

# International Fraud Awareness Week

## What is FRAUD?

To fight fraud, you first have to learn what fraud is and why it's important to stop it.

# What is fraud?

In the broadest sense, the term fraud encompasses actions that are meant to deceive for financial or personal gain.

It's any intentional or deliberate act to deprive another of property or money by guile, deception or other unfair means.

Occupational fraud is fraud committed by people who work for, or do business with, an organization. This specific form of fraud represents a real and large risk to any organization that employs individuals.

# Why should we care about fraud?

Fraud costs billions of dollars in damage to companies, governments and individuals each year.

Additionally, fraud can dramatically affect the quality of life of its victims - and the employees of its victims - resulting in job losses, the loss of savings and investments, weakened trust in public institutions and a significant strain on resources.

# What constitutes occupational fraud?

The Association of Certified Fraud Examiners classifies occupational fraud into three main categories:

1. Asset Misappropriation
2. Corruption
3. Financial Statement Fraud

# Asset Misappropriation

Schemes in which an employee steals or misuses an organization's assets.

Common examples include skimming payments received from customers, intercepting outgoing vendor payments, and overstating reimbursable expenses.

# Corruption

Schemes involving a fraudster wrongfully using their influence in a business transaction to obtain a personal benefit or a benefit for another person (e.g., their spouse, children, or friends).

Examples of corruption schemes include failing to disclose conflicts of interest, accepting illegal gratuities and paying bribes for favorable business decisions.

# Financial Statement Fraud

Schemes involving the intentional misreporting of an organization's financial information with the intent to mislead others (e.g., investors, debtors or government authorities).

Examples include creating fictitious revenues and concealing liabilities or expenses.



# What are some of the most common occupational fraud schemes committed by employees?

Some of the more common frauds committed by employees include the theft of company assets, such as cash or inventory, and the misuse of company assets, such as using a company car for a personal trip.

The slides that follow provide more details about these type of schemes.

# Stealing Cash

Unsurprisingly, most people prefer to steal cash because the theft of physical cash is easier to conceal than many other types of theft.

Skimming is the process by which an employee removes cash from the business before it enters the accounting system. This includes not recording a sale, or recording a sale for a lower amount than its actual cost, and pocketing the unrecorded amount.

# Payment Tampering Schemes

Payment tampering is a type of fraudulent disbursement scheme whereby an employee either prepares a fraudulent payment for their own benefit or intercepts a legitimate payment intended for a third party and converts it to their own benefit.

In these schemes, fraudsters manipulate either traditional check payments or some form of electronic payments - such as automated clearing house (ACH) payments, online bill payments or wire transfers. Some fraudsters abuse their legitimate access to their employer's payment system. Others gain access through social engineering or password theft, or by exploiting weaknesses in their employer's internal control or payment system. Regardless of how they access the system, the perpetrators use this access to fraudulently disburse or divert payments to themselves or their accomplices.

# Billing Schemes

Billing schemes cause the victim organization to buy goods or services that are nonexistent, overpriced or unnecessary.

In a typical scheme, the perpetrator creates false support for a fraudulent purchase. The fraudulent support documents, which can include invoices, purchase orders, purchase requisitions, receiving reports and others, cause the victim organization to issue a payment for the purchase. However, the fraudster directs the payment to their own address or bank account, thereby reaping an illegal gain.

# Expense Reimbursement Schemes

Travel and expense budgets are common targets for occupational fraud.

Employees might falsify information about their business expenses, enabling them to receive inflated expense reimbursements. Fraudsters can perpetrate this scheme by overstating real expenses or creating fictitious expenses in areas such as client entertainment and business travel.

# Payroll Schemes

Payroll schemes occur when an employee fraudulently generates overcompensation on their behalf.

These schemes are similar to billing schemes in that the perpetrator generally produces a false document or otherwise makes a false claim for a distribution of funds by their employer.

# Inventory Fraud Schemes

Most inventory and warehousing frauds involve misappropriating or stealing inventory for personal use or resale.

For example, an employee might order excess inventory and then resell that inventory at a discount to another business. Likewise, the personal use of company assets, such as consuming office supplies for non-work-related purposes, can develop into a fraud or an abuse situation if management does not address it.

Preventing fraud is not just the responsibility of management, the board of trustees, or the audit team.

Everyone has a role to play in the prevention of fraud.

Help Brock University protect its finances - and its reputation - from harm.

Be alert to potential fraud and educate your colleagues on what fraud is.



## Reference

Association of Certified Fraud Examiners. How to be a fraud fighter in your organization. ACFE, 2022, chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.fraudweek.com/-/media/files/fraudweek/pdfs/how\_to\_be\_a\_fraud\_fighter\_2022.ashx. Pamphlet.