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# Understanding the Impact of Ethics and Fraud in Business

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# Learning Objectives

At the end of this session, you will be able to:

- Define fraud and begin to think forensically
- Recall what you learned about fraud detection, cost, awareness, and anti-fraud measures
- Discuss ethical challenges by today's society and personal accountability



# Speaker Introduction



Emilie Deveraux, CFE

Signing Director

CLA's Forensics Practice

Over 23 years of experience leading fraud investigations, forensic accounting projects, and litigation support services for large government organizations, educational institutions, nonprofits, and commercial businesses.



# Speaker Introduction



Ayla Grady, CPA, CFE

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Over 11 years of audit, tax, and consulting experience serving state and local governments, nonprofits, and for-profit entities, including forensic accounting engagements, fraud investigations, and internal controls assessments.



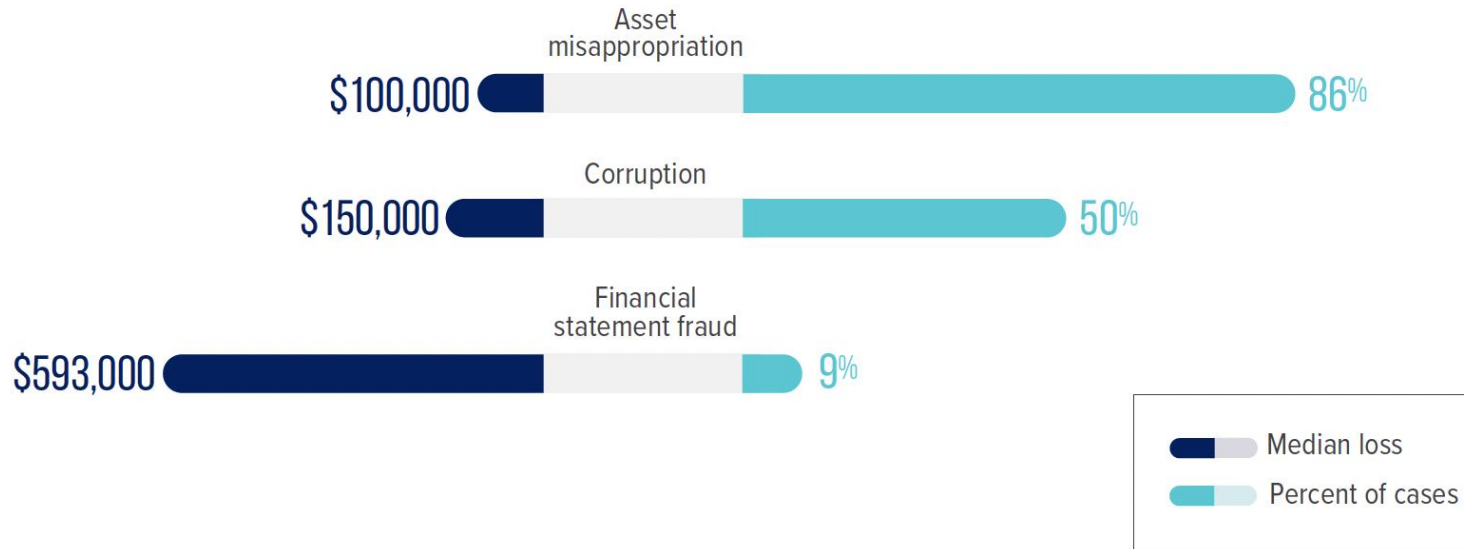
# Defining Fraud

How and Who



# Three Categories of Fraud

FIG. 2 HOW IS OCCUPATIONAL FRAUD COMMITTED?



# Most Common Fraud Schemes in Government

FIG. 21 WHAT ARE THE MOST COMMON OCCUPATIONAL FRAUD SCHEMES IN VARIOUS INDUSTRIES?

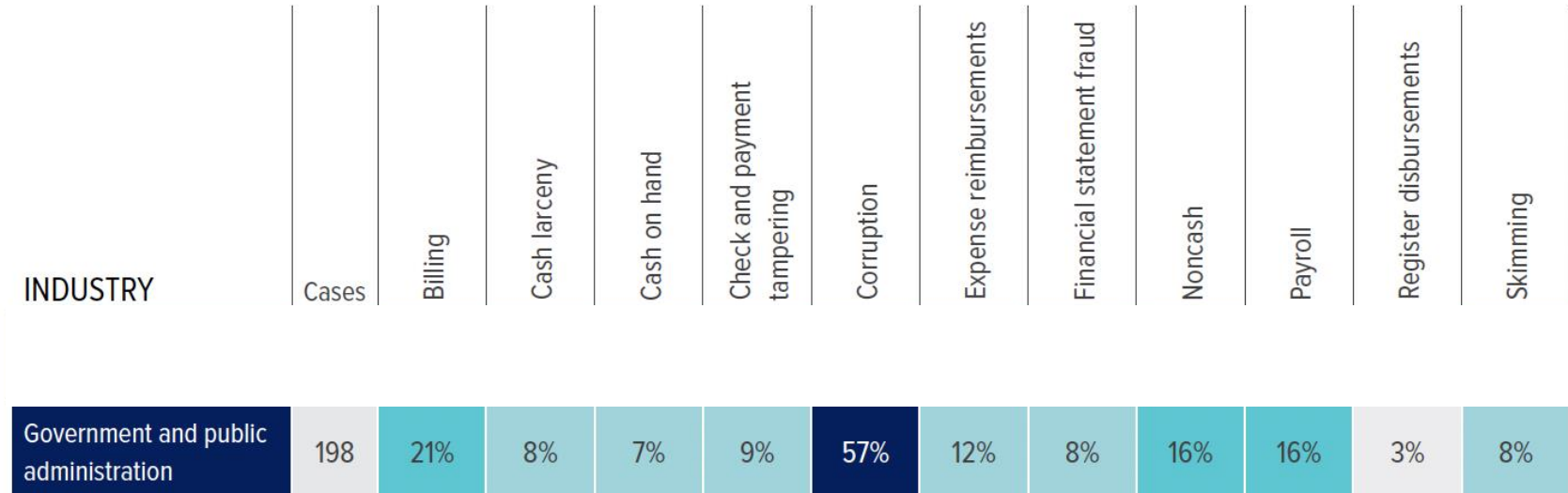




FIG. 31 HOW DOES THE PERPETRATOR'S LEVEL OF AUTHORITY RELATE TO OCCUPATIONAL FRAUD?

# Who Commits Fraud

- Higher level of authority = Higher median loss
- Higher level of authority = Longer duration of scheme
- Longer tenure = Higher median loss



# Thinking Forensically

Awareness of Red Flags

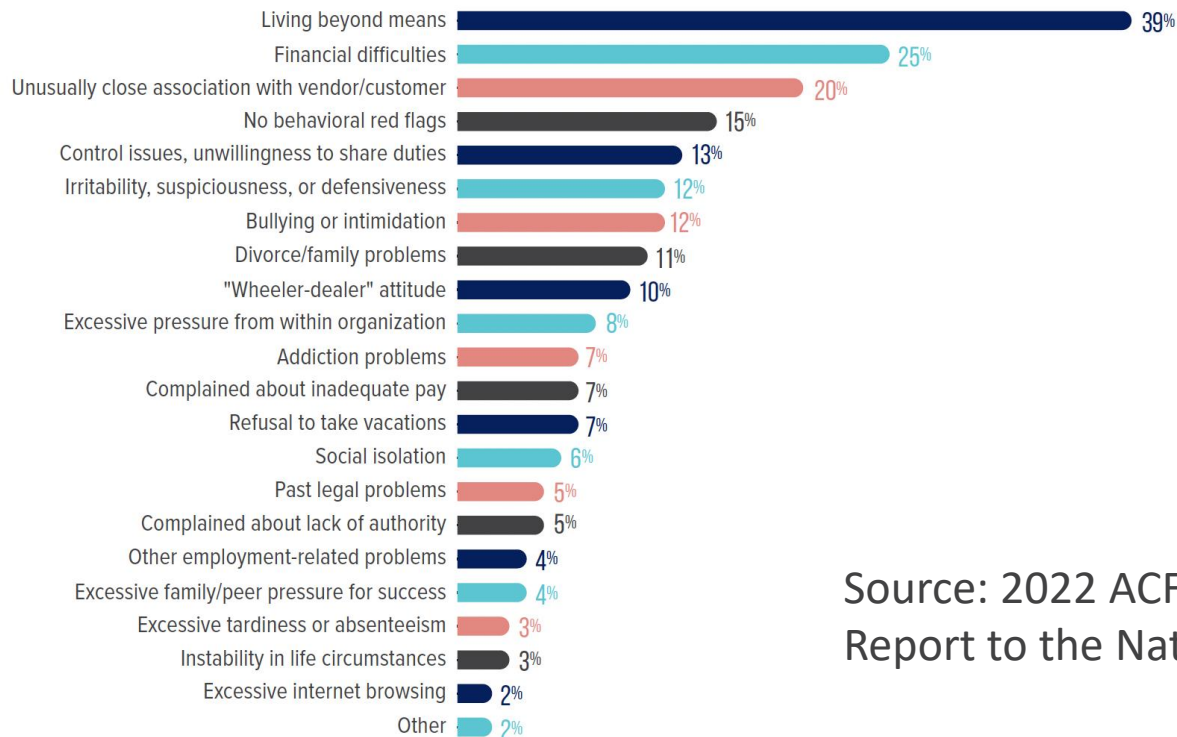


# Behavioral Red Flags

At least one red flag was identified in 85% of the cases in the study.

Multiple red flags were present in 51% of cases.

FIG. 44 HOW OFTEN DO PERPETRATORS EXHIBIT BEHAVIORAL RED FLAGS?



Source: 2022 ACFE Report to the Nations



# Financial Red Flags

## Accounting Records

- Missing documents
- Alterations on documents
- Excessive voids or credits
- Common names or addresses of payees or customers
- Revisions to vendor files (address, payee name, bank info)

## Unrealistic Records

- Excess purchases
- Multiple payments to the same vendor in a month
- Unreasonable expenses or reimbursements
- Significant increases or decreases in account balances



# Fraud Awareness

Action Items to Prevent and Detect Fraud



# Fraud Prevention & Detection Strategies



At least two people are looking at every transaction (adequate segregation of duties)



Ensure secondary approval by someone with knowledge of the business area



Trust is NOT an internal control – ensure proper and sufficient supporting documentation for all transactions



Ensure regular and timely reconciliation of asset accounts; ensure the reconciliations are reviewed



# Fraud Prevention & Detection Strategies



Conduct regular monitoring and management review



Mandatory job rotation and/or vacations



Implement the use of positive pay with your bank (if available, include payee/account name positive pay)



EFT/ACH/Wires – Third-party services that verify bank account information



Require confirmation when vendor change requests are received



Ensure adequate IT and system controls (multi-factor authentication, firewalls, etc.)

# Limitations for Mitigating Fraud Risk

No set of internal controls guarantees the prevention of fraud

- What is your fraud risk tolerance?
- Lower tolerance = more controls





# Most Critical Component of Fraud Detection



# Attributes of an Anti-Fraud Program

- ❑ Person or office responsible for anti-fraud, ethics, and compliance
  - ✓ Empowered by management and governance
- ❑ Lead by example (“tone at the top”)
  - ✓ Management and governance promote an environment of integrity
- ❑ Encourage transparency and accountability
  - ✓ Review, oversight, monitoring
- ❑ Well-developed anti-fraud and ethics policy and/or code of conduct
  - ✓ In writing, communicated to and acknowledged by employees
- ❑ Well-developed and updated written policies and procedures
  - ✓ Kept current and acknowledged by employees



# Attributes of an Anti-Fraud Program (continued)

- ❑ Regular technical training of employees on policies, procedures, applicable laws, ethics, fraud awareness, etc.
  - ✓ Internal or external instructors
- ❑ Strong compliance/internal audit programs
  - ✓ Internal, outsourced, or combination – prioritized by management and governance
- ❑ Established fraud and ethics hotline
  - ✓ Anonymous, confidential, protect whistleblowers – prioritized by governance
- ❑ Reinforce good behavior and don't reinforce bad behavior
  - ✓ Follow through on reports of misconduct – encourages people to come forward



# Fraud Detection Statistics

From the ACFE 2022 Report to the Nations



# Fraud Detection

FIG. 10 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?

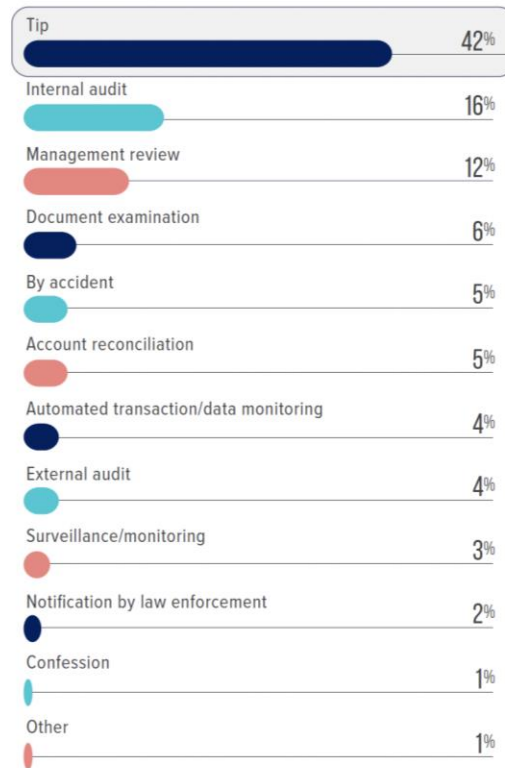
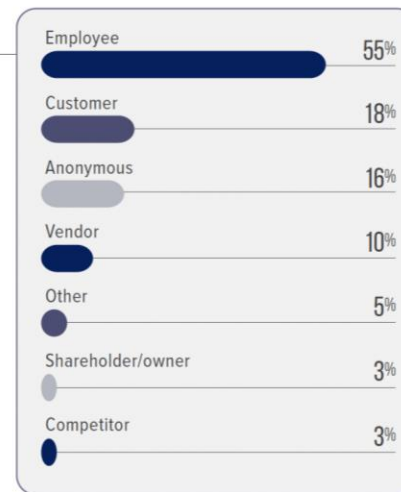
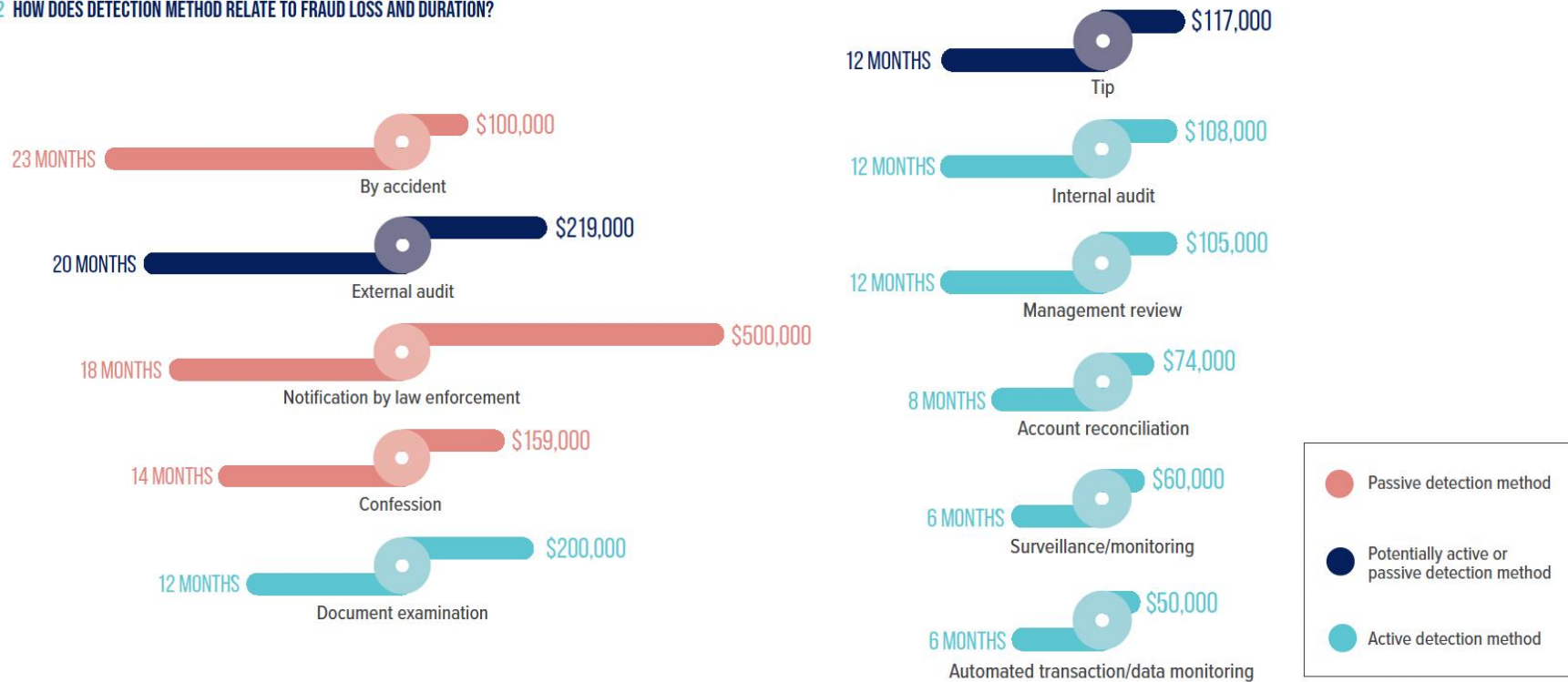


FIG. 11 WHO REPORTS OCCUPATIONAL FRAUD?



# Duration & Median Loss by Detection Method

FIG. 12 HOW DOES DETECTION METHOD RELATE TO FRAUD LOSS AND DURATION?



# The Cost of Fraud



# Costs Associated with Fraud

## *Proactive*

- Invest in good control environment and knowledgeable staff
- Invest in relevant technology
- Conduct trainings to make staff aware of expectations and consequences

## *Reactive*

- Cost to investigate a large fraud scheme is substantial
- Consultants and attorneys may be needed
- Additional costs in the form of lost productivity of staff and loss of trust by staff and the public





# Ethics in Business



# Ethical Leaders Start at Home

## *Personal Ethics*

- Values
- Moral choices
- What we do when no one is looking
- Can change over time or by situation or role
- Defined by:
  - Faith, spirituality
  - Upbringing, family
  - Laws, civil rights, academia

## *Business Ethics*

- Personal Ethics
  - Values of the employees
- Organizational Culture
  - Tone at the top
  - History of the company
  - Perception of what is acceptable
- Organizational Systems
  - Policies and rules in place
  - Regulatory oversight
  - Code of ethics and how it's monitored and enforced



# Principles of Ethics in Business



# Why is Ethics Important in Business?



# Ethical Challenges



# Ethical Challenges in Today's Society

## Moral Muteness

- Not speaking up when witnessing unethical behavior
- Unwillingness to discuss ethics
- Discussing practices/decisions in a way that obscures your moral position and ethical beliefs (Bird & Walters, 1989)

## Ethical Fading

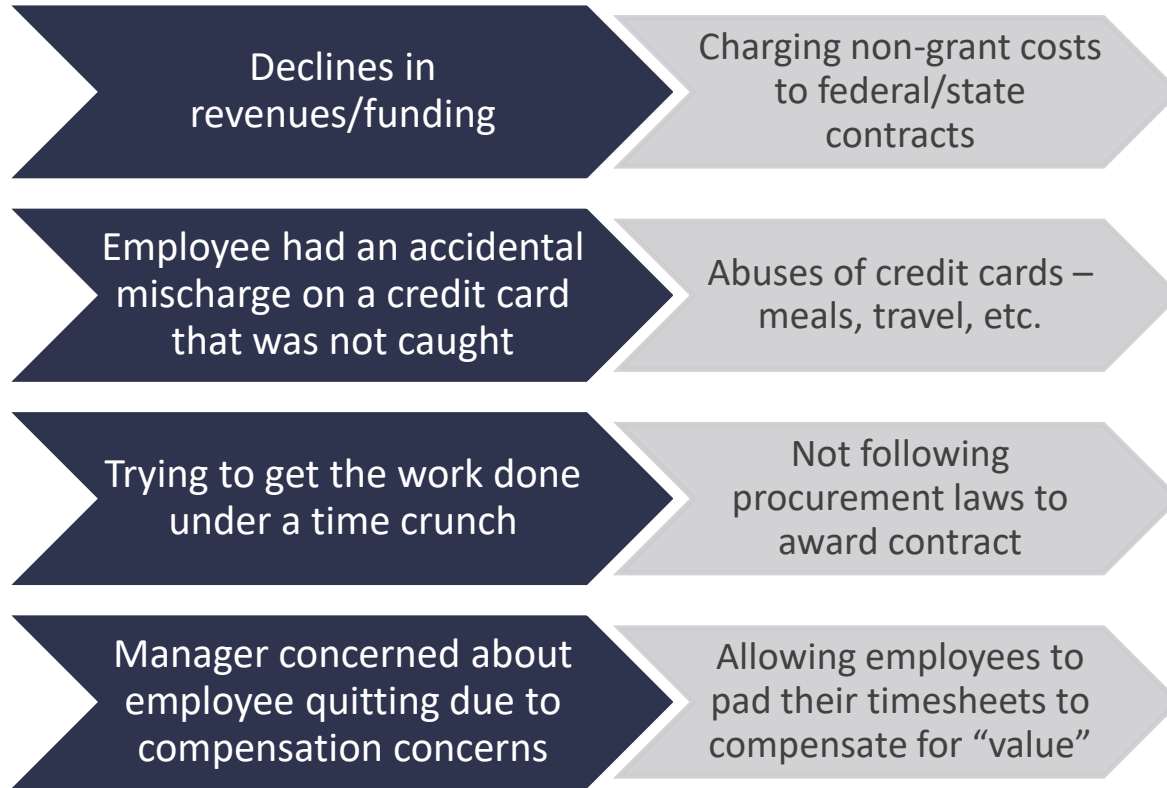
- Erosion of the ethical standard of a business in which employees become used to engaging in or condoning bad behavior

## Situational Influence

- Intent to please authority figure
- Focused on achieving a goal



# Examples of Ethical Challenges Leading to Fraud

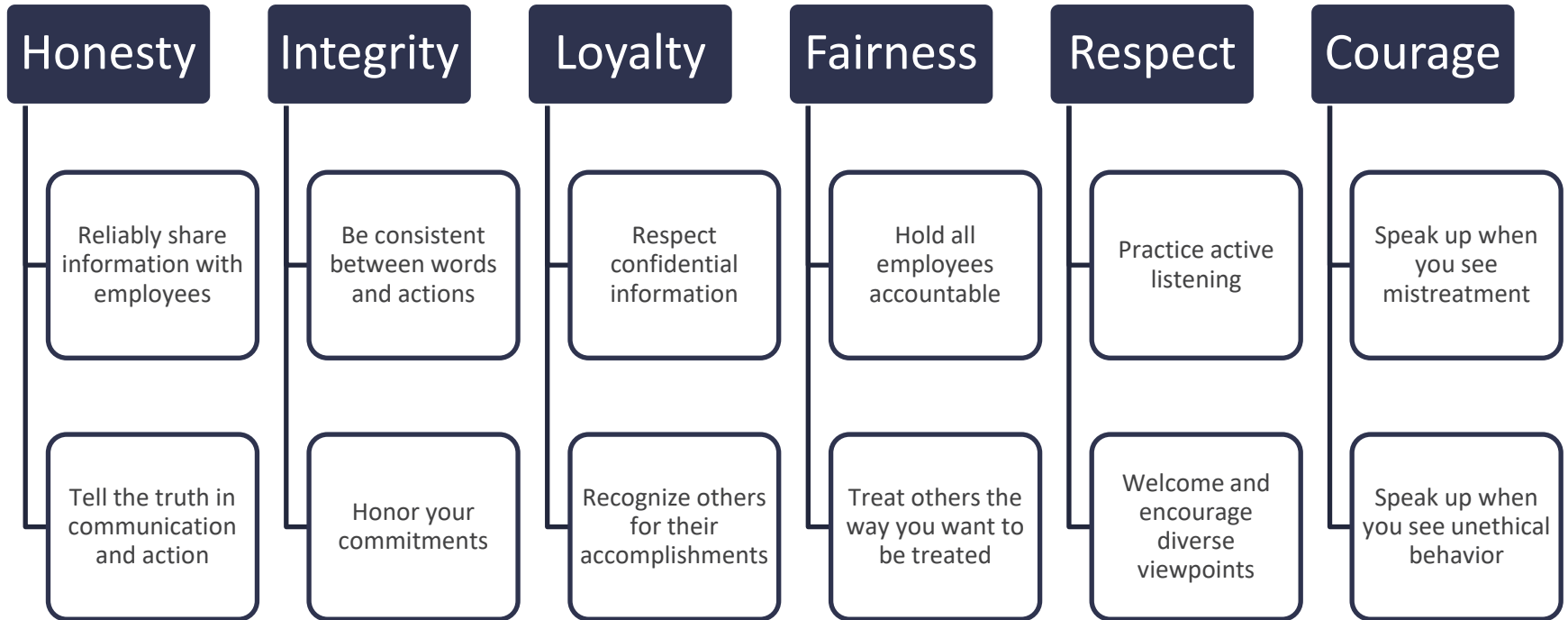


# Personal Accountability





# Portraying Ethical Principals at Work



# Questions?



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