



First Friday Fraud Facts+

September 7, 2018

The Office of the Idaho State Controller Brandon Woolf distributes this newsletter as a public service and as a cost-effective method of increasing awareness about ways to detect and prevent fraud, waste, and abuse in government.

Summary of:

ACFE’s 2018 report to the nations

Occupational fraud is also known as internal fraud and is defined as “the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the organizations resources or assets.”¹

How occupational fraud is committed²

- Asset Misappropriation – A scheme in which an employee steals or misuses the employing organization’s resources.
- Corruption – A scheme in which an employee misuses their influence in a business transaction in a way that violates their duty to the employer in order to gain a direct or an indirect benefit.
- Financial Statement Fraud – A scheme in which an employee intentionally causes a misstatement or omission of material information in the organization’s financial reports.



How occupational fraud is detected²

- Tips - 40%
- Internal Audit - 15%
- Management Review - 13%
- Accident - 7%

Who reports occupational fraud?²

- Employees – 53%
- Customer – 21%
- Anonymous – 14%
- Vendor – 8%

Occupational fraud is most prevalent in private companies (42%), followed by public companies (29%), then by government with 16% of cases. The

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Federal Government has the highest percent of cases (38%), followed by local government (31%), and the State/provincial level (26%). The median loss from occupational fraud in the governmental sector is \$125,000. Corruption was the largest area of fraud in the governmental sector accounting for 50% of cases, followed by billing schemes at 15%. Corruption cases are found in organizations that have a lack of internal controls, overriding the controls in place, or poor tone at the top. People in positions of authority committed about 70% of all corruption cases in part because they have the duties to develop a strong control environment for the organization. Part of this control environment is displaying the tone at the top, which is the ethical atmosphere of an organization. About 50% of corruption cases were detected by a tip.

Case Study³

In 2015, nine Federation Internationale de Football Association (FIFA) officials were arrested for suspicion of taking an estimated \$150 million in bribes. This period of corruption has been a fixture in the organization for a period of 24 years. This culture of corruption was increased as FIFA's coffers grew. In the four year cycle between world cups revenue grew from \$308 million in 1998 to \$5.7 billion in 2014. Some of this money was then distributed to regional soccer officials under the guise of a development grant. These grants had the purpose of developing facilities, but a lack of monitoring meant officials could take this money and no one would care.

Another example of corruption is the FIFA and their World Cup bidding process. In this election each member has 1 vote. The French voting bloc had been rumored to be voting for the United States bid in 2014, but after a meeting with Qatari officials their vote flipped to supporting Qatar. Later Qatar Sports Investments purchase the French club team Paris Saint Germain.

This system of providing grants without monitoring how the money is spent and allowing countries to bribe or buy votes to host the biggest sporting event in the world ultimately led to many arrests, lost revenue, detrimental publicity, and the President of this organization pressured to step down. As shown in the study, this governing organization's main issue was corruption. This corruption was brought to light by tipster/informant Chuck Blazer. This example shows how corruption can plague an organization and infect multiple facets of their operations.

References

¹ ACFE (N/A) "What is Fraud" Retrieved from: <http://www.acfe.com/fraud-101.aspx>

² ACFE (2018) "Report to the Nations 2018 Global Study on Occupational Fraud and Abuse" Retrieved from: <https://s3-us-west-2.amazonaws.com/acfe-public/2018-report-to-the-nations.pdf>

³ Simon Kuper (September 28, 2017) "Soccer's Culture of Corruption" Retrieved from: <http://www.nybooks.com/articles/2017/09/28/soccers-culture-of-corruption/>



Contact Us

CAFR@sco.idaho.gov
P.O. Box 83720
Boise, ID 83720-0011

(208) 334-3100

Visit us on the web at
www.sco.idaho.gov

