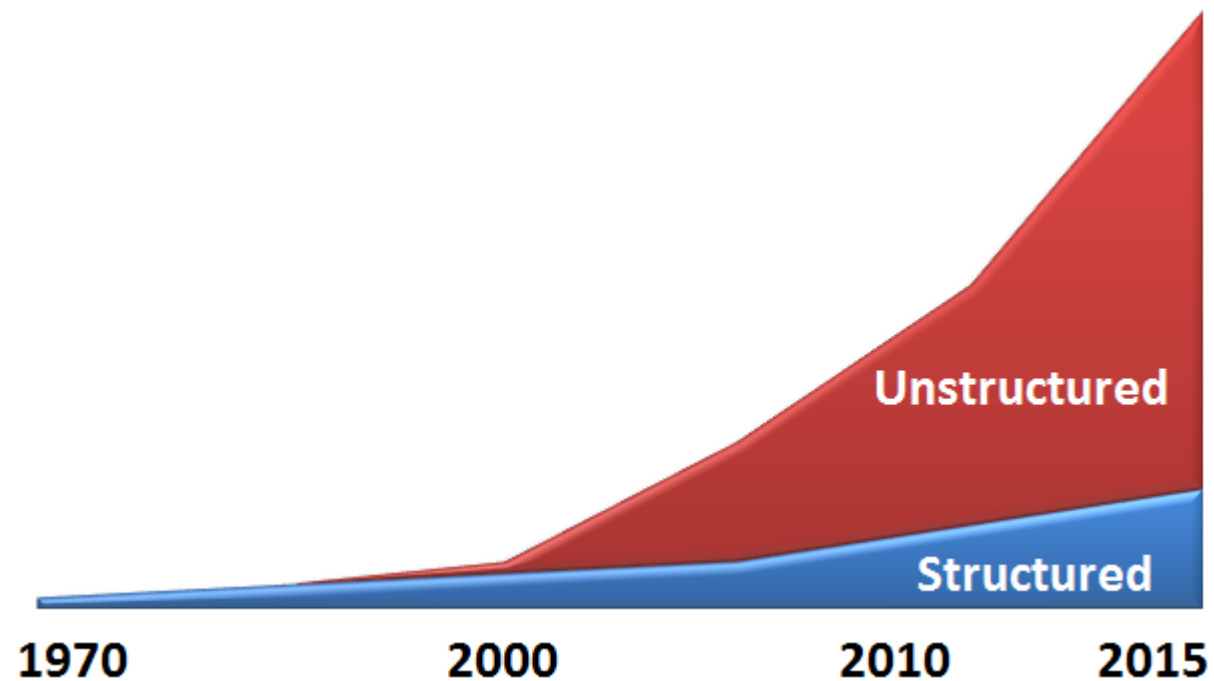


TEXTUAL ANALYTICS

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Data Types



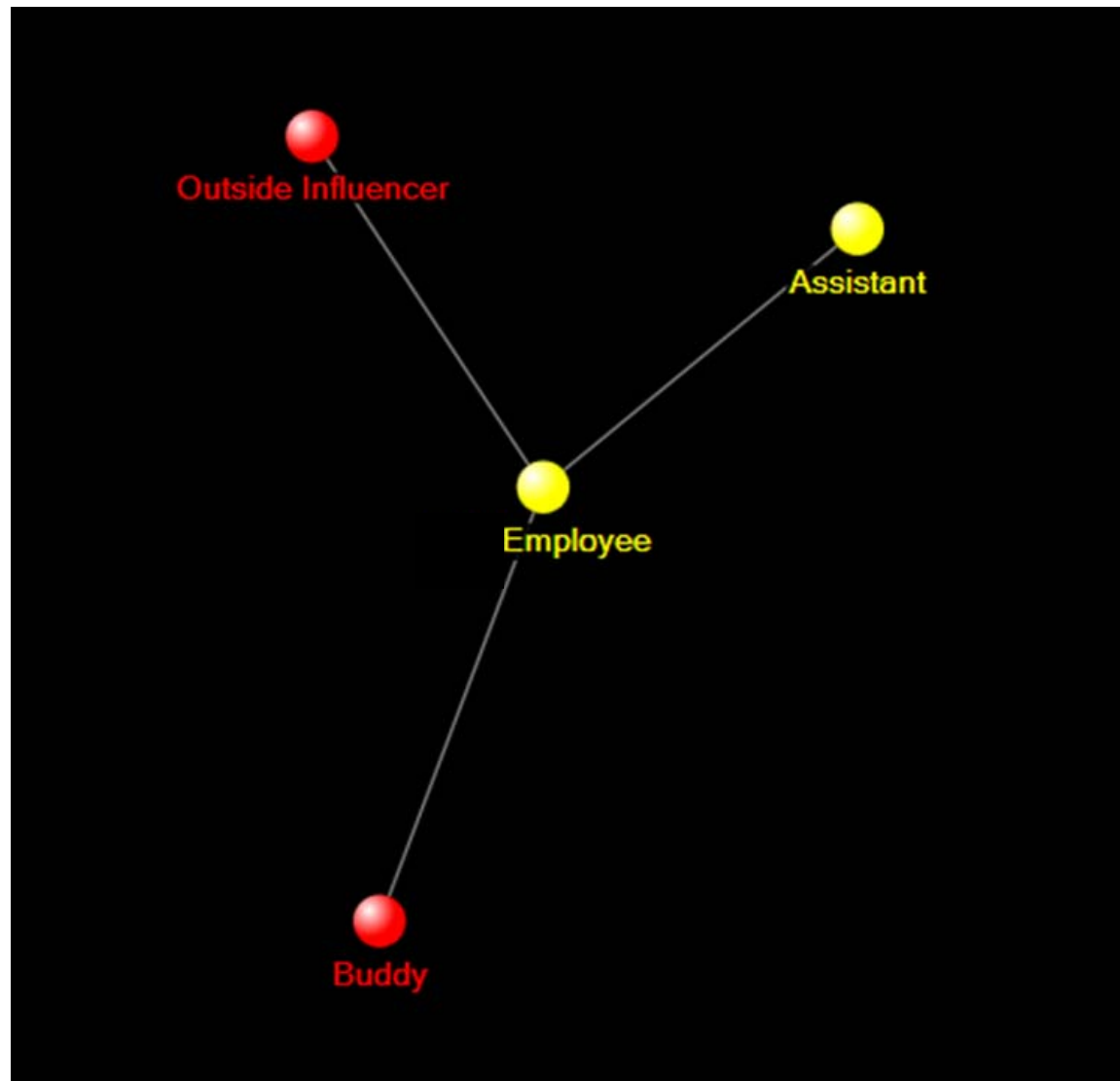


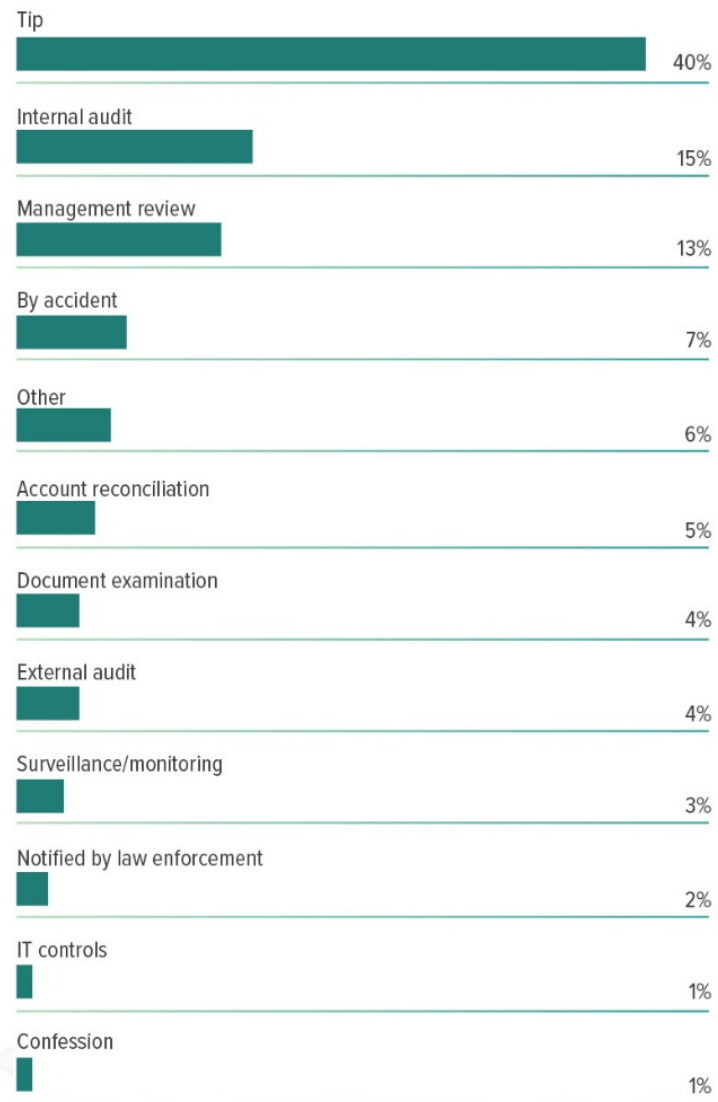
FIG. 16 What are the most common occupational fraud schemes in various industries?



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FIG. 9 How is occupational fraud initially detected?



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Questions?



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Thank You!