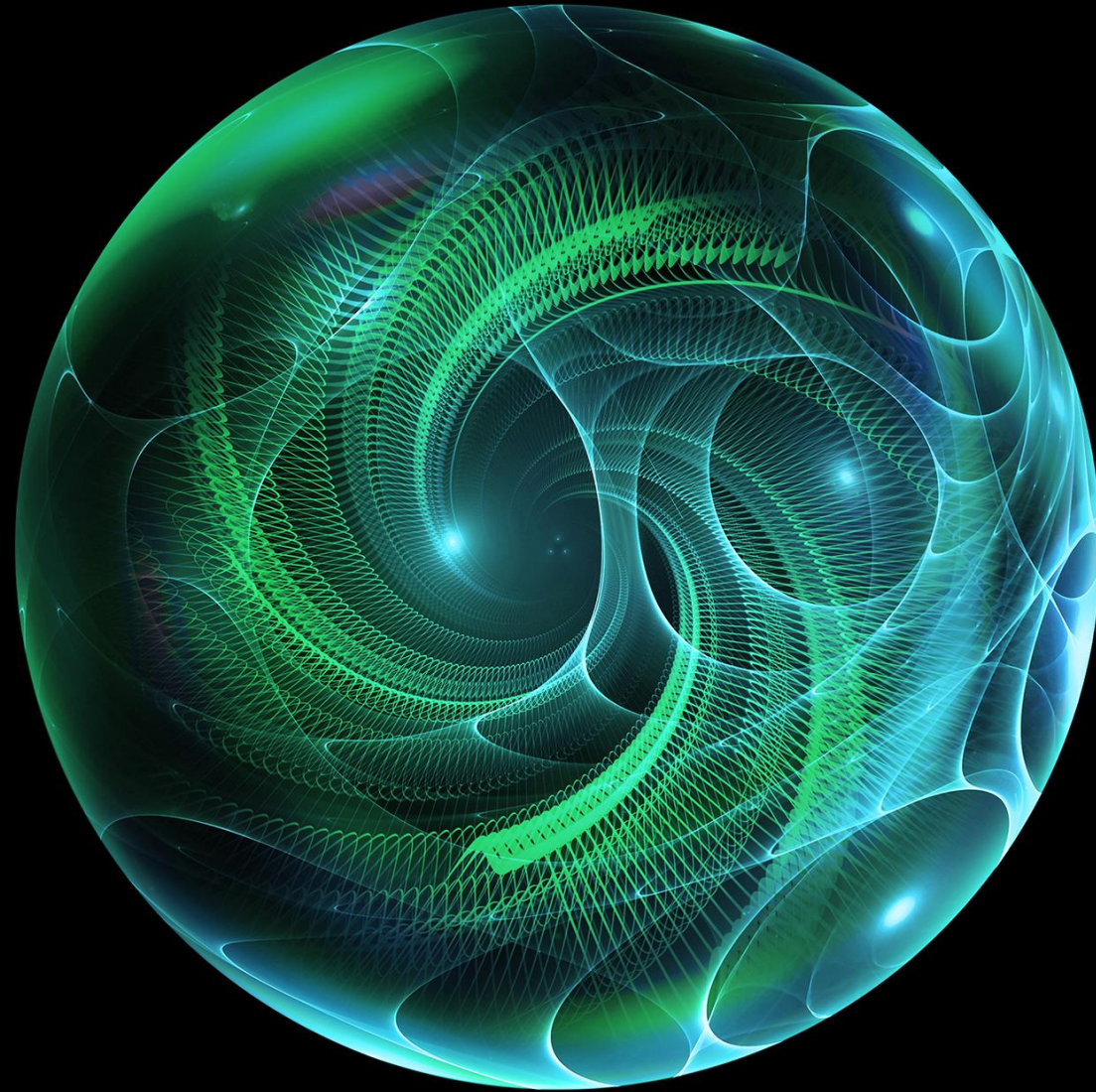


Deloitte.



Organizational Fraud

Increased Risks in a Downturn Economy

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

Agenda

1 Organizational Fraud Basics

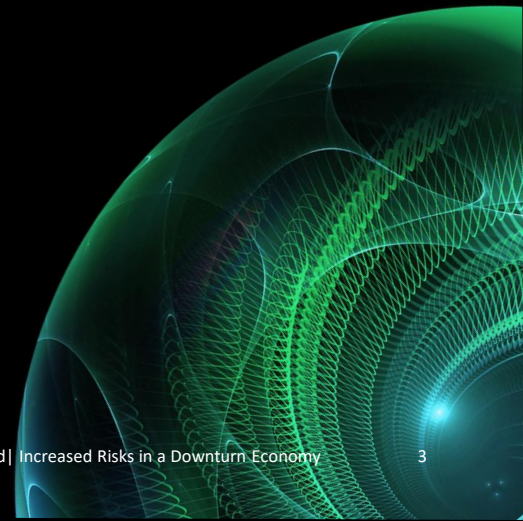
2 Financial Statement Fraud

3 Asset Misappropriation

4 Controls

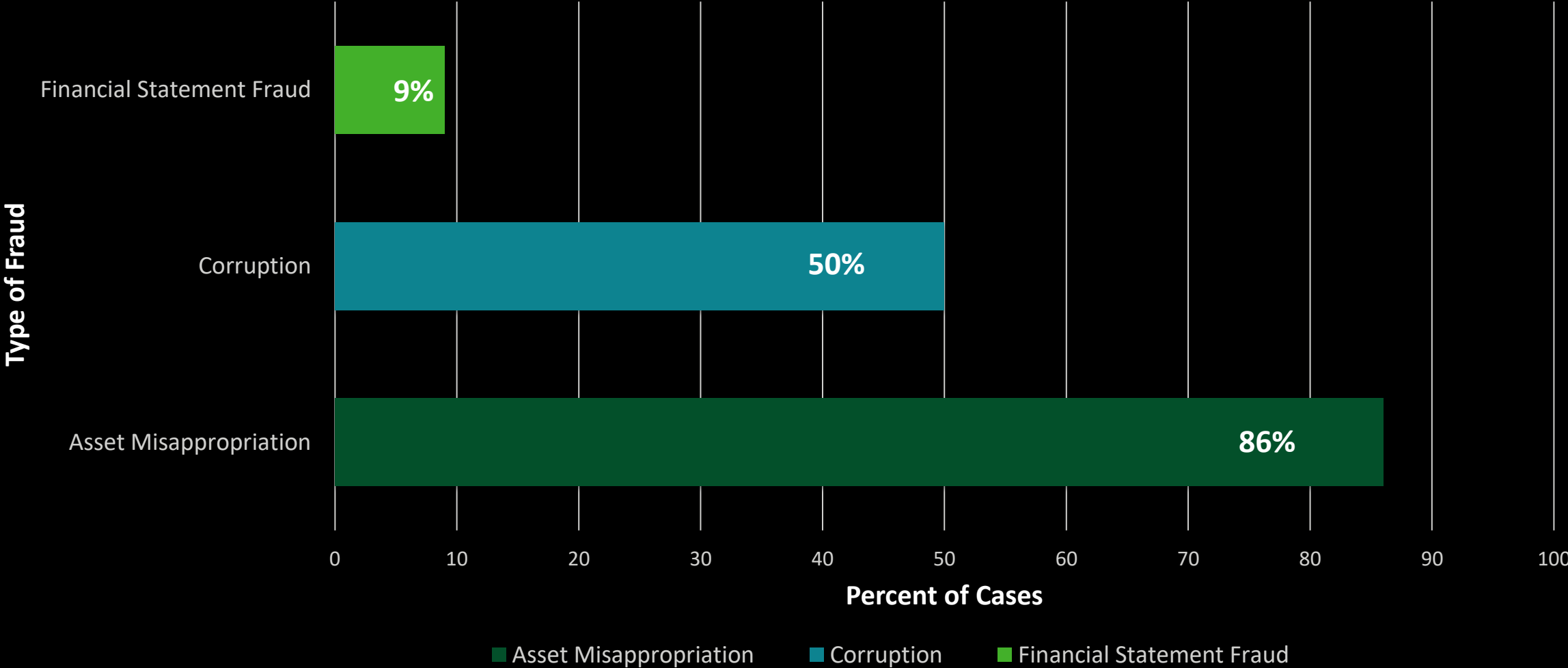


Organizational Fraud Basics



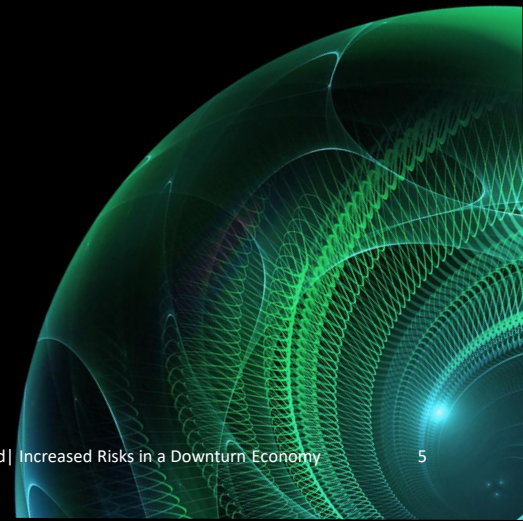
How Organizational Fraud is Committed

2022 Frequency of Organizational Frauds by Fraud Type



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

Financial Statement Fraud



Fraud Examples

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?

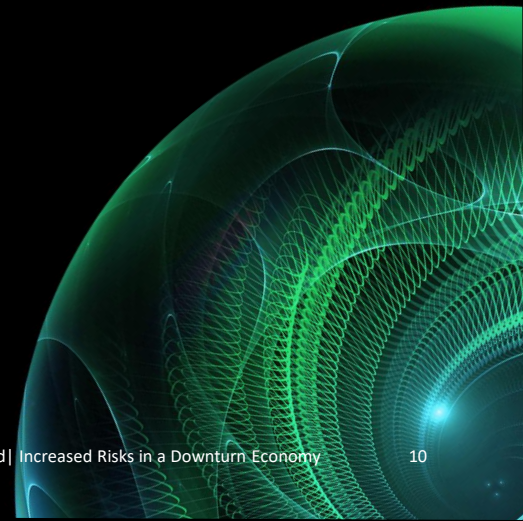
A. Pressure to meet budget/forecast

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)

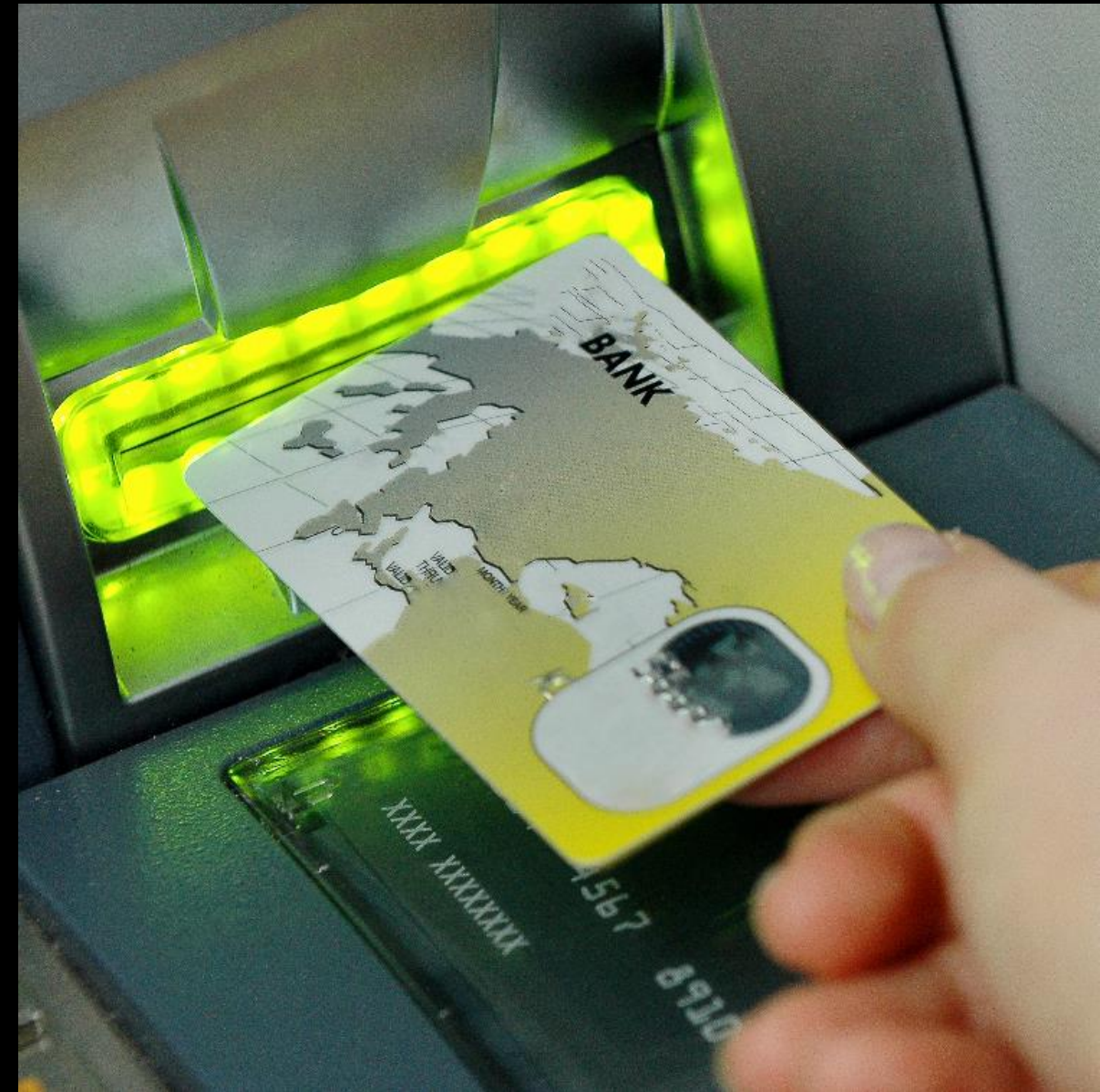
Asset Misappropriation: Purchase Cards

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

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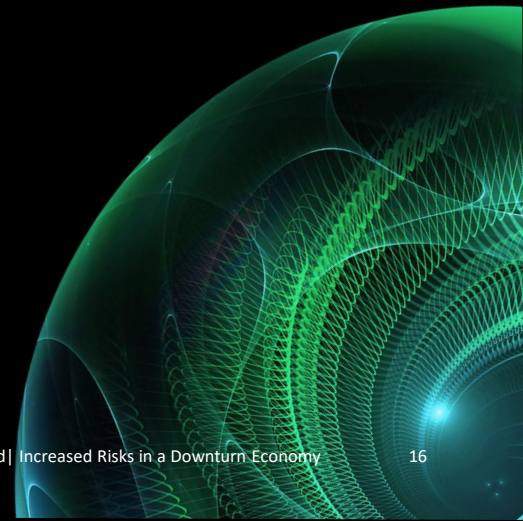
Vendor Provided Data					
Date	Order_ID	DeptNo	ClassName	SkuDesc	Account Amount
8/18/2015	201534321780723000000	76	PPD GIFT CARDS	Gift Card,Visa,Scroll,\$200	\$ 827.80

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

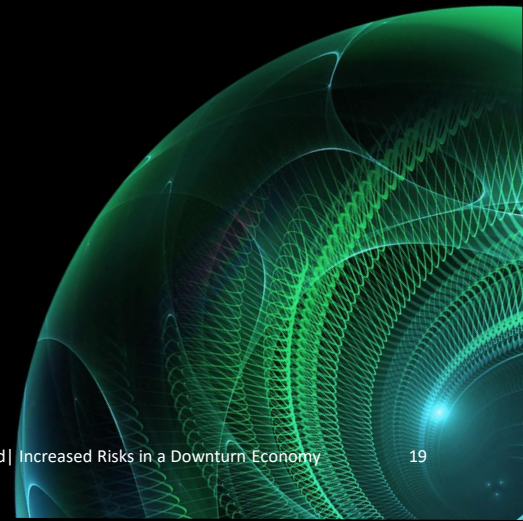
C. T&E or P-card fraud

D. Payroll/overtime fraud

E. Theft of inventory/other assets

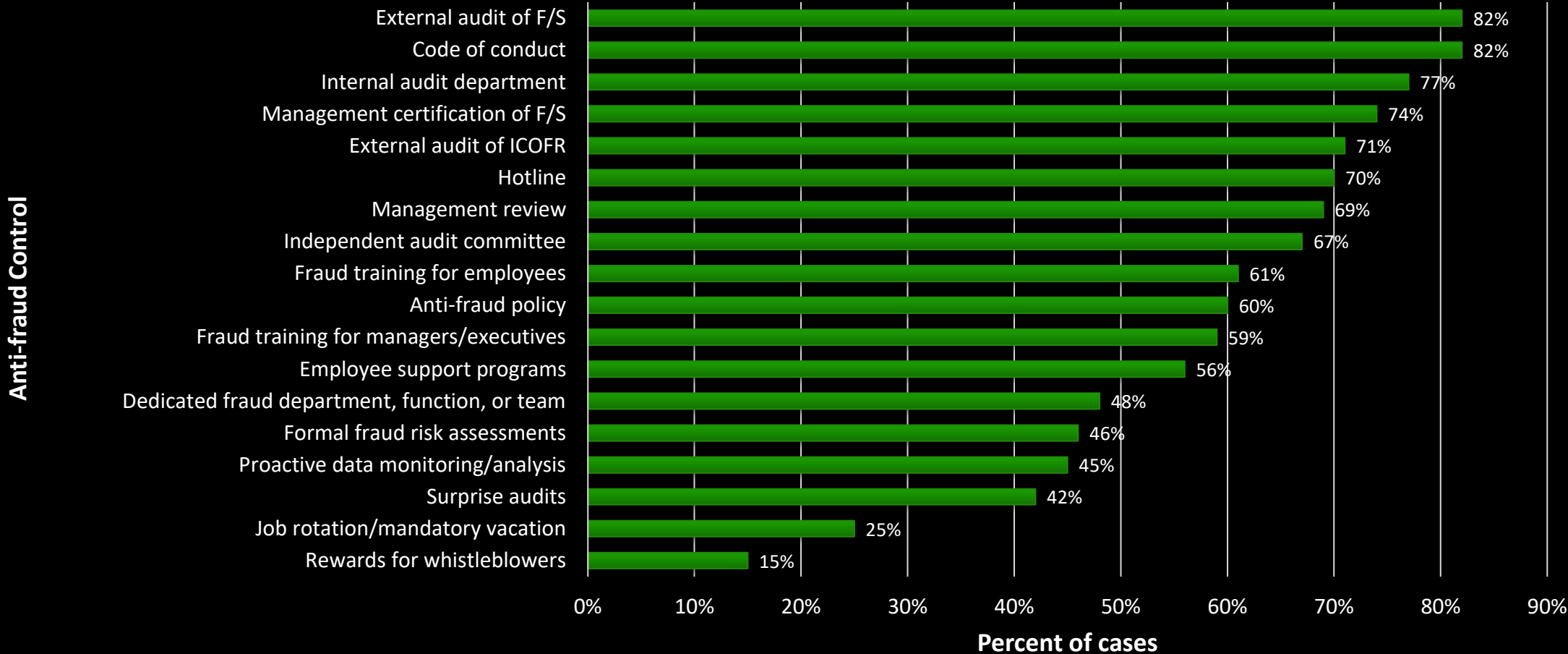
F. Other

Controls



Common Anti-fraud Controls

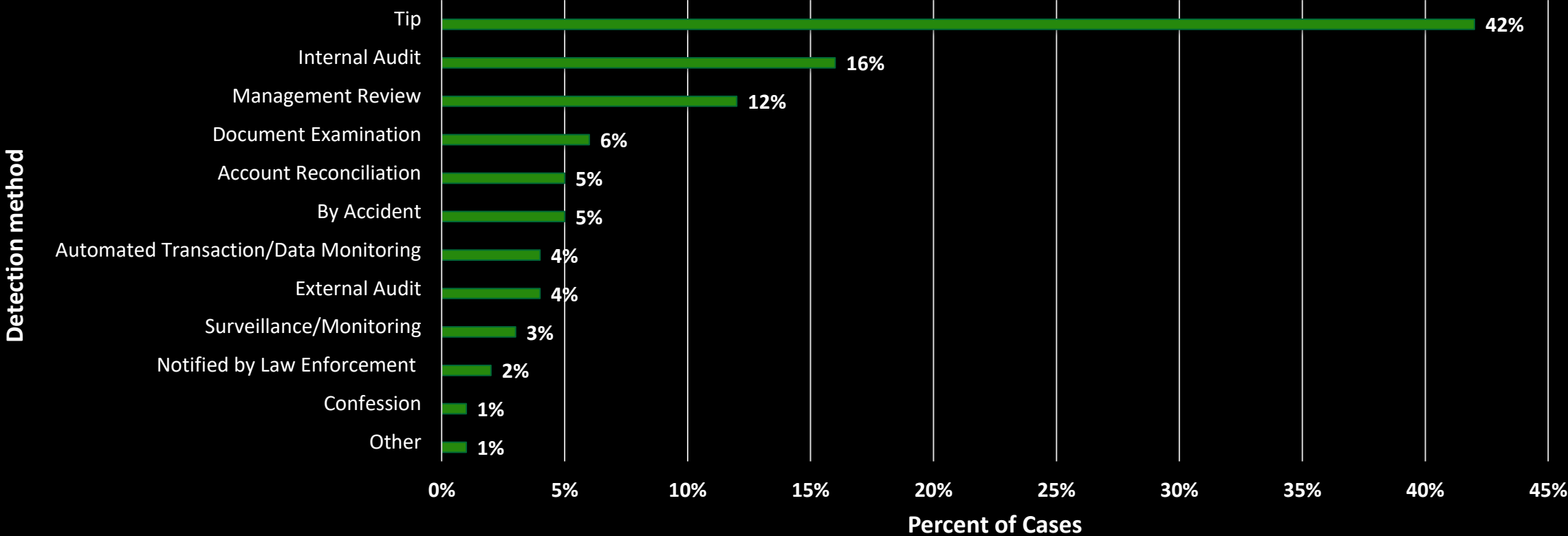
2022 Anti-Fraud Controls



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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