

# FORENSIC ACCOUNTING

**SAAABA 63RD ANNUAL BUSINESS SEMINAR  
JUNE 17, 2020**

Sarah Jennings, CPA, CFE, CAE  
sjennings@manercpa.com

Bethany Verble, CPA, CFE  
bverble@manercpa.com

What we will cover...

---

The Problem Defined

---

What Fraud Looks Like

---

How to Identify Red Flags

---

Common types of fraud

---

Now What

---

Impacts of COVID-19

# What is fraud?

- **Wrongful or criminal** deception intended to result in financial or personal gain
  - Oxford Dictionary
- The crime of using **dishonest** methods to take something valuable **from another person**
  - Merriam-Webster Dictionary

# What is fraud?

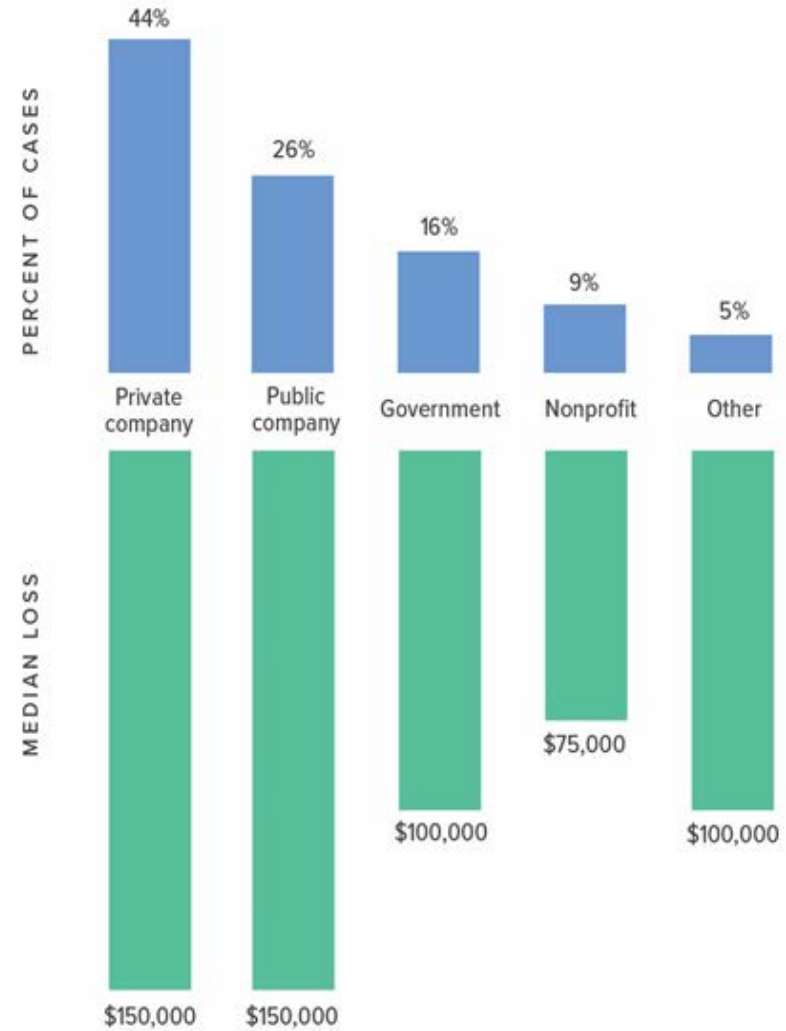
- A false representation of a matter of fact—whether by words or by conduct, by false or misleading allegations, or by concealment of what **should have been disclosed**—that deceives and is intended to deceive another so that the individual will act upon it to her or his legal injury.
  - The Free Dictionary

# Polling Question #1

- Which type of entity has the most fraud?
  - a. Private Companies
  - b. Governments
  - c. Public Companies
  - d. Non-Profits

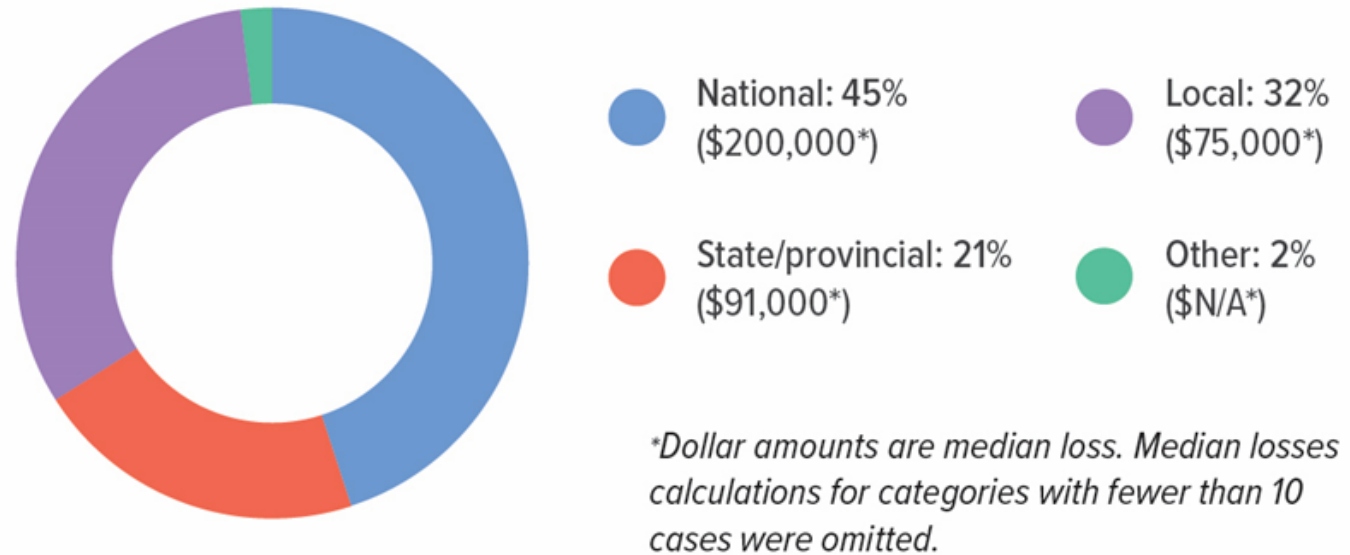
# Why do I care about fraud?

FIG. 14 What types of organizations are victimized by occupational fraud?

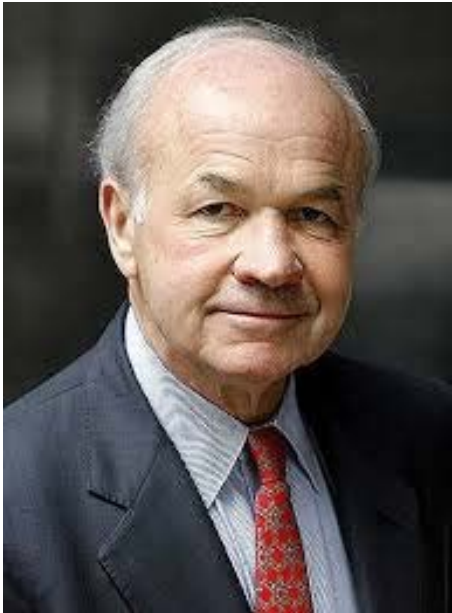


# Why do I care about fraud?

FIG. 15 What levels of government are victimized by occupational fraud?



# What does fraud look like?



Enabling Others to Reach Their Potential



# Polling Question #2

- True or false – Men commit the majority of fraud

# REALLY – What Does it Look Like?

- Fraud by Gender
  - 72% male (\$150,000 median loss)
  - 28% female (\$85,000 median loss)
- 53% of Fraudsters between 31 and 45 years old
- Older fraudsters tend to cause larger losses

# REALLY – What Does it Look Like?

- Fraud by Position
  - 41% employee (\$60,000 median loss)
  - 35% manager (\$150,000 median loss)
  - 20% owner/executive (\$600,000 median loss)
- Fraud by Tenure
  - 9% under 1 year (\$50,000 median loss)
  - 46% 1-5 years (\$100,000 median loss)
  - 22% 6-10 years (\$190,000 median loss)
  - 23% over 10 years (\$200,000 median loss)

# REALLY – What Does it Look Like?

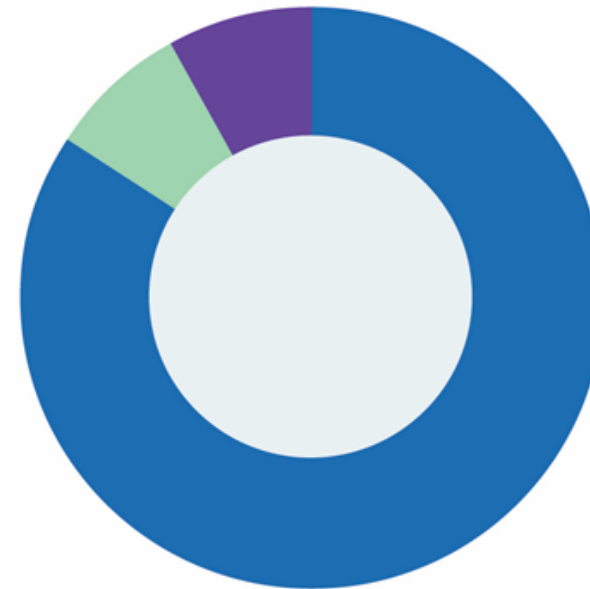
- Fraud by Department
  - 5% Finance
  - 5% Purchasing
  - 9% Customer Service
  - 12% Executive/Upper Management
  - 11% Sales
  - 15% Operations
  - 14% Accounting
  - 29% All Other Departments

# Poll Question #3

- True or False – Most fraudsters have previously had employment related discipline?

# What Does Fraud Look Like?

FIG. 40 Do perpetrators tend to have prior employment-related disciplinary actions for fraud?

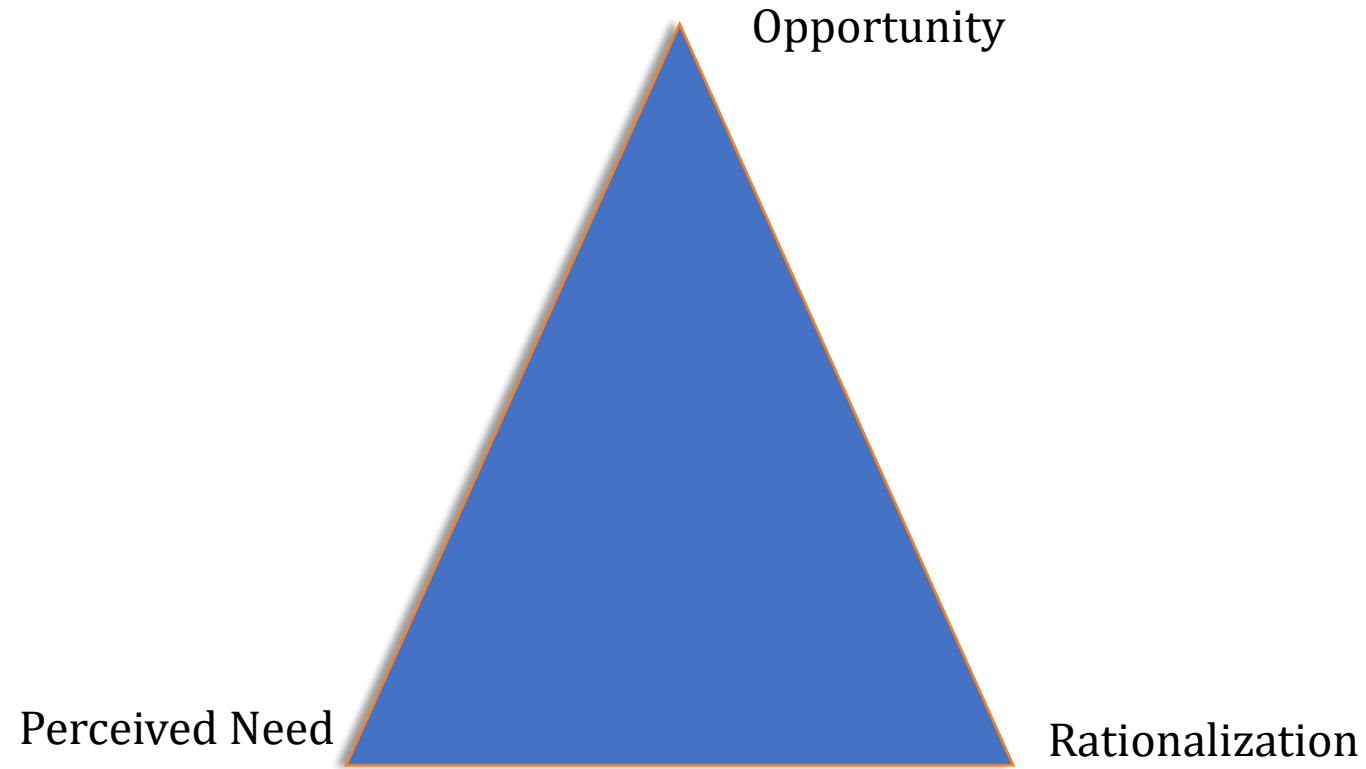


- Never punished or terminated (86%)
- Previously terminated (8%)
- Previously punished (8%)

# What are the RED Flags?

- 89% of Frauds had Red Flags!
- 49% of Frauds HAD more than one Red Flag!

# Behavioral Red Flags – Fraud Triangle

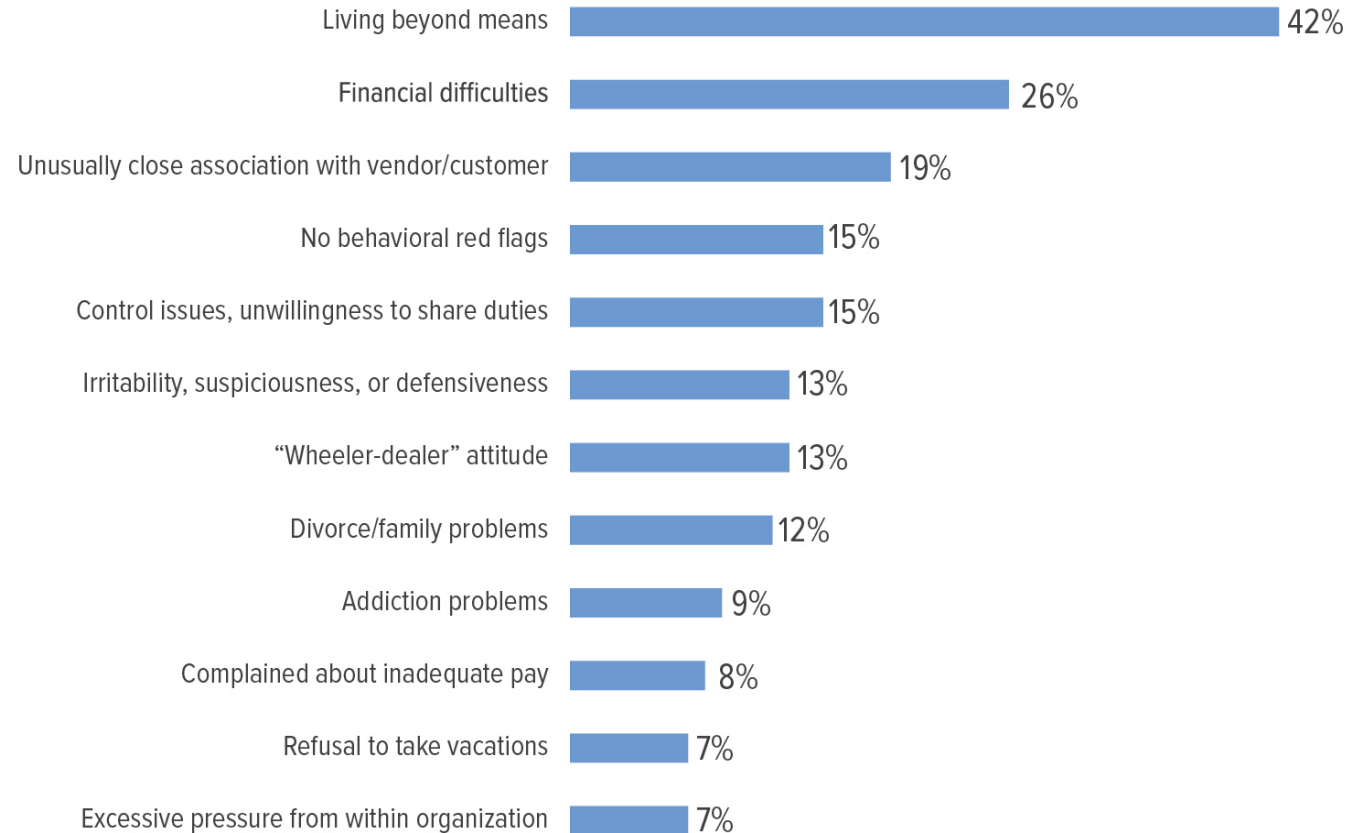




# Polling question #4

- What is the most common behavioral red flag?
  - a. Divorce/family problems
  - b. Living beyond your means
  - c. Refusing to take vacation
  - d. Close association with a vendor

# Behavioral Red Flags



Enabling Others to Reach Their Potential

# Financial Red Flags

## Balance Sheet

- Cash
- Accounts receivable
- Inventory
- Deferred revenue

# Financial Red Flags

## **Income statement**

- Bad debt expense
- Payroll
- Significant budget variations and adjustments
- Black holes or loosely defined accounts
- Unexpected trends

# Polling question #5

- What is the most common type of fraud?
  - a. Financial statement
  - b. Corruption
  - c. Asset misappropriation

# Common Types of Fraud



## Asset Misappropriation



## Corruption

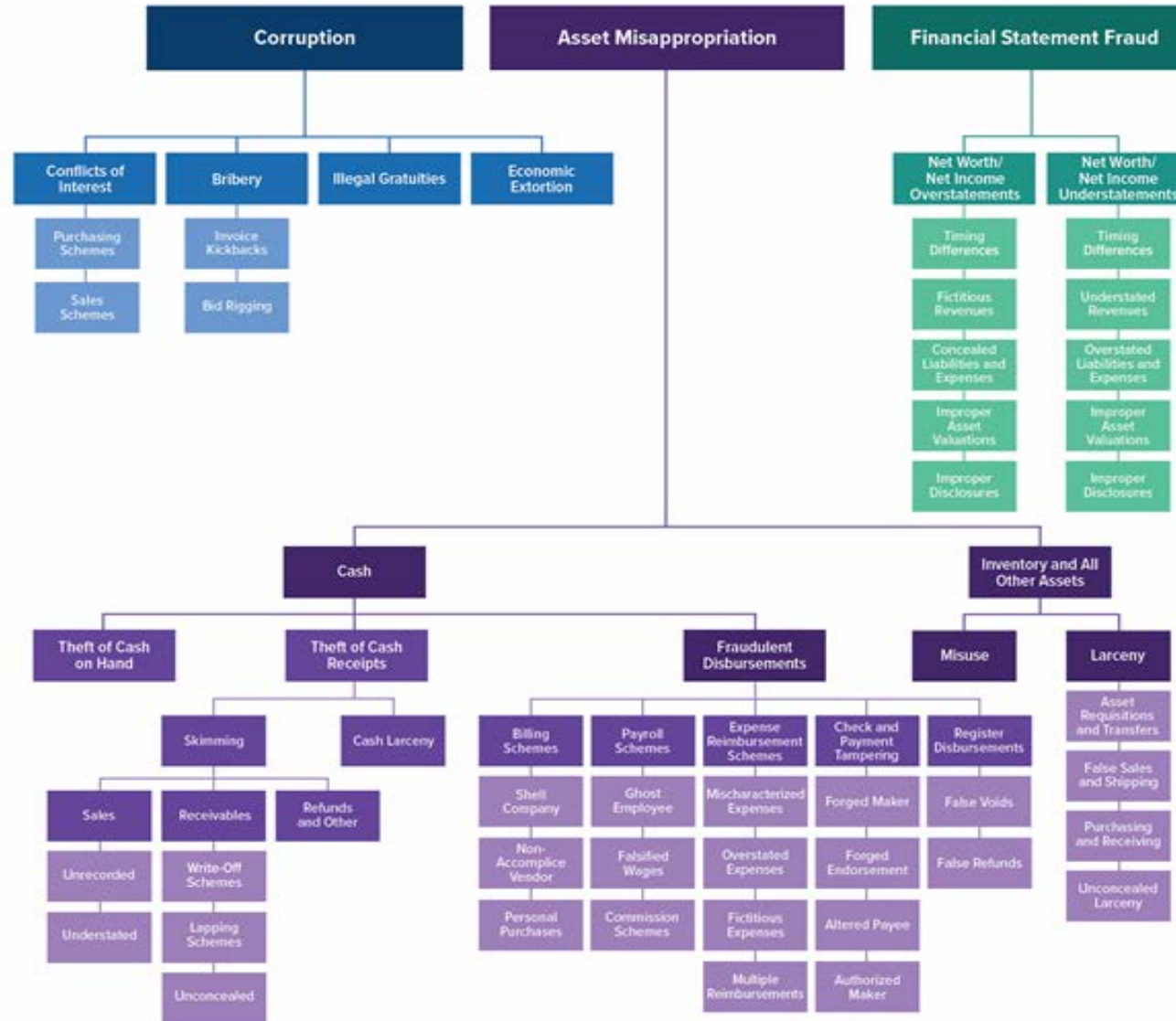
Conflicts of interest  
Bribery  
Illegal gratuities  
Economic extortion



## Fraudulent Financial Reporting

Financial  
Non-financial

FIG. 3 Occupational Fraud and Abuse Classification System (the Fraud Tree)



Enabling Others to Reach Their Potential

# Now What?



DETERMINE HIGH  
RISK AREAS IN YOUR  
ORGANIZATION



KNOW YOUR KEY  
INDICATORS



LOOK FOR THE **RED  
FLAGS**



DEVELOP POLICIES



EDUCATE YOUR  
WORKFORCE

Enabling Others to Reach Their Potential



# Risk Assessment



**Employee/Volunteer  
Assessment**



**Physical Controls**



**Knowledge and Assessment  
of the Schemes**



**Vulnerability Assessment**

Receipts

Disbursements

Payroll

Bank reconciliations and journal  
entries

Who has access, who approves, who  
reviews?

Enabling Others to Reach Their Potential

# Polling Question #6

- True or false – Internal controls need to be adjusted during social distancing/COVID-19?

# Impacts of COVID-19

- New sources of funding
- Changes in expenses
- Changes in internal controls
  - [Internal Control in Times of Crisis](#)
- Additional pressures

# Questions?

- Sarah L. Jennings  
(517) 886-9502

[sjennings@manercpa.com](mailto:sjennings@manercpa.com)

- Bethany Verble  
(517) 999-5816

[bverble@manercpa.com](mailto:bverble@manercpa.com)