

REPORT TO THE NATIONS

2018 GLOBAL STUDY ON OCCUPATIONAL FRAUD AND ABUSE

GOVERNMENT EDITION



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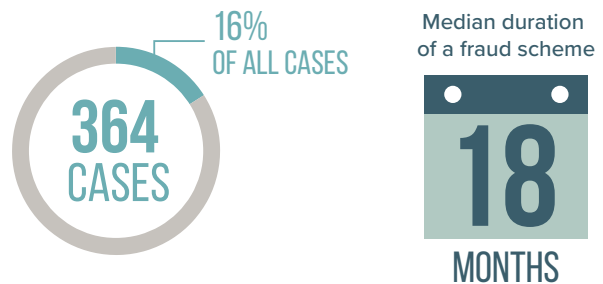
INTRODUCTION

In April 2018, the ACFE released the 2018 *Report to the Nations*, which provided a global analysis of the costs and effects of occupational fraud (i.e., fraud committed against the organization by its own officers, directors, or employees). The 2018 *Report to the Nations*, which was based on 2,690 cases of occupational fraud reported from 125 countries, highlighted the tremendous impact occupational fraud has on organizations throughout the world.

With this report, we now focus more closely on how occupational fraud impacts government organizations. This report is based on the 364 cases of occupational fraud in government organizations that were reported in our 2017 *Global Fraud Survey*. Collectively, these cases, which accounted for 16% of all cases in our global study, caused a median loss of USD 118,000 and lasted a median 18 months before they were detected.

This report contains detailed information about the government cases we analyzed, including the losses caused by the frauds,¹ the methods of fraud committed, the ways in which the frauds were detected, the characteristics of the victim organizations and their anti-fraud controls, the characteristics of the fraud perpetrators, and the results of the cases after the frauds had been discovered.² We hope this report

MEDIAN LOSS: USD 118,000



will be of value to our readers in the public sector, helping them tailor fraud prevention, detection, and investigation strategies to the specific fraud risks faced by government organizations.

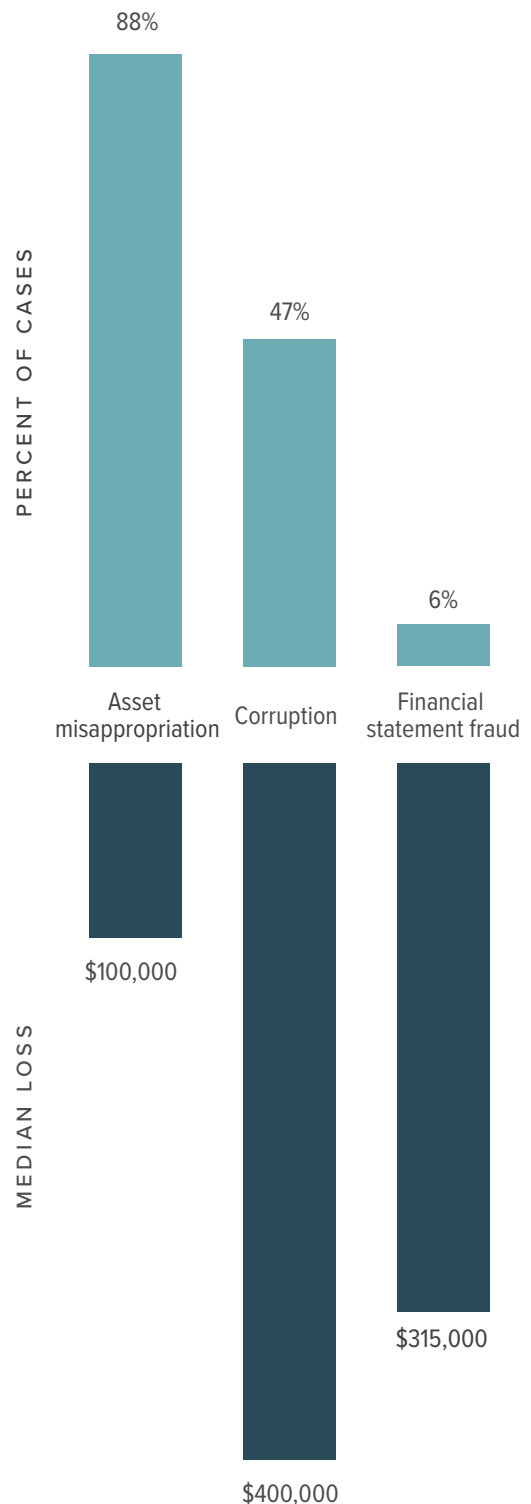
¹ Readers should note that all losses in this report are presented in U.S. dollars (USD), which is how respondents reported this information in our 2017 *Global Fraud Survey*.

² For a glossary of terms used in this report, please see pg. 78 of the 2018 *Report to the Nations*.

HOW OCCUPATIONAL FRAUD IS COMMITTED

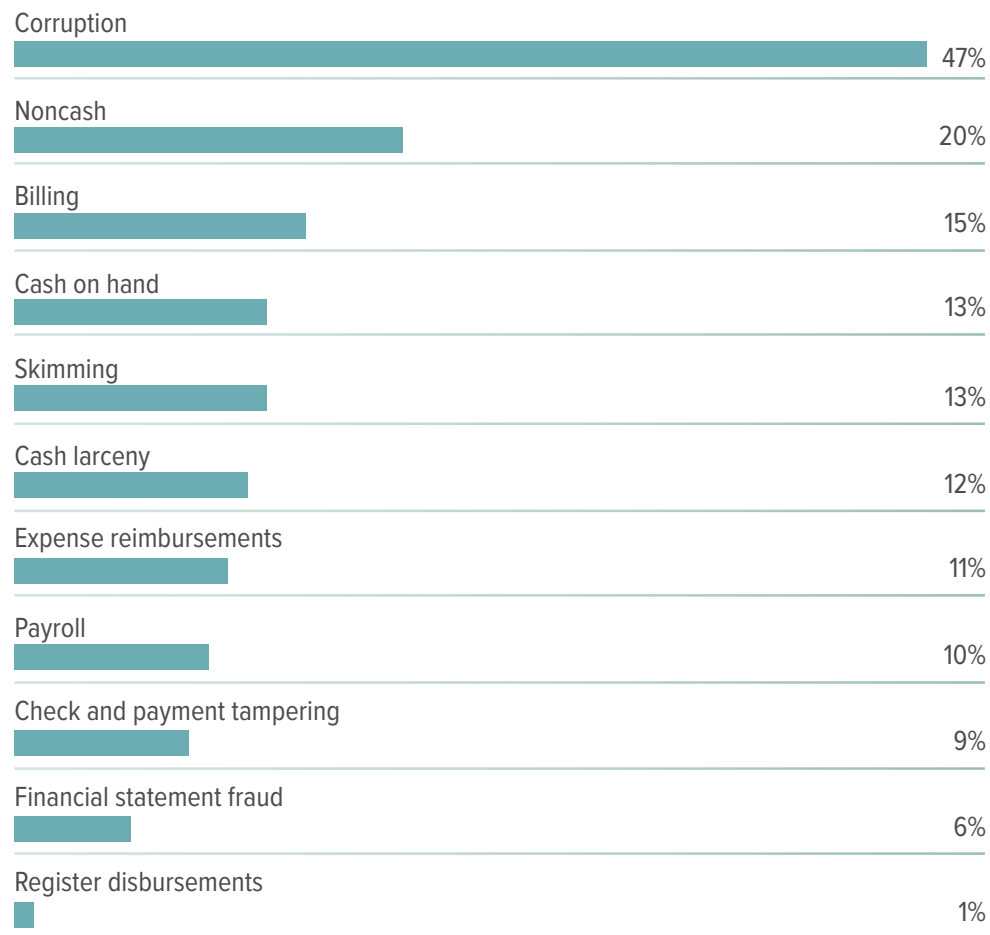
As part of our ongoing research, we examine the methods by which occupational fraudsters perpetrate their schemes. Our results have consistently shown that occupational fraud cases can be broken down into three broad categories. The most common of these is asset misappropriation; 88% of cases perpetrated against government organizations involved the misappropriation of assets. These cases also are the least costly, causing a median loss of USD 100,000. In contrast, financial statement fraud schemes accounted for 6% of government cases and had a median loss of USD 315,000, while corruption schemes occurred in 47% of cases and caused a median loss of USD 400,000. Both the frequency and median loss of corruption in government cases were notably higher than in our overall survey data, which highlights the particularly high risk corruption presents in the public sector.

FIG. 1 How is occupational fraud committed in government agencies?



Because asset misappropriations account for such a large percentage of occupational fraud cases, we further divided that category into sub-schemes based on the specific mechanism used to misappropriate assets. Figure 2 shows the breakdown of the government cases among the nine sub-categories of asset misappropriation, along with corruption and financial statement schemes for comparison purposes. Corruption schemes were more than twice as common as any other scheme type, followed by the misappropriation of noncash assets, which occurred in one-fifth of the government cases reported to us.

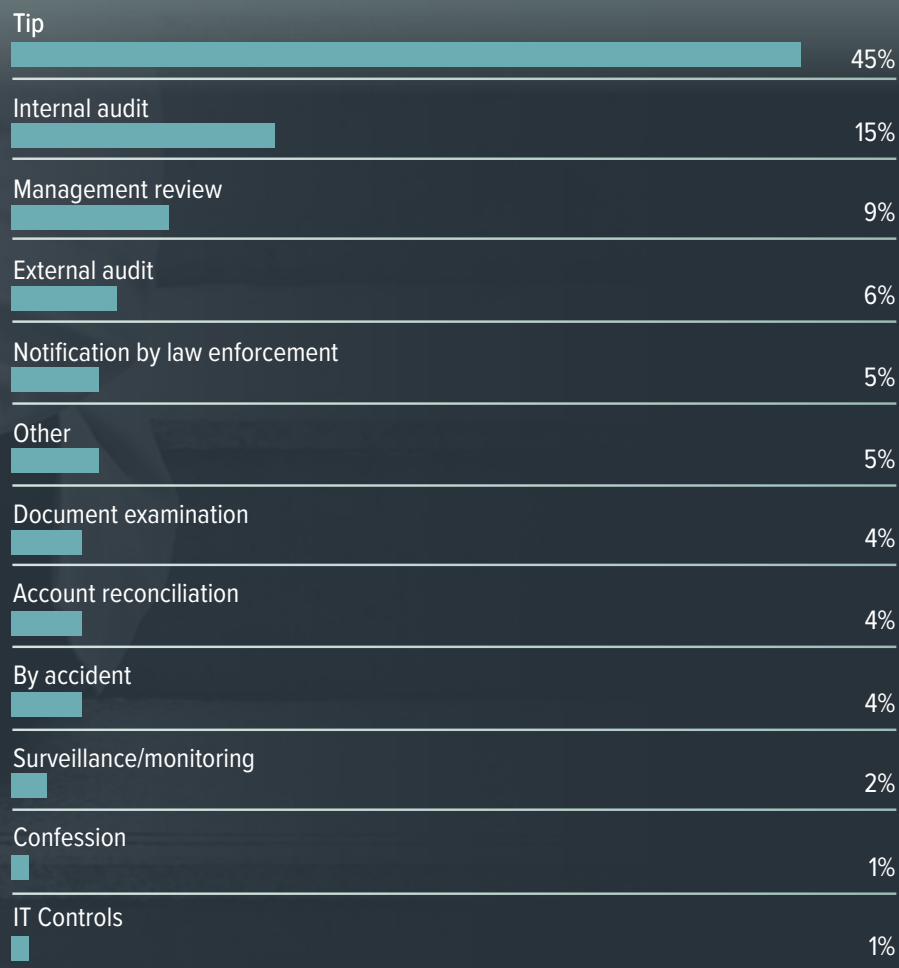
FIG. 2 What are the most common occupational fraud schemes in government agencies?



DETECTION

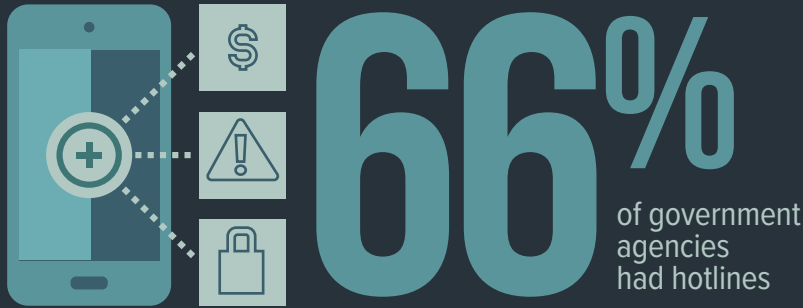
We asked respondents to provide information about how frauds were initially detected. The importance of tips as a fraud detection method is clear; Figure 3 shows that more government fraud cases were discovered this way than in the next six detection methods combined. Our data also shows that organizations can increase the amount of cases detected by tips by implementing hotlines—66% of cases were detected by tip when a hotline was in place, compared to 34% in government organizations without one.

FIG. 3 How is occupational fraud initially detected in government agencies?

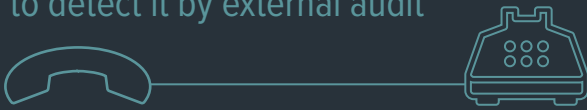


HOTLINES AND REPORTING MECHANISMS

Respondents provided information about hotlines and reporting mechanisms that can help us understand who is reporting fraud, how they are doing so, and how effective such mechanisms are in government agencies.



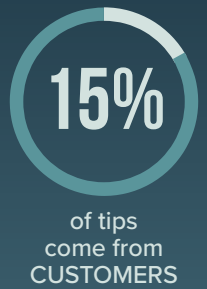
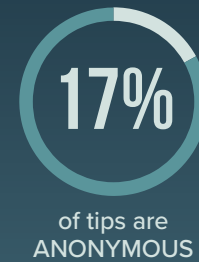
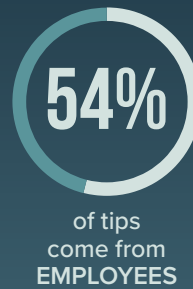
Government agencies **without hotlines** were **three times as likely** to detect fraud by accident and **four times as likely** to detect it by external audit



TIPS

are by far the most common initial detection method.

Employees provide over half of tips, while a substantial amount also came from anonymous parties and customers.



Telephone hotlines are most popular, but whistleblowers use various reporting mechanisms

Telephone hotline



Web-based/
online form



Mailed letter/form



Email



Other



NOT ALL TIPS COME THROUGH HOTLINES

When a reporting mechanism is not used, the top three parties whistleblowers report to are:

DIRECT SUPERVISOR 39%

LAW ENFORCEMENT OR REGULATOR 21%

INTERNAL AUDIT 13%

VICTIM ORGANIZATIONS

To gain a better understanding of victim organizations in the government sector, we asked respondents to provide information about the victims' level of government, size, and location. Participants also described the types of controls that were in place to prevent and detect fraud at the time the schemes occurred.

Level of Government Organization

As shown in Figure 4, 38% of the government frauds occurred at the national level; these cases caused the highest median loss of USD 200,000. Local agencies accounted for 31% of cases and had a relatively low median loss of USD 84,000. State or provincial government agencies were victimized in 26% of government fraud cases and had a median loss of USD 110,000. Other agencies were victimized in 5% of cases and had a median loss of USD 58,000.

FIG. 4 How are levels of government victimized by occupational fraud?



Size of Organization

Figure 5 shows the frequency and median loss of fraud schemes in the government sector based on the size of the victim agency. The smallest organizations (those with fewer than 100 employees) and the largest (those with more than 10,000 employees) had the same number of reported fraud cases (22% for each) and almost equally large median losses (USD 210,000 and USD 213,000, respectively). However, it is important to note that small organizations are likely to be more significantly impacted by losses of this size than their larger counterparts.

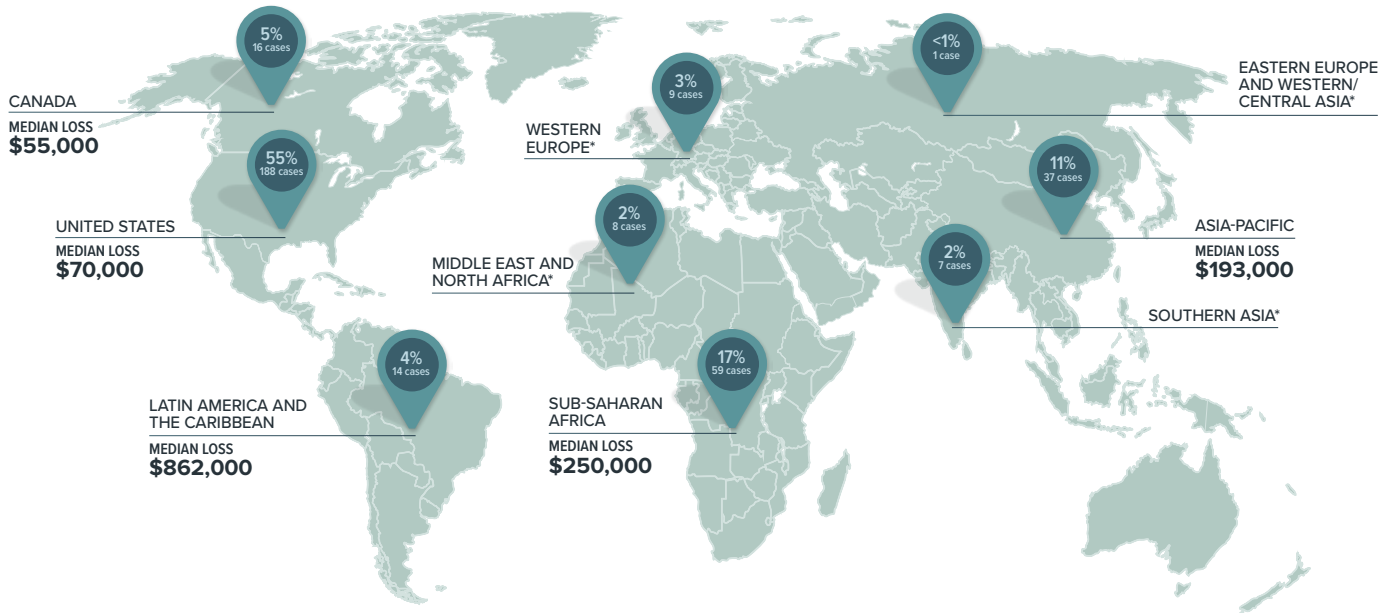
FIG. 5 How does a government agency's size relate to its occupational fraud risk?



By Region

Figure 6 illustrates the breakdown of the government cases reported to us based on the regional location of the victim organization. We also provide the median loss caused by the reported frauds in all regions for which we received ten or more cases. The greatest number of government cases in our study occurred in the United States, Sub-Saharan Africa, and Asia-Pacific region. (Readers should note that because the cases in our study were reported by CFEs, the number of reported frauds from each region is likely influenced by the number of ACFE members in that region and does not necessarily indicate that government fraud is more or less common in a particular area.) Latin America and the Caribbean represented 4% of the government fraud cases reported to us, but had the highest median loss of USD 862,000. The Sub-Saharan Africa region had the next highest median loss of USD 250,000.

FIG. 6 How did the number of cases and median loss for government agencies vary by region?



*Median loss calculation omitted for regions with fewer than ten cases.

Anti-Fraud Controls in Government Organizations

Internal controls play an important part in protecting organizations against fraud. As part of our research, we examined which anti-fraud controls the victim organizations had in place at the time the fraud occurred, as well as what internal control weaknesses primarily contributed to the fraud.

FIG. 7 What anti-fraud controls are the most common in government agencies?

Control	Percent of cases
Code of conduct	86%
External audit of financial statements	84%
Internal audit department	79%
External audit of internal controls over financial reporting	71%
Employee support programs	68%
Management certification of financial statements	68%
Hotline	66%
Management review	58%
Anti-fraud policy	50%
Independent audit committee	49%
Fraud training for employees	48%
Fraud training for managers/executives	47%
Formal fraud risk assessments	35%
Dedicated fraud department, function, or team	34%
Surprise audits	28%
Proactive data monitoring/analysis	27%
Job rotation/mandatory vacation	16%
Rewards for whistleblowers	12%

We also compared the median loss and median duration of fraud at victim organizations based on whether they had specific anti-fraud controls in place. The presence of several controls at government organizations was associated with notable reductions in both losses and duration of fraud (see Figure 8).

FIG. 8 How does the presence of an anti-fraud control relate to the median loss and duration of fraud in government agencies?

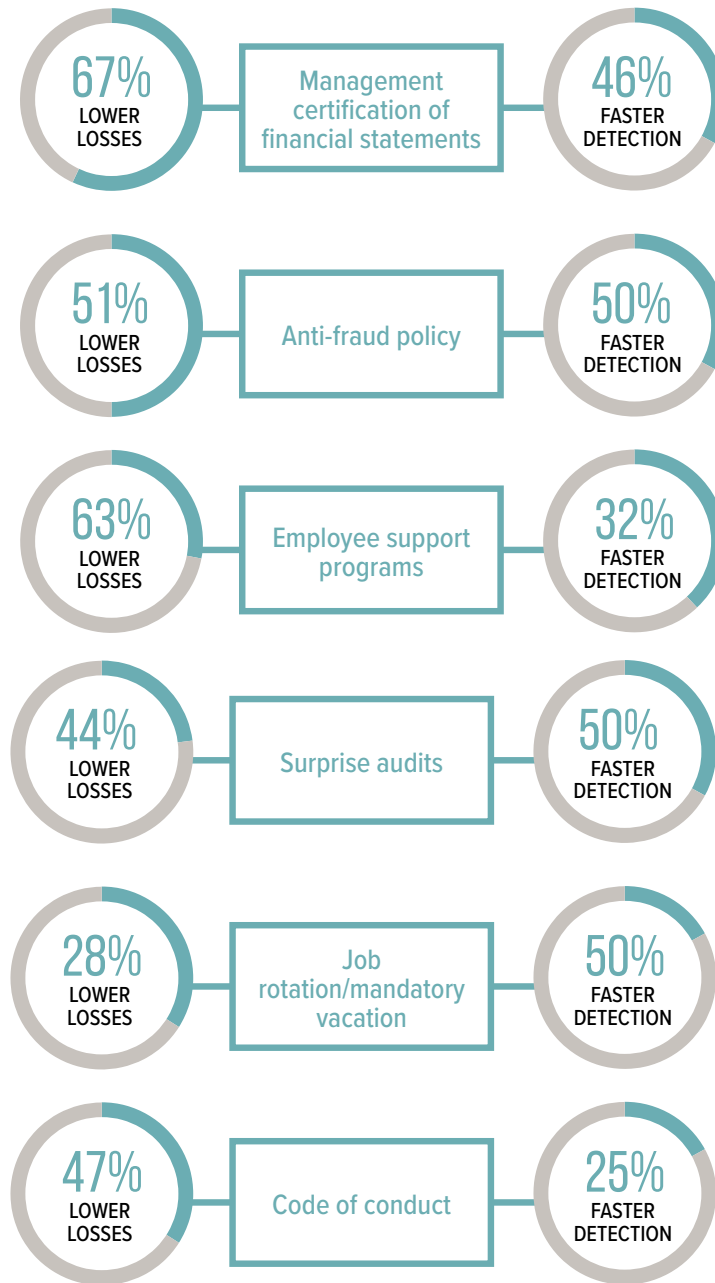


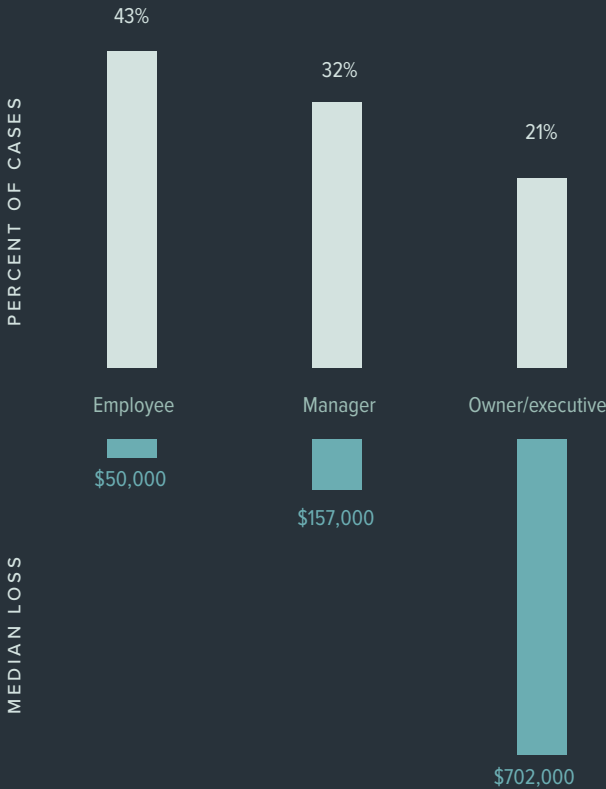
FIG. 9 What are the primary internal control weaknesses that contribute to occupational fraud in government agencies?



PROFILE OF A FRAUD PERPETRATOR

Understanding the common characteristics of fraud offenders can help organizations improve their ability to detect fraud and minimize their risk of loss. The following information is based on the perpetrators in our study who worked for government agencies.

How does the perpetrator's level of authority relate to occupational fraud?



WHERE DID PERPETRATORS WORK WITHIN THEIR ORGANIZATIONS?

These were the five most common departments:



Operations
18% OF CASES



Accounting
13% OF CASES



Executive/upper management
13% OF CASES



Administrative Support
8% OF CASES



Finance
6% OF CASES

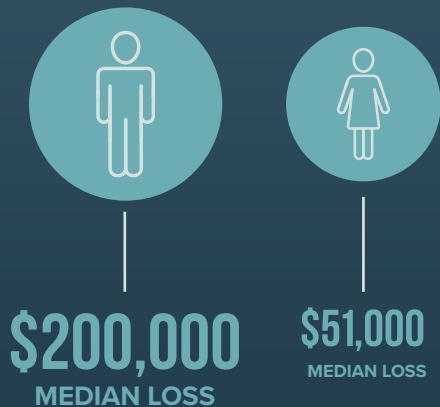
Median age for all fraudsters in government organizations was



LOSSES CAUSED BY FRAUDSTERS ABOVE THE MEDIAN AGE WERE MUCH LARGER THAN LOSSES CAUSED BY THOSE BELOW THE MEDIAN:



68% OF FRAUDS WERE COMMITTED BY MEN



LOSSES CAUSED BY MEN WERE NEARLY FOUR TIMES LARGER than losses caused by women

MEDIAN LOSSES WERE FAR GREATER WHEN FRAUDSTERS COLLUDED



ONE PERPETRATOR



TWO OR MORE PERPETRATORS



FRAUDSTERS WHO HAD BEEN WITH THEIR ORGANIZATIONS FOR MORE THAN FIVE YEARS STOLE SIGNIFICANTLY MORE



MORE THAN 5 YEARS' TENURE

\$150,000
MEDIAN LOSS

5 YEARS' TENURE OR LESS

\$100,000
MEDIAN LOSS

In 86% of cases fraudsters displayed at least one behavioral red flag. The five most common red flags were:



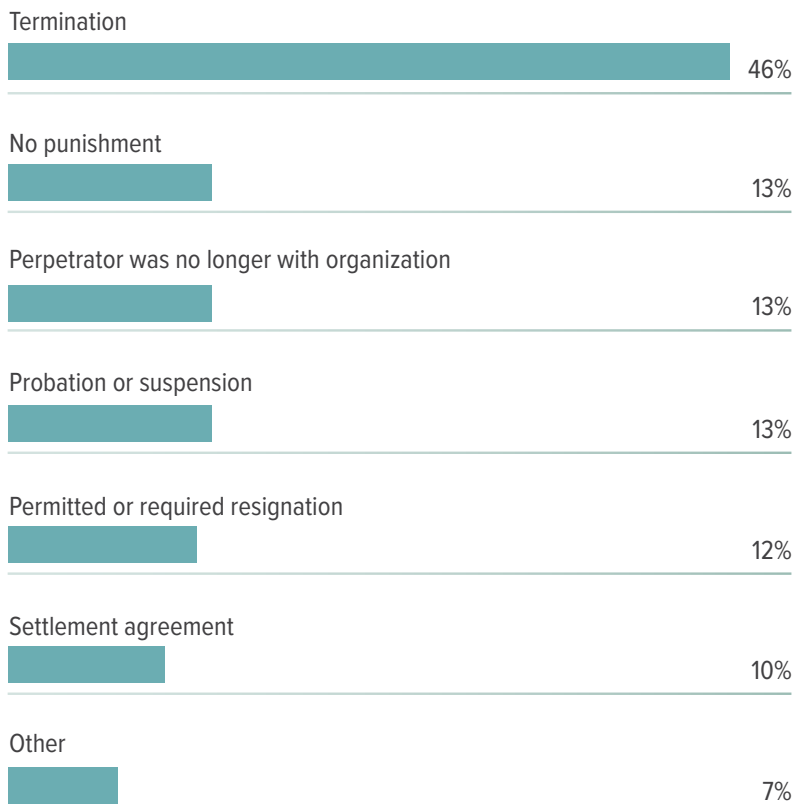
ONLY 5%
OF PERPETRATORS
HAD A PRIOR
FRAUD CONVICTION



CASE RESULTS

We also asked respondents what actions the victim organizations took against the perpetrators after the frauds had been detected. Figure 10 shows that 58% of perpetrators in government agencies were either terminated or permitted or required to resign. However, some perpetrators remained at the organization, with 26% receiving probation, suspension, or no punishment.

FIG. 10 How do government agencies punish fraud perpetrators?



LITIGATION AND RECOVERY OF LOSSES

Government agencies that have been victimized by occupational fraud might refer cases to prosecution or commence civil litigation to recover their losses. Our data indicates that while referred criminal cases in government agencies lead to a conviction most of the time, over a third are not prosecuted.

72% OF CASES WERE REFERRED FOR CRIMINAL PROSECUTION



58%
PLEADED GUILTY OR
WERE CONVICTED AT TRIAL

34%
WERE NOT PROSECUTED

3%
WERE ACQUITTED

16% OF CASES RESULTED IN A CIVIL SUIT AGAINST THE FRAUDSTER



40%
JUDGMENT FOR
VICTIM

20%
SETTLED

20%
JUDGMENT FOR
PERPETRATOR

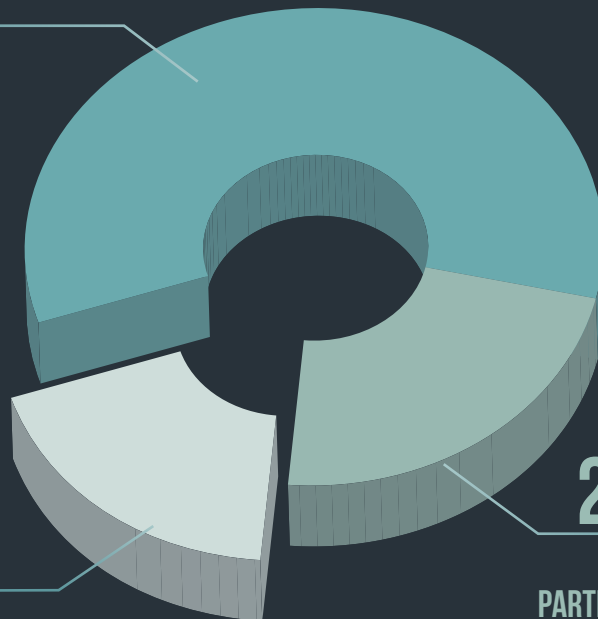
After a fraud has been detected, the victim might try to recover its losses from the fraudster or other sources. Our data shows that victims are rarely made whole.

59%

RECOVERED
NOTHING

19%

RECOVERED
ALL LOSSES



23%

MADE A
PARTIAL RECOVERY

METHODOLOGY

The 2018 *Report to the Nations* is based on the results of the 2017 *Global Fraud Survey*, an online survey opened to 41,573 Certified Fraud Examiners (CFEs) from July 2017 to October 2017. As part of the survey, respondents were asked to provide a narrative description of the single largest fraud case they had investigated since January 2016. Respondents were then presented with 76 questions to answer regarding the particular details of the fraud case, including information about the perpetrator, the victim organization, and the methods of fraud employed, as well as fraud trends in general. (Respondents were not asked to identify the perpetrator or the victim.) Additionally, after completing the survey the first time, respondents were provided the option to submit information about a second case that they investigated.

Cases submitted were required to meet the following four criteria:

1. **The case** must have involved occupational fraud (defined as fraud committed by a person against the organization for which he or she works).
2. **The investigation** must have occurred between January 2016 and the time of survey participation.
3. **The investigation** must have been complete at the time of survey participation.
4. **The respondent** must have been reasonably sure the perpetrator(s) was (were) identified.

We received 7,232 total responses to the survey, 2,690 of which were usable for purposes of our global study. Of these usable responses, 364 involved occupational fraud cases perpetrated against government organizations; the data contained in this report is based solely on the information provided in these 364 responses.

Analysis Methodology

In calculating the percentages discussed throughout this report, we used the total number of complete and relevant responses for the question(s) being analyzed. Specifically, we excluded any blank responses or instances where the participant indicated that he or she did not know the answer to a question. Consequently, the total number of cases included in each analysis varies.

In addition, several survey questions allowed participants to select more than one answer. Therefore, the sum of percentages in many figures throughout the report exceeds 100%. The sum of percentages in other figures might not be exactly 100% (i.e., it might be 99% or 101%) due to rounding of individual category data.

Unless otherwise indicated, all loss amounts discussed throughout the report are calculated using median loss rather than mean, or average, loss. Average losses were skewed by a limited number of very high-dollar frauds. Using median loss provides a more conservative—and we believe more accurate—picture of the typical impact of occupational fraud schemes.

Additionally, we excluded median loss calculations for categories for which there were fewer than ten responses. Because the direct losses caused by financial statement frauds are typically spread among numerous stakeholders, obtaining an accurate estimate for this amount is extremely difficult. Consequently, for schemes involving financial statement fraud, we asked survey participants to provide the gross amount of the financial statement misstatement (over- or under-statement) involved in the scheme. All losses reported for financial statement frauds throughout this report are based on those reported amounts.



ABOUT THE ACFE

Founded in 1988 by Dr. Joseph T. Wells, CFE, CPA, the Association of Certified Fraud Examiners (ACFE) is the world's largest anti-fraud organization and premier provider of anti-fraud training and education. Together with nearly 85,000 members in more than 180 countries, the ACFE is reducing business fraud worldwide and providing the training and resources needed to fight fraud more effectively. The ACFE provides educational tools and practical solutions for anti-fraud professionals through events, education, publications, networking, and educational tools for colleges and universities.

Certified Fraud Examiners

The ACFE offers its members the opportunity for professional certification with the Certified Fraud Examiner (CFE) credential. The CFE is preferred by businesses and government entities around the world and indicates expertise in fraud prevention and detection. CFEs are anti-fraud experts who have demonstrated knowledge in four critical areas: Financial Transactions and Fraud Schemes, Law, Investigation, and Fraud Prevention and Deterrence.



Membership

Members of the ACFE include accountants, internal auditors, fraud investigators, law enforcement officers, lawyers, business leaders, risk/compliance professionals, and educators, all of whom have access to expert training, educational tools, and resources. Whether their career is focused exclusively on preventing and detecting fraudulent activities or they just want to learn more about fraud, the ACFE provides the essential tools and resources necessary for anti-fraud professionals to accomplish their objectives.

To learn more, visit [ACFE.com](https://www.acfe.com) or call (800) 245-3321 / +1 (512) 478-9000.

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