

Executive Summary

This study is based on data compiled from 959 cases of occupational fraud that were investigated between January 2006 and February 2008. All information was provided by the Certified Fraud Examiners (CFEs) who investigated those cases.



One-fourth of the frauds in this Report caused at least \$1 million in losses.

- **Occupational fraud schemes tend to be extremely costly.** The median loss caused by the occupational frauds in this study was \$175,000. More than one-quarter of the frauds involved losses of at least \$1 million.
- **Occupational fraud schemes frequently continue for years before they are detected.** The typical fraud in our study lasted two years from the time it began until the time it was caught by the victim organization.
- This Report focuses on 11 distinct categories of occupational fraud. **The most common fraud schemes were corruption, which occurred in 27% of all cases, and fraudulent billing schemes, which occurred in 24%.** Financial statement fraud was the most costly category with a median loss of \$2 million among the 99 financial misstatements in this Report.
- Participants in our survey estimated that U.S. organizations lose 7% of their annual revenues to fraud. Applied to the projected 2008 United States Gross Domestic Product, this 7% figure translates to **approximately \$994 billion in fraud losses.**
- Despite increased focus on anti-fraud controls in the wake of Sarbanes-Oxley and mandated consideration of fraud in financial statement audits due to SAS 99, our data shows that **occupational frauds are much more likely to be detected by a tip than by audits, controls or any other means.** Forty-six percent of the cases in this Report were detected by tips from employees, customers, vendors, and other sources. Tips were also the most common means of detection in 2002, 2004, and 2006.

- **The implementation of anti-fraud controls appears to have a measurable impact on an organization's exposure to fraud.** We examined 15 specific anti-fraud controls and measured the median loss in fraud cases depending on whether organizations did or did not have a given control at the time of the fraud. In every comparison, there were significantly lower losses when the controls had been implemented. For example, organizations that conducted surprise audits suffered a median loss of \$70,000, while those that did not had a median loss of \$207,000. We found similar reductions in fraud losses for organizations that had anonymous fraud hotlines, offered employee support programs, provided fraud training for managers, and had internal audit or fraud examination departments.
- The Report includes frauds that impacted organizations in a number of different industries. The industries most commonly victimized by fraud in our study were banking and financial services (15% of cases), government (12%) and healthcare (8%). **Among industries with at least 50 cases, the largest median losses occurred in manufacturing (\$441,000), banking (\$250,000), and insurance (\$216,000).**
- **Small businesses are especially vulnerable to occupational fraud.** The median loss suffered by organizations with fewer than 100 employees was \$200,000. This was higher than the median loss in any other category, including the largest organizations. Small businesses also suffered the largest losses in our 2006 study. Check tampering and fraudulent billing were the most common small business fraud schemes.
- **Lack of adequate internal controls was most commonly cited as the factor that allowed fraud to occur.** Thirty-five percent of respondents cited inadequate internal controls as a primary contributing factor in the frauds they investigated. Lack of management review and override of existing controls were each cited by 17% of respondents.
- **Seventy-eight percent of victim organizations modified their anti-fraud controls after discovering that they had been defrauded.** The most common change was to conduct management review of internal controls, which occurred in 56% of cases. Implementation of surprise audits was the next most common response, followed by fraud training for managers and employees.
- **Occupational frauds were most often committed by the accounting department or upper management.** Twenty-nine percent of frauds in this Report were committed by persons in the accounting department, while 18% were committed by executives or upper management. Fraud committed by executives were particularly costly, resulting in a median loss of \$853,000.
- **Occupational fraudsters are generally first-time offenders.** Only 7% of fraud perpetrators in this study had prior convictions and only 12% had been previously terminated by an employer for fraud-related conduct. These results are consistent with our 2004 and 2006 Reports.
- Fraud perpetrators often display behavioral traits that serve as indicators of possible illegal behavior. **The most commonly cited behavioral red flags were perpetrators living beyond their apparent means (39% of cases) or experiencing financial difficulties at the time of the frauds (34%).** In financial statement fraud cases, which tend to be the most costly, excessive organizational pressure to perform was a particularly strong warning sign.