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## ***Organizational Fraud***

*Increased Risks in a Downturn Economy*

*Ron Schwartz, Deloitte Financial Advisory Services LLP*  
**March 24, 2023**

# Agenda

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**1** Organizational Fraud Basics

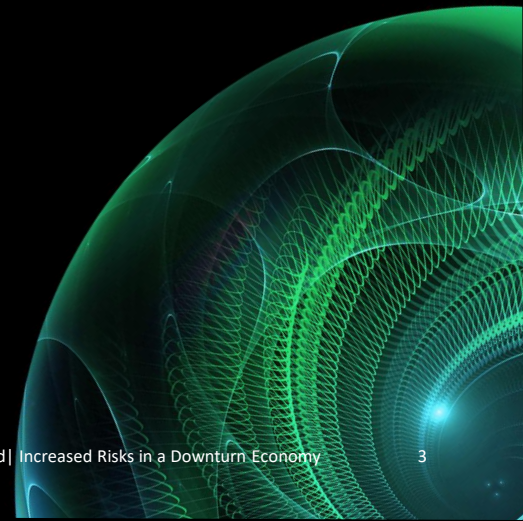
**2** Financial Statement Fraud

**3** Asset Misappropriation

**4** Controls

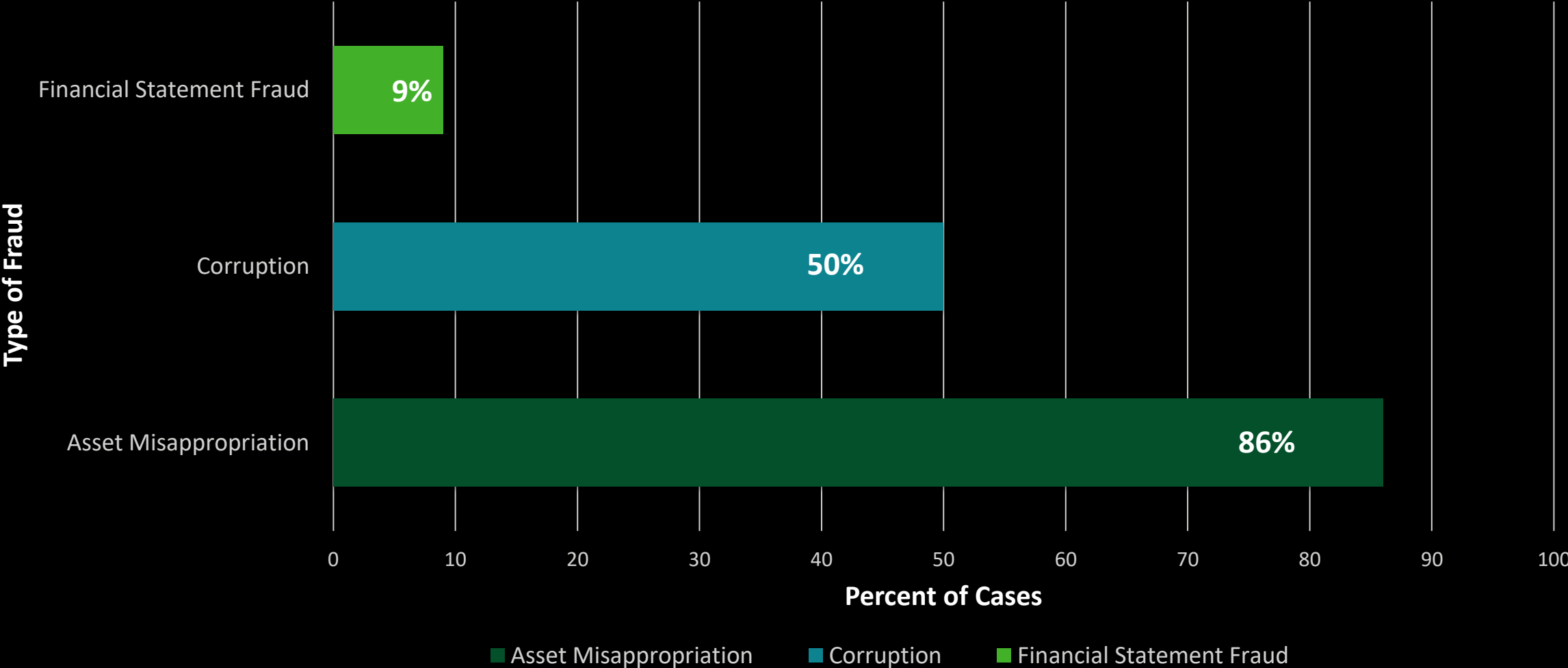


# Organizational Fraud Basics



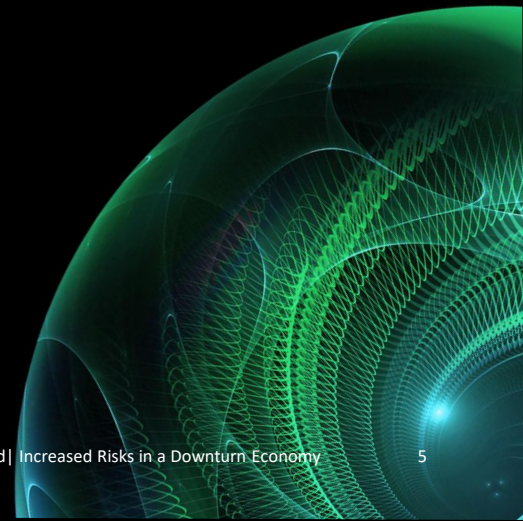
# How Organizational Fraud is Committed

## 2022 Frequency of Organizational Frauds by Fraud Type



Source: Association of Certified Fraud Examiners Report to the Nations 2022

# Financial Statement Fraud



# Fraud Examples

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## Balance Sheet

01

### Improper Valuation of Assets

- ❖ Inventory manipulation
- ❖ Accounts receivable schemes
- ❖ Improper capitalization of expenses

02

### Manipulation of Liabilities

- ❖ Failure to accrue for known liabilities
- ❖ Reserve manipulation

## Income Statement

01

Improper Revenue Recognition

02

Improper Capitalization of Expenses

03

Reserve Manipulation

04

Improper Classification of Expenses from Cost of Sales to below Gross Margin

# Case Example: Financial Statement Fraud (Round Trip Transaction)

# Financial Statement Fraud

## Split Purchase Orders

Supplier Name	PO Creation Date	PO Amount \$	PO Number	PO Item Description	Requisition Number	Req Approver Name
TechCo	01-Jun-2016	\$18,500	5099002267	Outsourced services	7884	A.G.
TechCo	01-Jun-2016	\$16,000	5099002268	Z bank Legal reporting	7885	A.G.
TechCo	28-Jun-2016	\$7,000	5099002285	Consulting Services	7954	A.G.
TechCo	28-Jun-2016	\$8,000	5099002287	Managed services	7955	A.G.
TechCo	28-Jun-2016	\$8,000	5099002288	Consulting Services	7956	A.G.
TechCo	28-Jun-2016	\$10,000	5099002289	Z bank Outsourced services	7957	A.G.
TechCo	02-Aug-2016	\$14,000	5099002301	Z bank Outsourced services	8025	A.G.
TechCo	02-Aug-2016	\$14,000	5099002302	Z bank Outsourced services	8026	A.G.
TechCo	31-Aug-2016	\$10,500	5099002309	Z bank Outsourced services	8081	A.G.
TechCo	31-Aug-2016	\$10,500	5099002310	Z bank Outsourced services	8082	A.G.
TechCo	03-Oct-2016	\$18,000	5099002329	Z bank Outsourced services	8157	A.G.
TechCo	03-Oct-2016	\$19,000	5099002330	Z bank Outsourced services	8158	A.G.



## Polling Question

# 01

**What employee pressures, that may lead to fraud, are you most concerned about?**

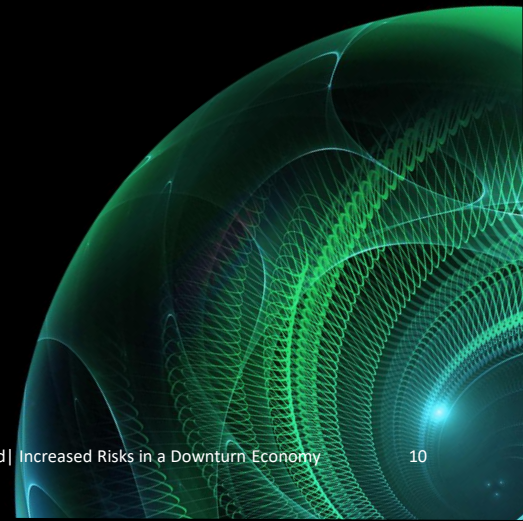
A. Pressure to meet budget/forecast

B. Employee living beyond means/financial pressure

C. Employee not feeling appreciated or fairly compensated







D. Other

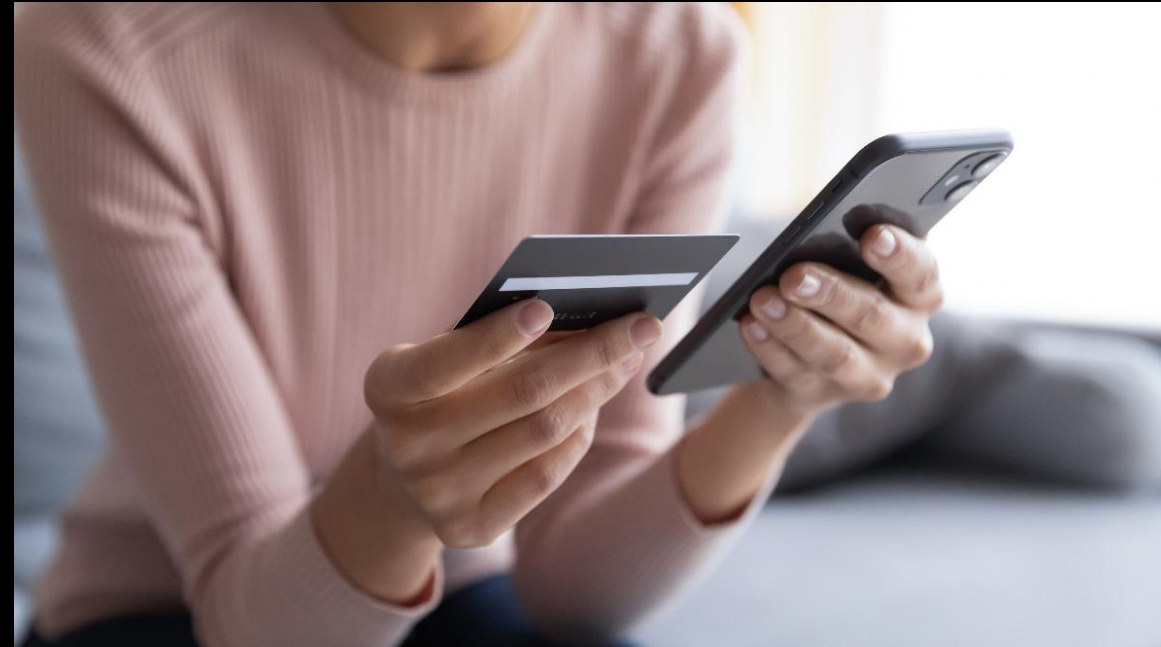
# Asset Misappropriation



# Asset Misappropriation

**Asset misappropriation** fraud involves third parties or employees who abuse their position to steal from an organization through fraudulent activity such as:

-  Theft of cash
-  Diverting checks or wire advices
-  Procurement fraud
-  T&E fraud
-  Payroll/overtime fraud
-  Theft of inventory or other assets



# Case Example: Asset Misappropriation (Purchase Card Abuse)

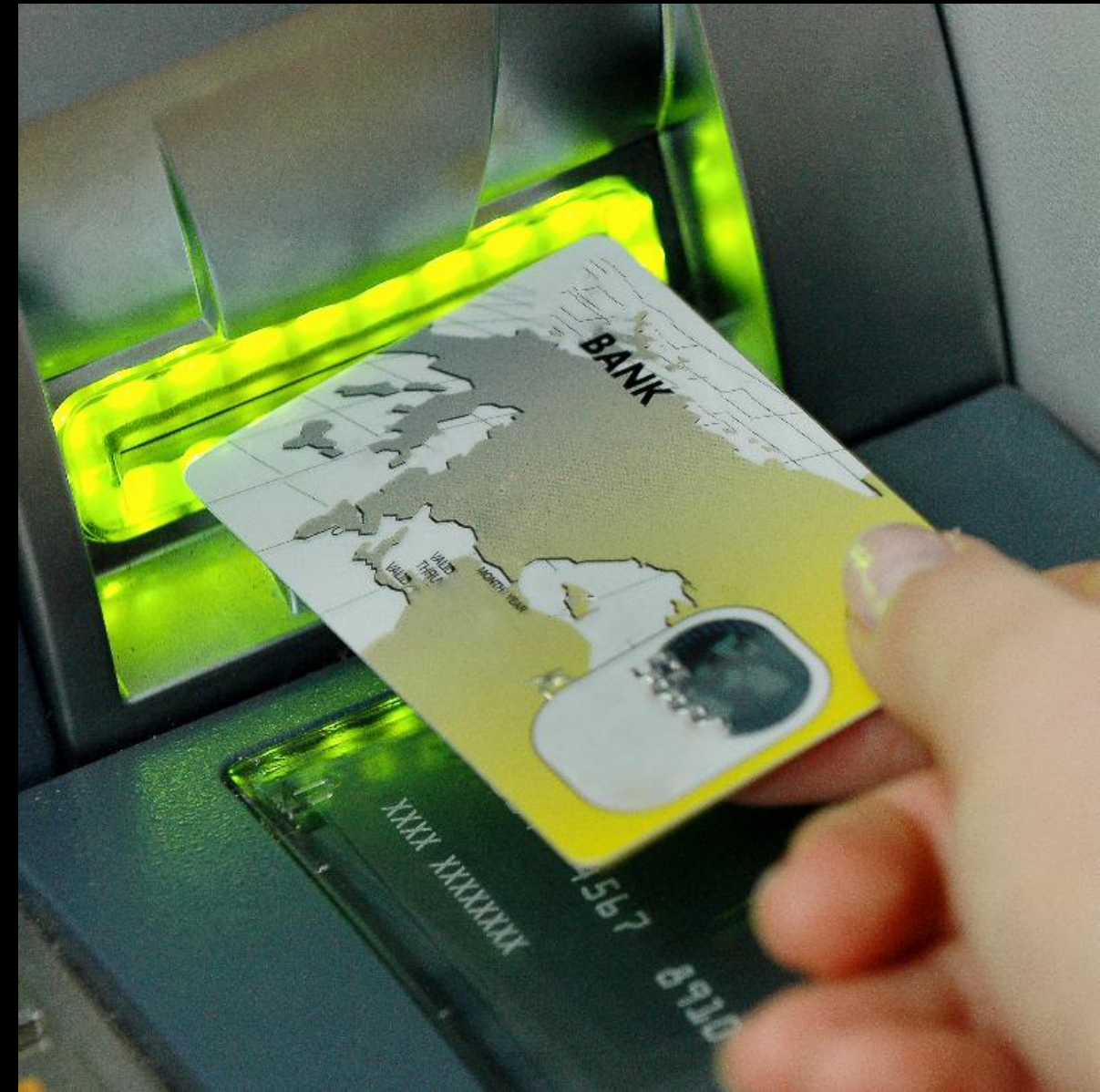
# Asset Misappropriation: Purchase Cards

## Using corporate p-cards for personal gain:

- ❖ One of the more commonly occurring employee frauds

## Fraud tests can help identify the following:

- Goods and services acquired from suspect vendor codes
- Cards being used on weekends or while the employee is on vacation
- Fuel purchases in large quantities
- Employees with similar job functions having widely varying expenses



# Asset Misappropriation

## Altering of Receipts

**To:** [REDACTED]  
**Subject:** Purchase Details for Purchase #05436845231500107311772 on 8/18/15

from: [REDACTED]  
reply-to: [REDACTED]  
to: [REDACTED]

date: Tue, Aug 18, 2015 at 11:56 AM X

subject: Order Confirmation

mailed-by: [REDACTED]

ITEM DESCRIPTION: Item # 295223 - HP 53A, Black Original Toner Cartridge (Q7553A), 2PK Y

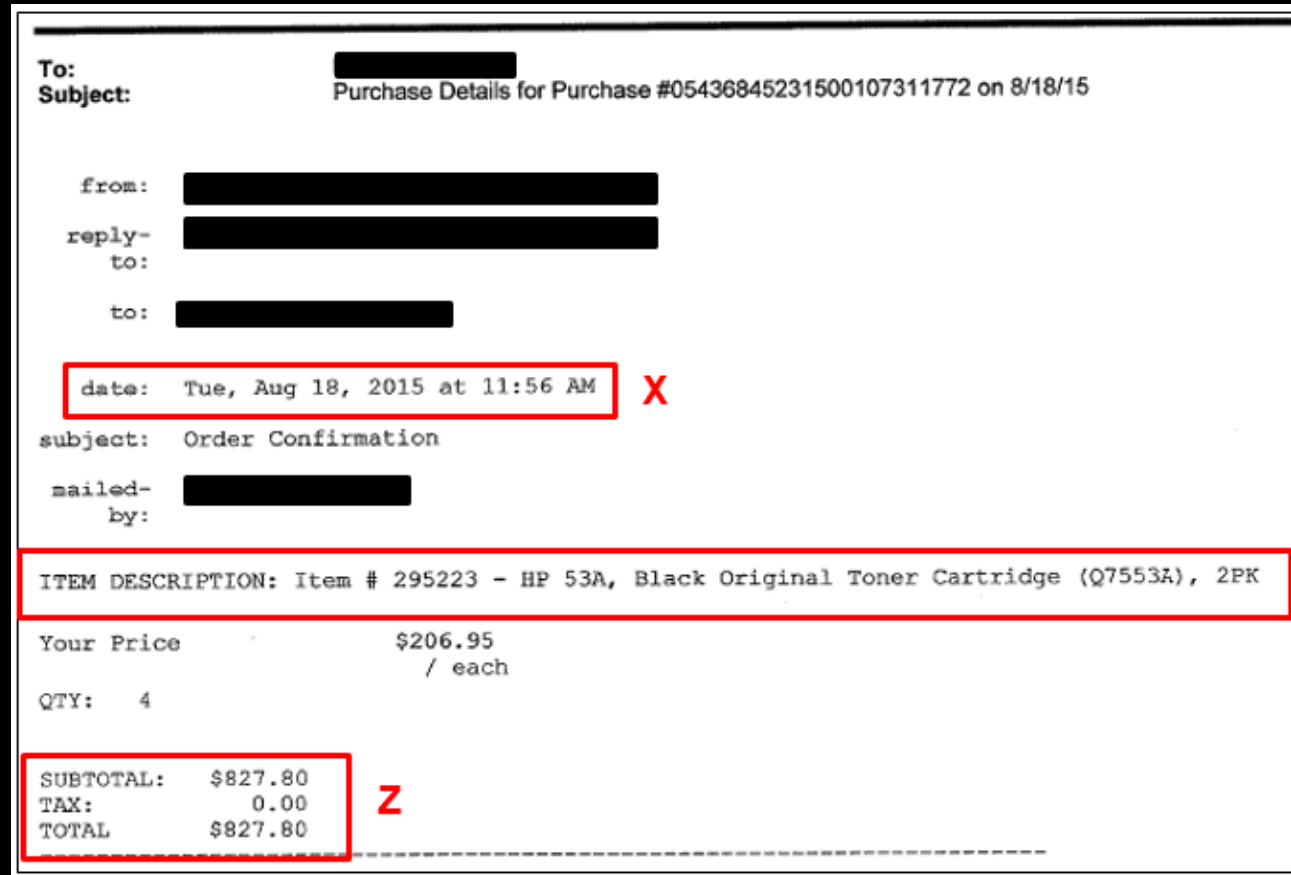
Your Price                    \$206.95  
   / each

QTY:    4

SUBTOTAL:	\$827.80	Z
TAX:	0.00	
TOTAL	\$827.80	

# Asset Misappropriation

## Altering of Receipts



Vendor Provided Data					
Date	Order_ID	DeptNo	ClassName	Skudesc	Account Amount
8/18/2015	201534321780723000000	76	PPD GIFT CARDS	Gift Card,Visa,Scroll,\$200	\$ 827.80

X

Y

Z

# Case Example: Asset Misappropriation (Vendor Payments)



# Asset Misappropriation

## Master Vendor File Fraudulently Altered

[VENDOR]	[TRANS_DATE]	[VENDOR_SNAME]	CHANGED FIELD	[BEFORE_IMAGE]	[AFTER_IMAGE]
37858	7/28/2014	REALTY LLC	Vendor Name		REALTY LLC
37858	7/28/2014	REALTY LLC	Bank Account Number		XXXXX6121
37858	7/28/2014	REALTY LLC			XXX@realtycompany.net
37858	12/17/2014	REALTY LLC	Bank Account Number	XXXXX6121	XXXXXX9657
37858	12/17/2014	REALTY LLC		XXX@realtycompany.net	ap.XXXrealty@gmail.com
37858	2/3/2015	REALTY LLC	Bank Account Number	XXXXXX9657	XXXXX6121
37858	2/3/2015	REALTY LLC		ap.XXXrealty@gmail.com	XXX@realtycompany.net

## Polling Question

# 02

**What type of asset misappropriation scheme(s) are you most concerned about?**

A. Theft of cash

B. Procurement fraud

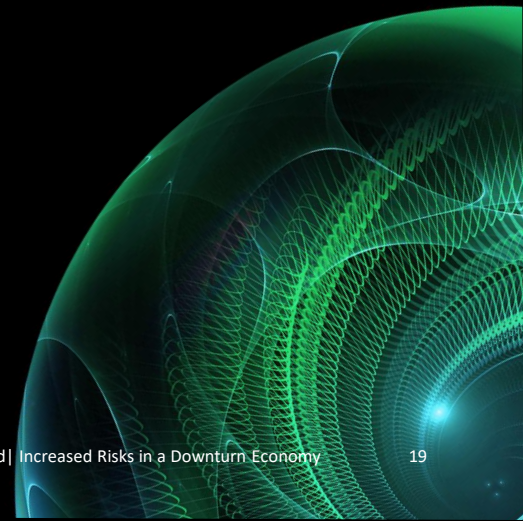
C. T&E or P-card fraud

D. Payroll/overtime fraud

E. Theft of inventory/other assets

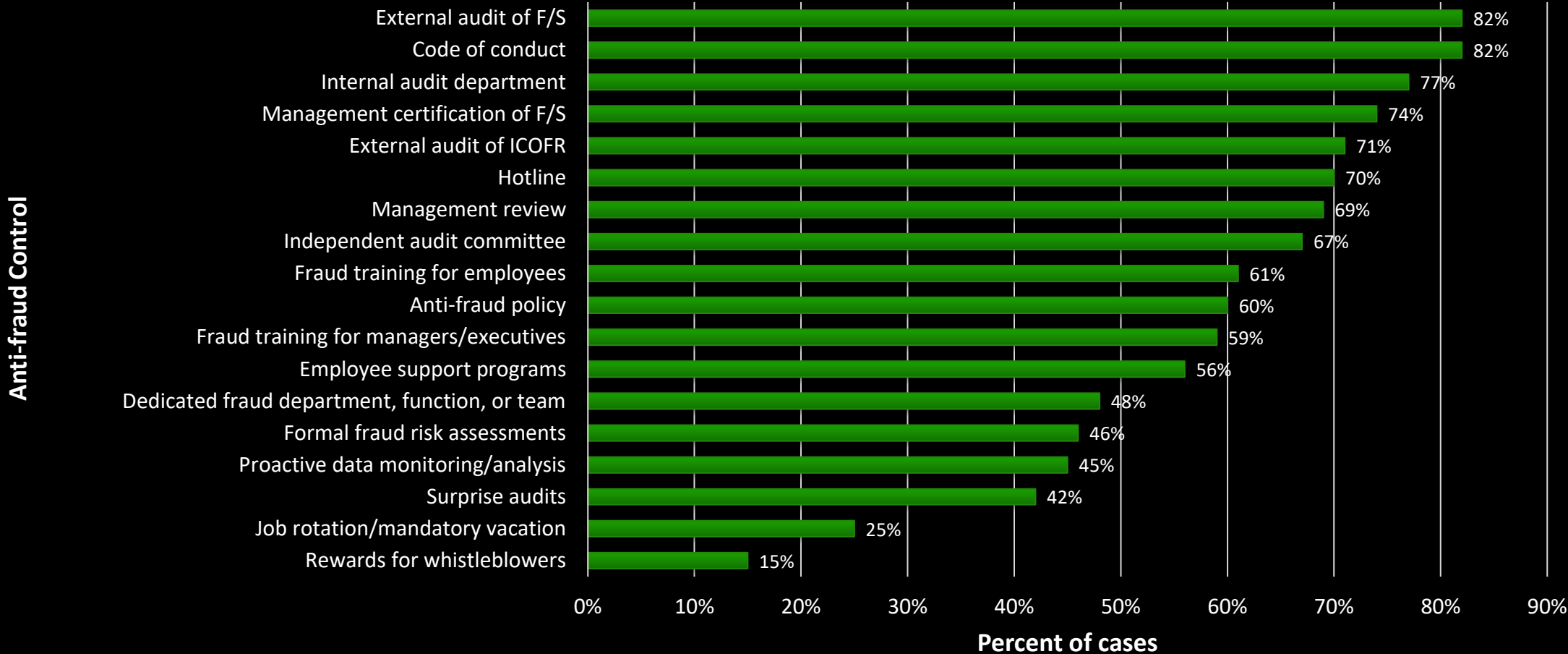
F. Other

# Controls



# Common Anti-fraud Controls

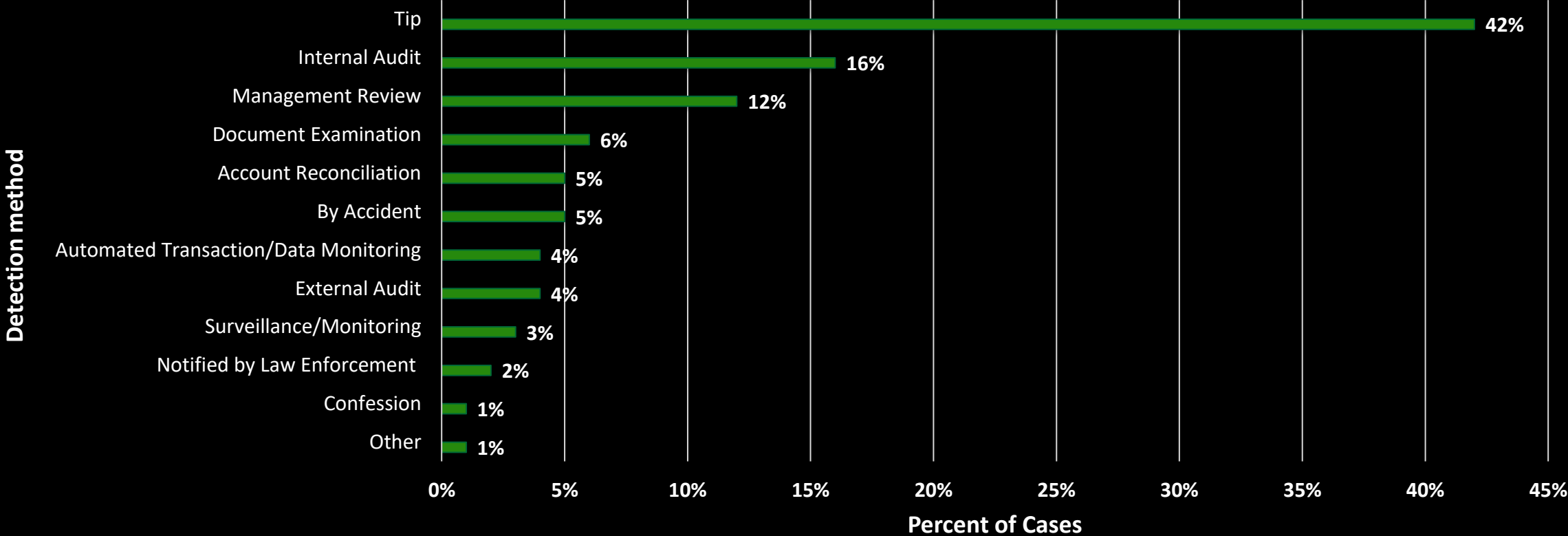
## 2022 Anti-Fraud Controls



Source: Association of Certified Fraud Examiners Report to the Nations 2022

# Initial Detection of Organizational Frauds

## 2022 Initial Detection of Organizational Frauds



Source: Association of Certified Fraud Examiners Report to the Nations 2022



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