Understanding the Mindset of the Fraudster

The Role of Ethics in Preventing Fraud

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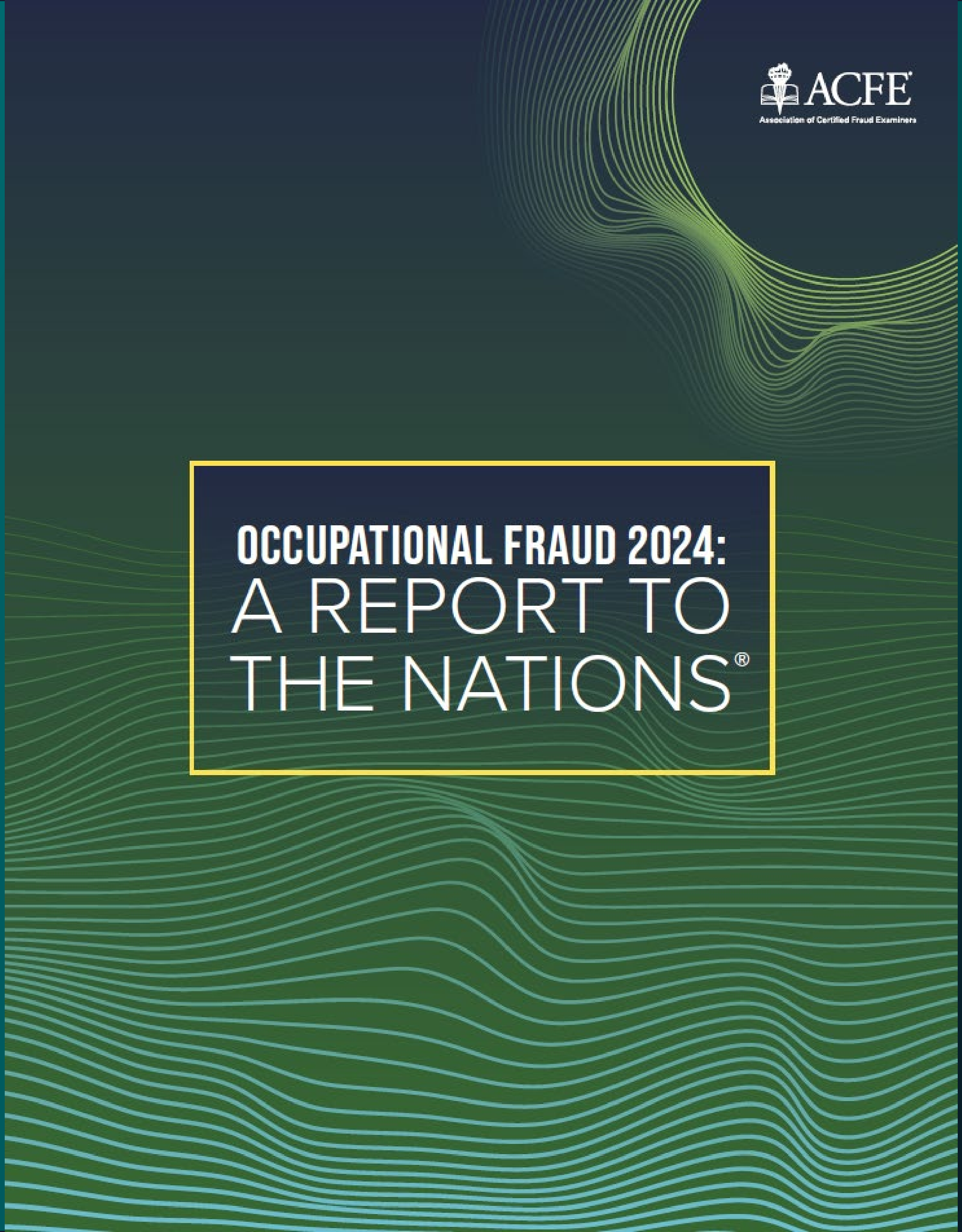
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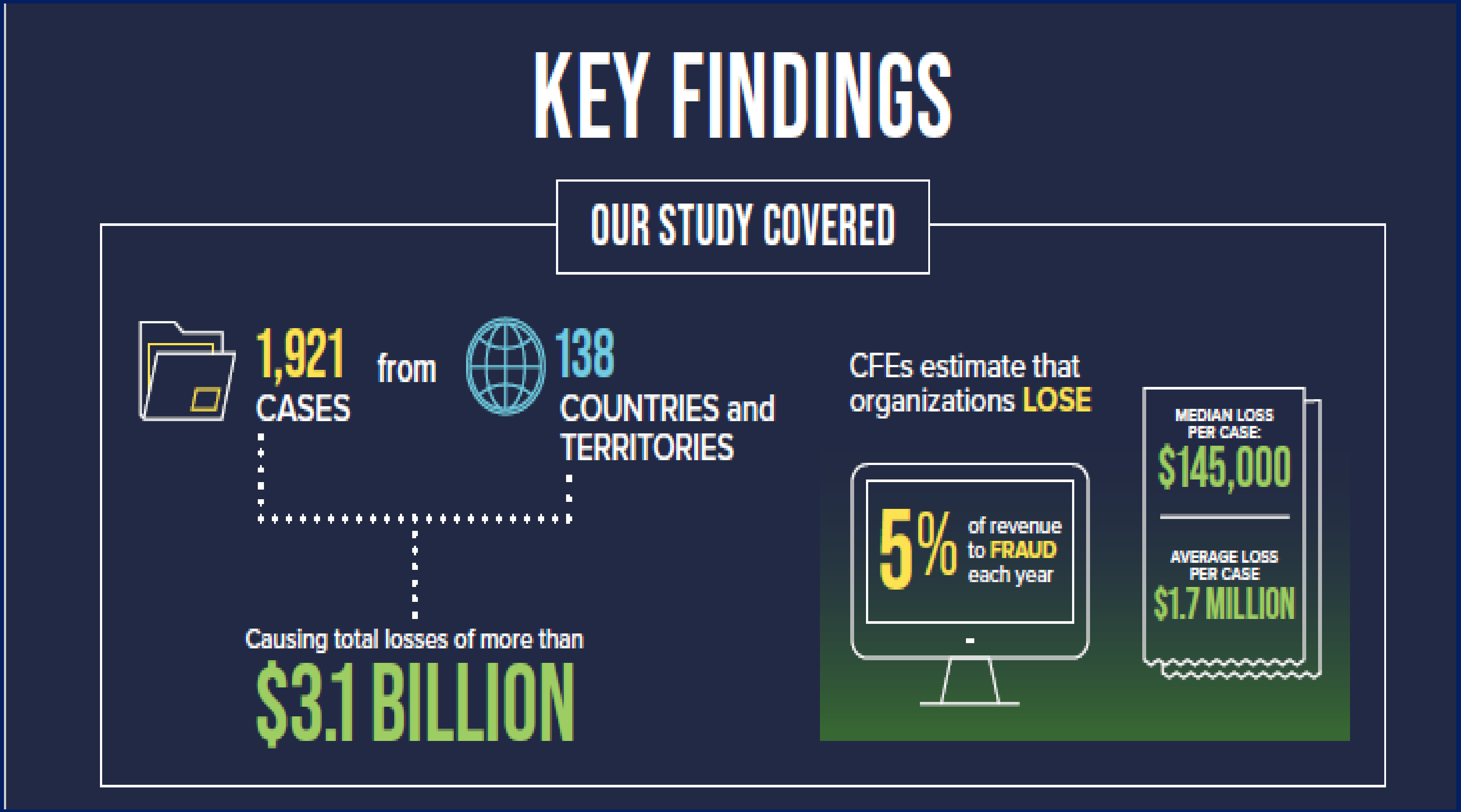
OCCUPATIONAL FRAUD 2024:
A REPORT TO THE NATIONS®

2024 ACFE *Global Fraud Study*



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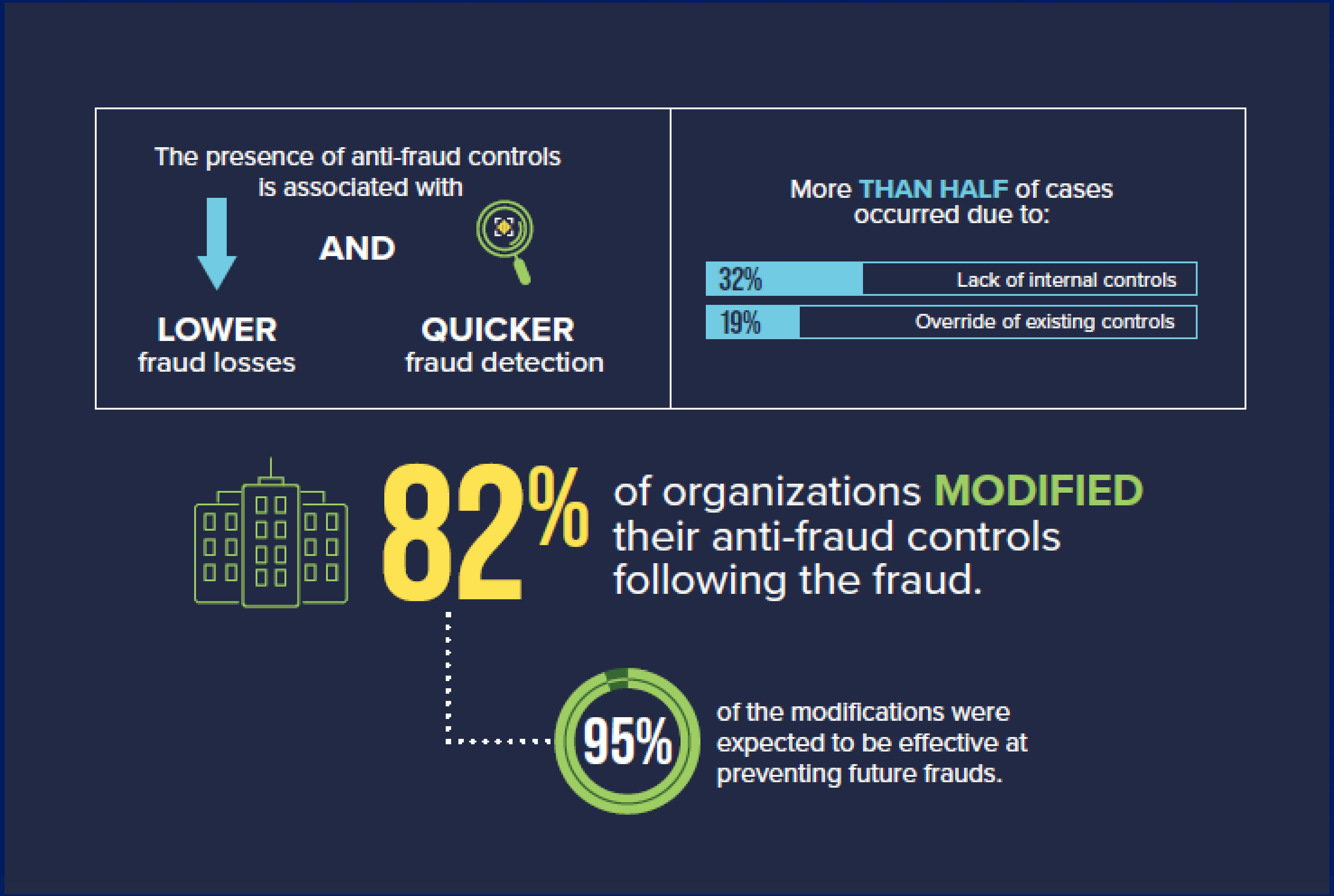


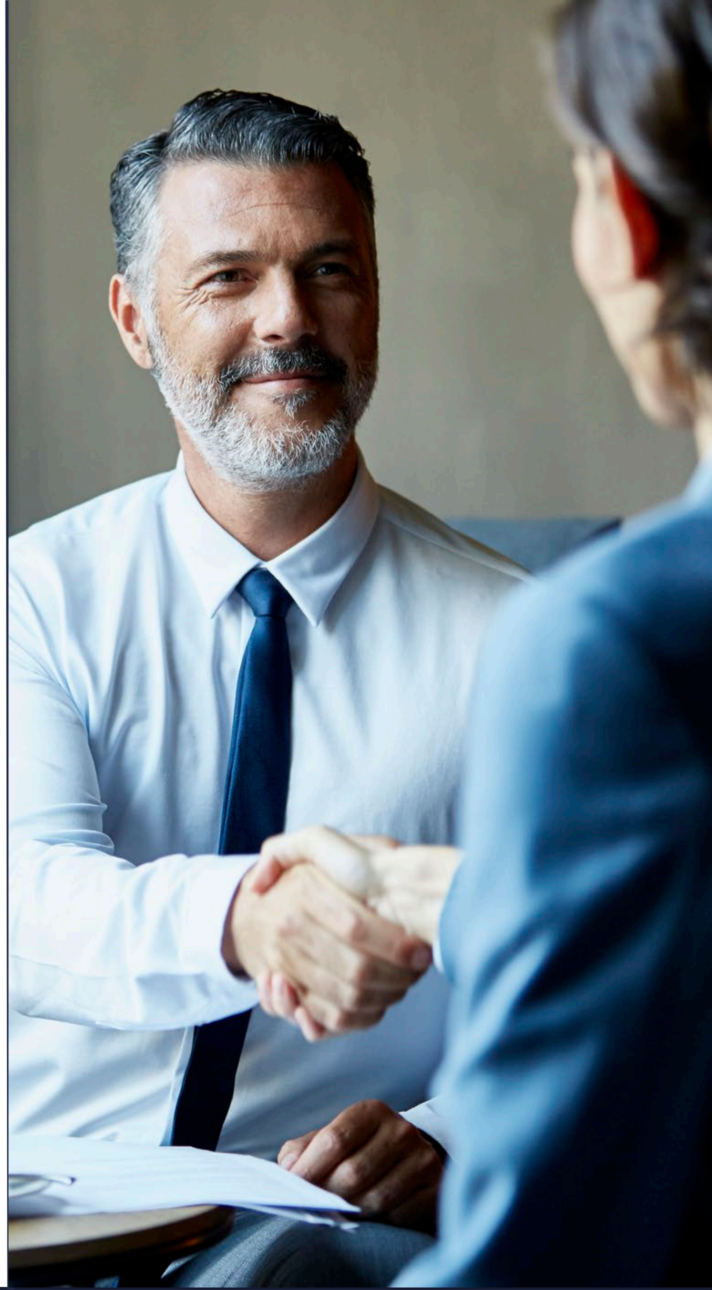
Removing Opportunities to Commit Fraud

- Ethical tone at the top
  - Clear communication about the organization's values and ethics
  - Free information flow
  - Employee access to multiple layers of management
  - A system of evaluations, performance management, compensation, and succession planning
  - A clear, concise code of conduct
  - Statement of commitment to anti-fraud initiatives
  - Rewards for integrity and ethical behavior

Mark Whitacre

Removing Opportunities to Commit Fraud

- Benefits of a written anti-fraud policy:
  - Evidences commitment to an ethical business
  - Strong message to employees about organization's intolerance for fraud
  - Guidepost for expected conduct
  - Rules for disciplining employees
  - Evidence that management works to combat fraud
  - Bolsters and protects an organization's reputation



Charles Antonucci

Minimizing Motivations and Pressures to Commit Fraud

- Increase morale–employees who feel mistreated are more likely to commit fraud.
- Offer employee support programs.
- Promote and reward loyalty.
- Establish an open-door policy.
- Measure employee attitudes about anti-fraud efforts (surveys, questioning).
- Establish a system of disciplinary measures.

Tom Hardin

Nathan Mueller

Removing Rationalizations Used to Justify Fraud

Communicate and adhere to clear, core ethical values.

Implement fair work and pay practices.

Treat all employees equitably and consistently.

Gary Foster

Removing Rationalizations Used to Justify Fraud

Rationalization	Ways to Neutralize
Blaming the victim	• Establish a culture of accountability. • Punish individuals for misconduct.
Dehumanizing the victim	• Educate employees about how fraud negatively affects all employees personally.

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Removing Rationalizations Used to Justify Fraud

Rationalization	Ways to Neutralize
Denying injury	• Educate employees about: nonfinancial and indirect impacts of fraud (e.g., hurt reputation and image, diminished culture and morale, increased audit costs).
Appealing to higher loyalties	• Make the rules known and easy to understand. • Explain the benefits of acting ethically. • Make it easier for employees to act ethically.

James Brandolino

Roomy Khan

Andrea Baxendale

Assessing the Potential for Fraudulent Behavior in Organizations

- Generally, the potential for fraudulent activity in an organization stems from two interrelated factors:
  - Leadership's needs for power, wealth, prestige, or popularity
  - A tolerance for unethical conduct

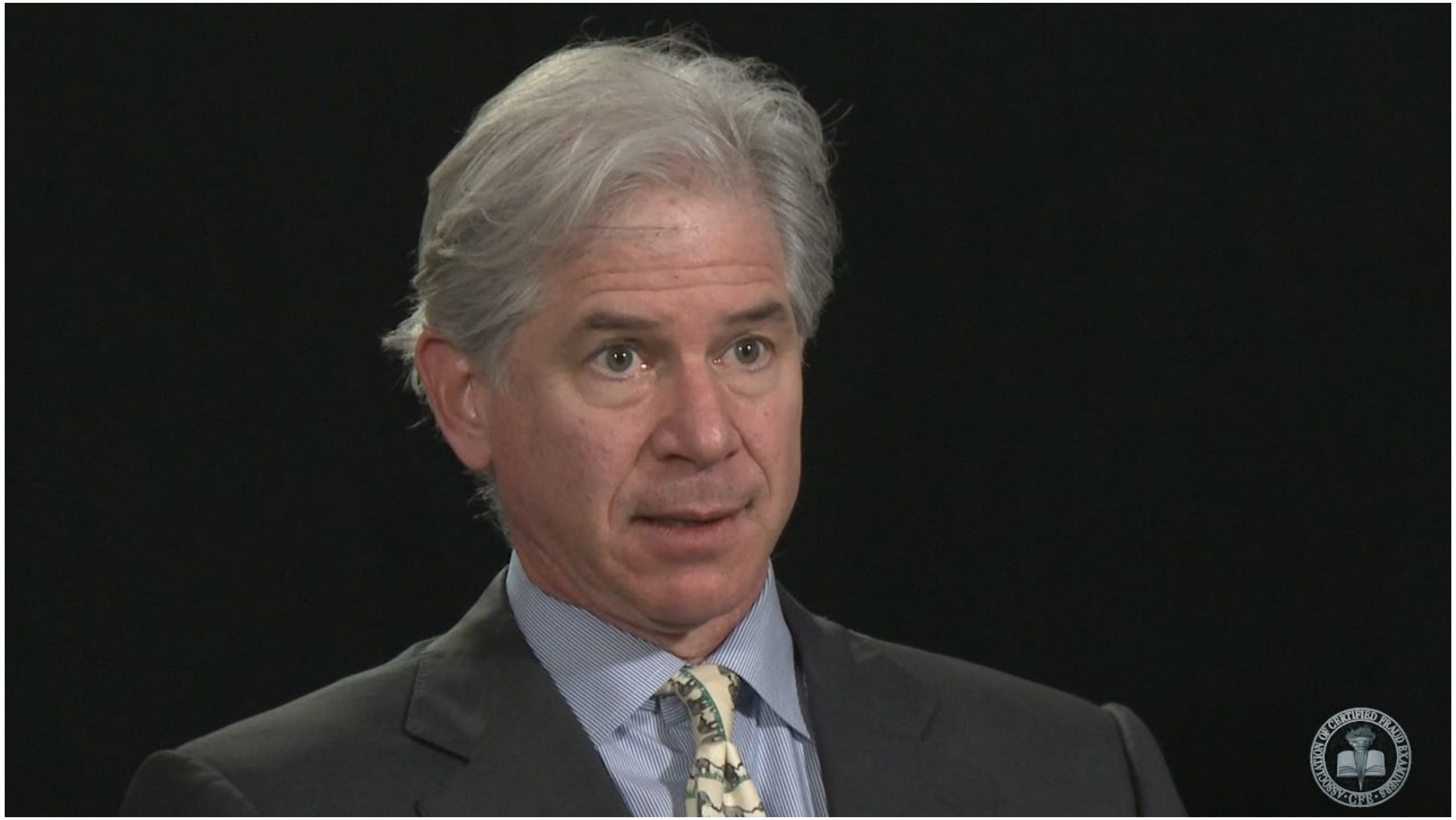
Richard Bistrong

Assessing the Potential for Fraudulent Behavior in Organizations

- Examine leadership's role in undermining or promoting ethics:

Not openly promoting or rewarding ethical conduct	Constructing external enemies to do battle with
Exploiting the organization for its own ends	Displaying arrogance
Striving for power, wealth, prestige, or popularity	Possessing narcissistic traits
Using the organization as an extension of itself	Suppressing dissent
Being self-involved and highly ambitious	

Andrew Fastow



Billy McFarland

Assessing the Potential for Fraudulent Behavior in Organizations

- Has a weak moral center
- Places excessive pressure on management or operating personnel to meet financial targets
- Creates a fast-paced environment where employees either reach the highest levels or are dismissed
- Is closed to new information that would serve as a reality check
- Fosters an environment in which employees harbor negative feelings about their work

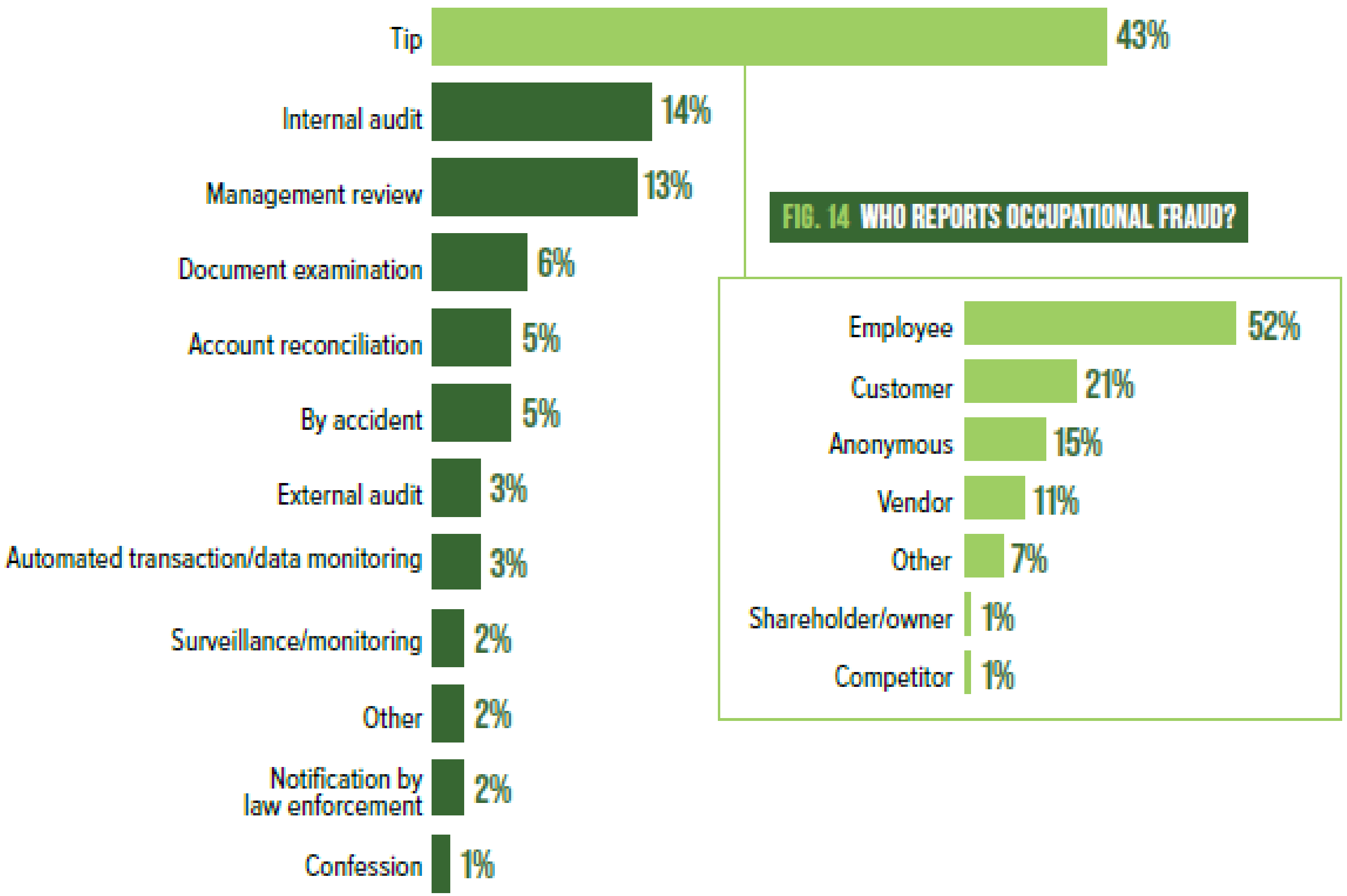
Putting a Human Spin on Anti-Fraud and Ethics Training

- Tailor the training and include high risk areas

1. Organization’s stance on fraud
2. How fraud harms the organization
3. How fraud affects employees
4. What constitutes fraud
5. How to identify red flags
6. Employees’ fraud-related responsibilities
7. How to make ethical decisions
8. Where to turn for ethical guidance
9. How and where to report issues
10. Disciplinary system for rule breakers

- Use actual case examples.

FIG. 13 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?



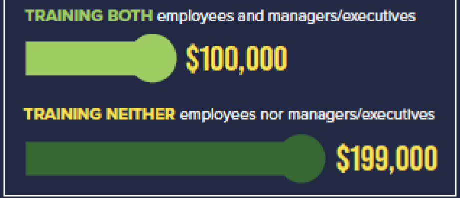
THE IMPORTANCE OF PROVIDING FRAUD AWARENESS TRAINING

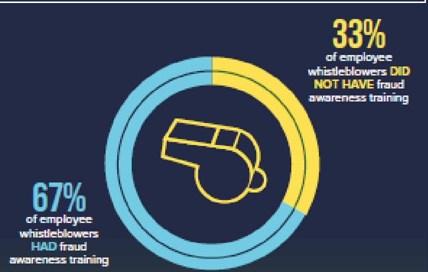
Providing fraud awareness training to staff at all levels of an organization is a vital part of a comprehensive anti-fraud program. Our study shows that training employees, managers, and executives about the risks and costs of fraud can help reduce fraud losses and ensure frauds are caught more quickly.

A GROWING PERCENTAGE OF ORGANIZATIONS ARE PROVIDING FRAUD AWARENESS TRAINING FOR THEIR STAFF

Organizations that **DID NOT PROVIDE** fraud awareness training lost nearly

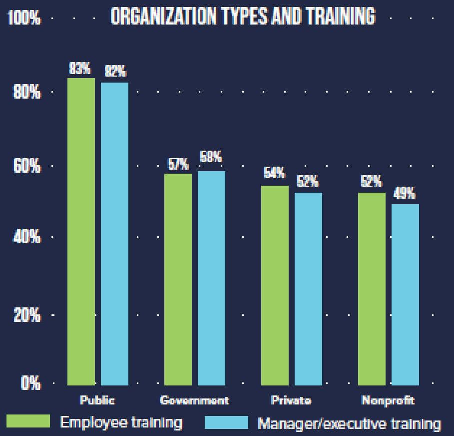
2X MORE.



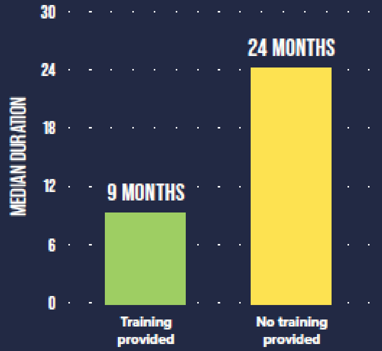


TIPS ARE TWICE as likely to come from employees who received fraud awareness training as from employees who did not.

NONPROFIT ORGANIZATIONS HAVE THE LOWEST IMPLEMENTATION RATE OF FRAUD AWARENESS TRAINING



Nonprofit organizations that **PROVIDED** fraud awareness training uncovered frauds more than **2.5X TIMES** faster than organizations that did not.



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