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BDO

Occupational Fraud Awareness and Risk Mitigation



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BDO

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Agenda

Introduction

Assessing the Environment

Common Occupational Fraud Schemes

Best Practices/Helpful Tips for Dealing with Fraud Risks

- ▶ Risk Management

- ▶ Internal Controls

- ▶ Cash Management

- ▶ Training

- ▶ Proper Channels of Reporting Fraud

Defining Occupational Fraud

“Occupational fraud is very likely the most costly and most common form of financial crime in the world. The term occupational fraud refers to frauds that are committed by individuals against the organizations that employ them”

- **ACFE Occupational Fraud 2022: A Report to the Nations**



Assessing the Environment

- ▶ Limited resources/staffing
- ▶ Squeeze on indirect costs by donors
- ▶ Subrecipients/partners/country offices with limited financial management acumen
- ▶ USAID push towards localization (INGOs)



RESULT

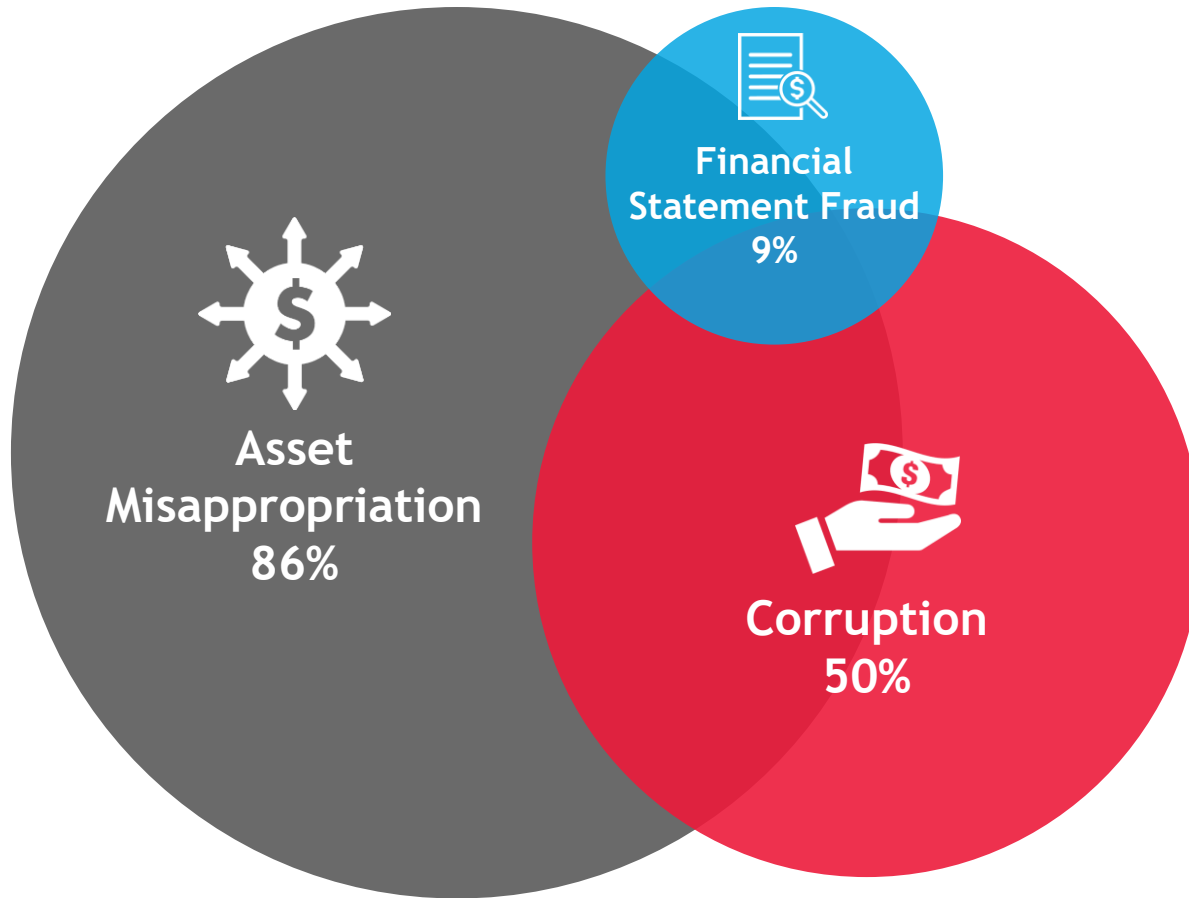
Increased risk of:

- employees/partners not following established policies/procedures
- fraud/waste/abuse



- ▶ DC to Bolivia - 3,909 miles
- ▶ DC to Kenya - 7,538 miles
- ▶ DC to Cambodia - 8,872 miles
- ▶ Circumference of Earth - 24,901 miles

Common Types of Occupational Fraud



Asset Misappropriation (86%)
Median loss: \$100,000



- Billing
- Check/payment tampering
- Non-cash
 - Inventory larceny/misuse
 - Yale electronic fraud example
- Expense Reimbursement
- Cash Embezzlement
- Payroll

Corruption (50%)
Median loss: \$150,000



- Procurement
 - Conflicts of Interest
 - Bribery
 - Invoice Kickbacks
 - Bid Rigging
 - Illegal Gratuities
 - Economic Extortion

Financial Statement Fraud (9%)
Median Loss: \$593,000

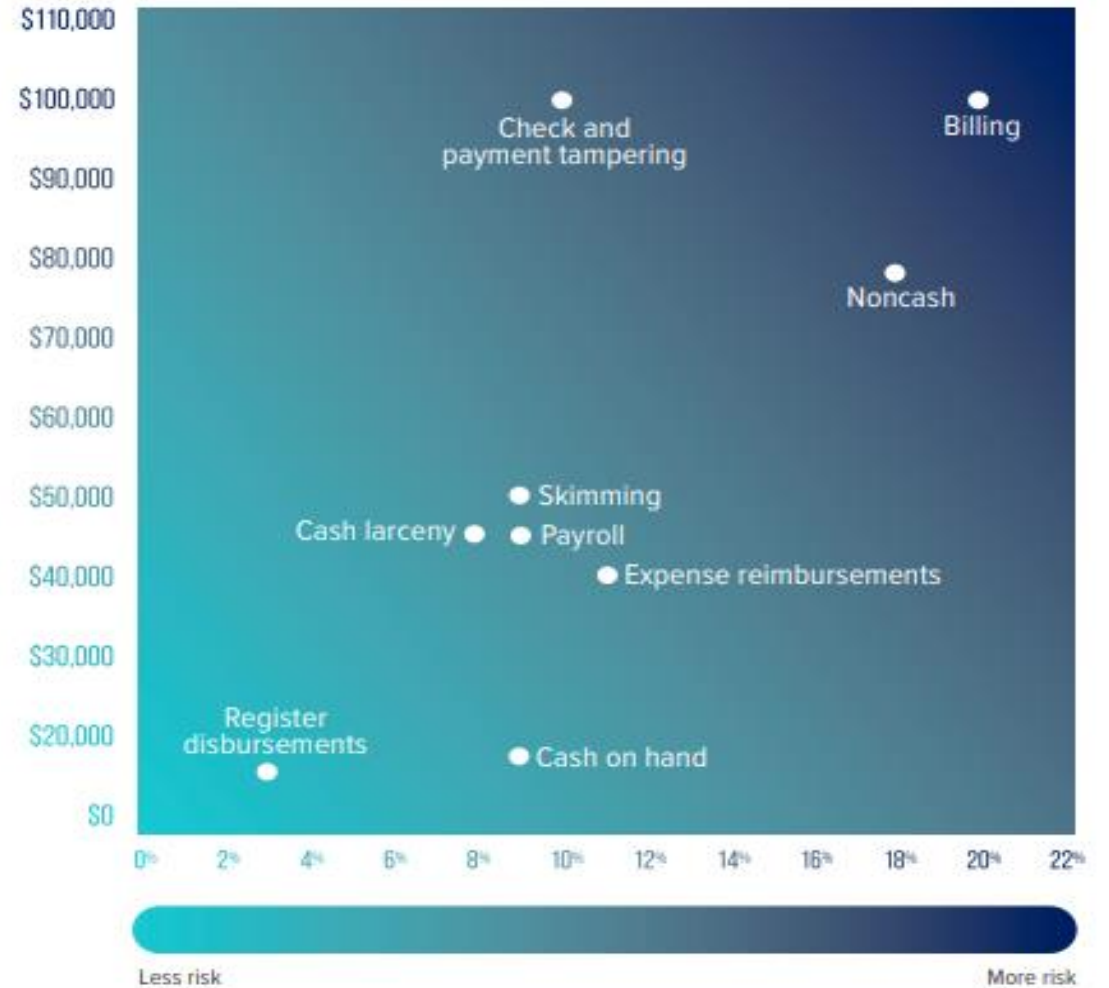


- Timing Differences
- Fictitious/Understated Revenues
- Concealed/Overstated Liabilities/Expenses
- Improper Asset Evaluations
- Improper Disclosures

Common Types of Asset Misappropriation

CATEGORY	# OF CASES	% OF ALL CASES	MEDIAN LOSS
Billing	416	20%	\$100,000
Noncash	385	18%	\$78,000
Expense Reimbursements	232	11%	\$40,000
Check and Payment Tampering	208	10%	\$100,000
Cash on Hand	199	9%	\$15,000
Skimming	198	9%	\$50,000
Payroll	198	9%	\$45,000
Cash Larceny	169	8%	\$45,000
Register Disbursements	58	3%	\$10,000

WHICH ASSET MISAPPROPRIATION SCHEMES PRESENT THE GREATEST RISK?



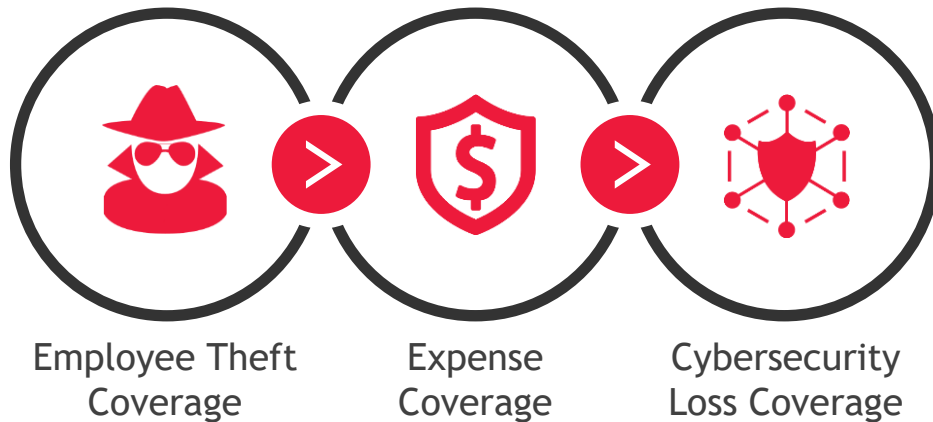
Best Practices & Helpful Tips for Mitigating Fraud Risks (from Treasury Perspective)



Risk Management

▶ Insurance

- Understanding what your policies and deductibles (retention) are and adjusting as necessary



▶ Close coordination with Internal Audit/Grants departments

- Some offices/partners might be riskier than others, varying controls/checks depending on findings of audits/risk assessments



According to a BDO Survey, only 84% of organizations have Cyber Insurance

Ensuring Basic Controls are in Place

(BOTH PREVENTIVE AND DETECTIVE)

PREVENTIVE

- ▶ Segregation of Duties (harder for small orgs, in which case reconciliations are helpful)
- ▶ Access restrictions (e.g., user access rights in system)
- ▶ Physical security
- ▶ Layers of approvals, especially on payments to be made
- Ensure proper orientation and training of reviewers/approvers so that they are not just rubber stamping the transactions

DETECTIVE

- ▶ Reconciliations (with Segregation of Duties - same person isn't checking their own work)
- ▶ Physical inventory checks
- ▶ Spot checks
- ▶ Frequent Internal Audit reviews
 - Leverage risk assessments which should be updated regularly

OTHER

- ▶ Have someone with direct reporting line (or dotted) to HQ (INGOs)

Nearly **HALF** of fraud cases occurred due to:



Lack of Internal Controls

29%



Override of Existing Controls

20%

Segregation of Duties Mapping Exercise Example

Country:	Role: Payroll Processor	Payroll Approver #1	Payroll Approver #2	Payroll Approver #3	Review of Payroll Disbursement	Payroll Disburser
Bangladesh						
Cambodia						
Indonesia						

Cash Management



Cash Requests

- ▶ Requiring bank statements/official documents to understand true cash positions



Use of Technology

- ▶ TMS with advanced safeguards (e.g., automated workflows, AI payment screening, bank account monitoring)



Making the Most of Limited Resources

- ▶ Spot checking of expenses; focus on being random/risk-based



Trend Analysis on Cash Requests vs. Expenses

- ▶ Be suspicious of budget overruns in specific categories and perfectly aligned budgets

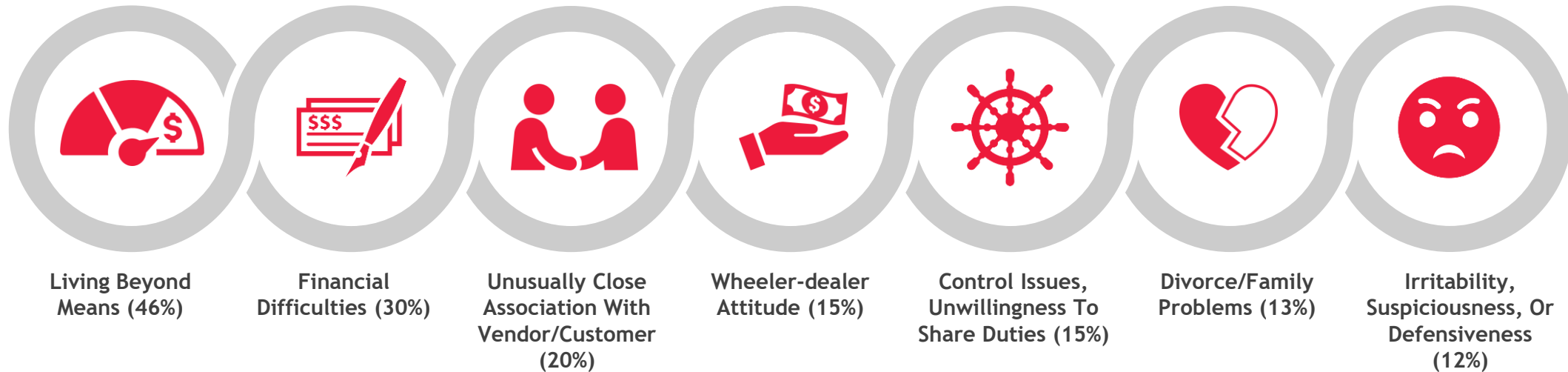


Mitigating Risks Associated with Cash-Based Operations

- ▶ Ensuring minimal/optimal cash on hand amounts
- ▶ Use of mobile-pay to create audit trail

Training

- ▶ Frequent training for employees to understand potential signs of fraud and importance of controls to mitigate risks
 - 85% of fraudsters displayed behavioral flags



▶ Regular Ethics Trainings

- Ensure employees understand responsibilities laid out in code of conduct and fraud policies

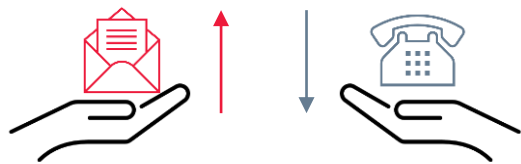
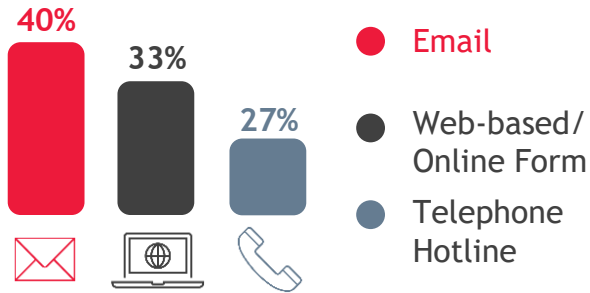
Ensuring Proper Channels of Reporting Fraud Exist



Importance of web-based tools (especially email)

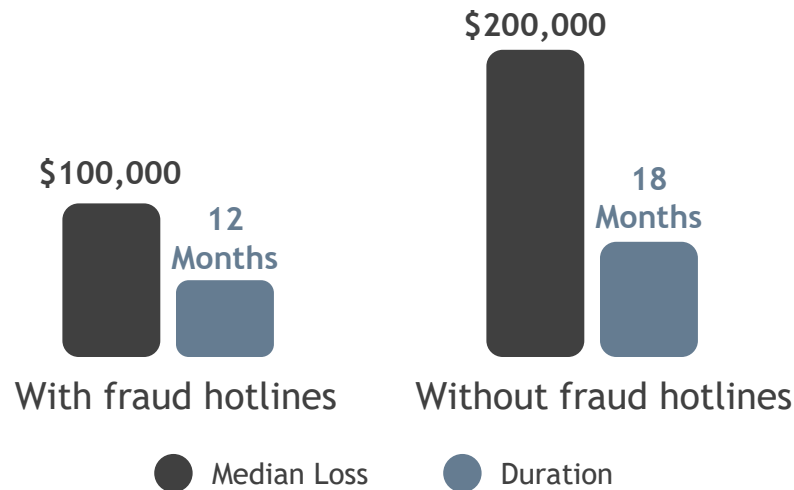


Hotlines should consider cultural aspects in specific countries and employees should be trained on proper use (for INGOs)

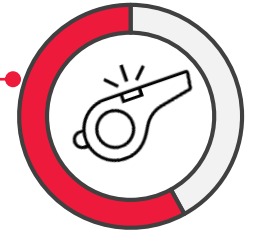


Email and web-based reporting **BOTH** surpassed telephone hotlines

ORGANIZATIONS WITH HOTLINES detect fraud more quickly and have lower losses than organizations with hotlines



42%



Of frauds were detected by tips which is nearly **3x** as many cases as the next most common method



More than **HALF** of all tips came from employees

Questions?



Speaker Biography


- Focused on assisting nonprofit clients with various aspects of federal funding compliance and forensic investigations. Examples of experience include assisting clients with: fraud investigations, grants administration, proper financial management, compliance gap assessments, internal control assessments, financial process redesign, complex cost recovery calculations, policy and procedure development and support, and more.
- Led numerous forensic analyses for nonprofit organizations, including field work domestically in the US, and in Africa, the Middle East, and Asia. Experience includes litigation support, substantiating costs through the collection of supporting documentation, performing data analytics in order to calculate and quantify losses and economic damages, whether suffered through tort, breach of contract, fraud, or misconduct, as well as market analysis for procurement. Many of Sly's engagements have been privileged and were conducted through both internal and external legal counsel.



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