Executive Summary

Taking the Driver's Seat:

How Companies Can Better Manage, Detect and Prevent Fraud

July 19, 2016

If a company has employees then it has fraud. Today, savvy companies are not ignoring this fact, but instead getting more creative in how they gain more control over their employee spend and ensuring compliance so they can find the "red flags" of fraud.

Evidence of this destructive act can show up across an enterprise - within expense reports, cash advances, Pcards, invoices, travel data, HR feeds, etc. Companies taking a more proactive approach are finding their weakest links and then tightening controls across their enterprise. This executive summary will explore key trends, benchmarks and best practices to help companies address fraud based on a July 19, 2016 webinar: Taking the Driver's Seat: How companies can better detect, manage and prevent fraud.

5 Key Trends: Why is Fraud in the Limelight?

#1 Big Data. Better Data.

According to a study from Forbes only 15% of Fortune 500 companies are using big data and many reports show that money is pouring into these initiatives.

#2 More "checks and balances" in play to verify and contain costs.

Companies can verify expenses with multiple sources (bank cards, TMCs, digital receipts, travel data, travel suppliers).

#3 Increase in government regulations and compliance (i.e. FCPA).

The U.S. Foreign Corrupt Practices Act (FCPA) is hitting the headlines and boardrooms with increasing penalties and executives facing jail time.

#4 Risk to reputation.

A loss of confidence from shareholders, employees, media and other stakeholders in the company's lack of internal spending processes and controls.

#5 Fraud is an enterprise risk.

It falls in the same realm as economic, supply chain, disaster, duty of care and regulatory risks. This awareness heightens fraud within a company to get more attention from senior management along with the proper resources to prevent and manage it.

Speakers

Julie Losee, North America Travel and Business Expense Accounting Supervisor for Ford Motor Company.

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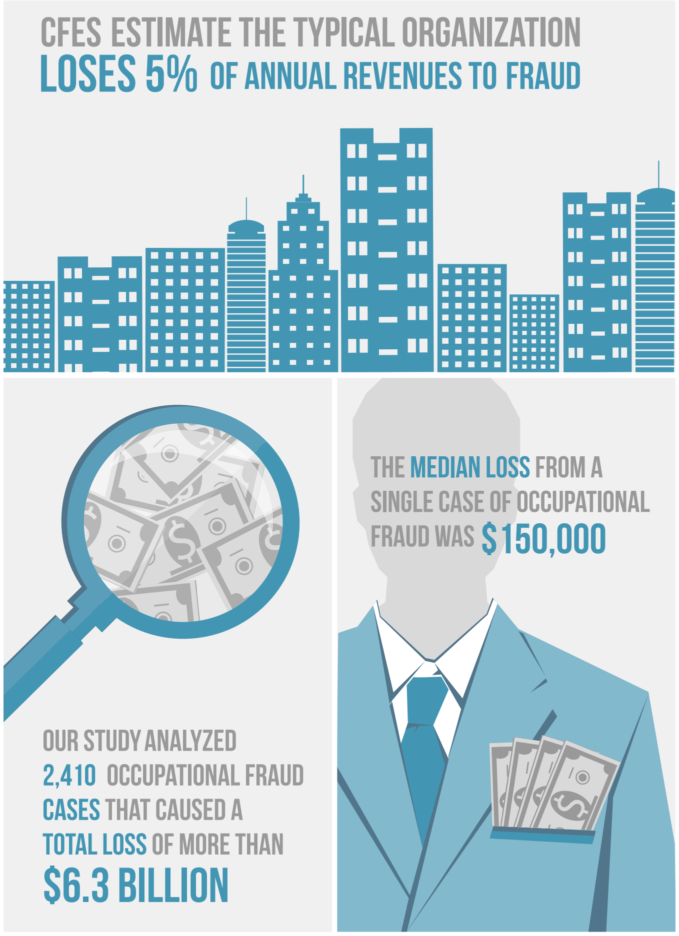
Taking the Driver's Seat: How to Prevent, Manage and Detect Fraud presentation and webinar recording, July 19, 2016

Defining and Managing Occupational Fraud

According to the Association for Fraud Examiners (ACFE), occupational fraud involve schemes where an organization's employee is the perpetrator committing fraud within a company. Occupational fraud is an internal scheme that does not involve vendors or customers.

Fraud is a preventable and controllable risk; however, many organizations have no internal controls in place to prevent it. Consequently, Certified Fraud Examiners (CFES) estimate that the typical organization loses 5% of annual revenues to fraud, an incredibly large cost to incur.



ACFE Report to the Nations on Occupational Fraud and Abuse, [2016 Global Fraud Study]

Who is Responsible?

Responsibility and involvement in managing occupational fraud depends on the organization—there is not a single model. At a high level, management is ultimately responsible for setting up a system of controls to prevent and detect fraud and for overseeing its effectiveness. However, many other parties such as internal audit, legal, accounting and finance, HR, compliance and ethics, IT, purchasing, corporate security, etc. all have some responsibility.

The ACFE suggests that accounting, finance, and purchasing functions form an alliance with the audit team to communicate and collaborate about fraud risks and to build an effective fraud prevention system. (Source: Benchmarking Your In-House Fraud Investigation Team)

How Occupational Fraud is Defined/Committed

In 1996 the ACFE developed the Occupational Fraud and Abuse Classification System, also known as the Fraud Tree. It has three primary categories of occupational fraud: asset misappropriation, corruption, and financial statement fraud. Each category is broken down into several subcategories each targeting different functions and operations within a business. Fraudsters don't use this tree as a way to target areas, instead it's a model of reference for companies to use when managing fraud risks. (Source: ACFE Report to the Nations on Occupational Fraud and Abuse, 2016 Global Fraud Study)

Duration of Fraud Schemes

The longer perpetrators are able to go undetected, the more financial harm they are able to cause. The median duration of the frauds in ACFE's study was 18 months, and more than 32% lasted at least two years before they were discovered.

Who is Committing Fraud?

The ACFE's finds that the loss increases along with the level of authority of the perpertator within the organization. Also, this association's research found that the longer a fraudster worked for a victim organization, the more significant the loss.

5 “Quick Wins” & Best Practices

While fraud can seem like a complex issue, companies can take these proactive steps to help identify any red flags or find the “needle” to unravel a broader scheme in the areas of expense and travel:

#1 Mandate a Corporate Card Program

Integrates most of your travel and expense data and validates costs

- An integrated system can provide visibility into travel reservations, corporate card transactions, and expense reimbursement claims offering the best opportunity for control.
- Expenses that are imported into an expense management or reimbursement system ensures that traveler’s cannot modify or falsify their expenses.

Gives tight control over entire ecosystem

- With a corporate card program, the owner of the account can add additional controls, such as setting a credit limit, transaction limits, cash limits, or setting merchant or location controls.

#2 Take both a “Preventive” and “Detective” Approaches

Take “Preventive” Approach

- Publicize “big brother” is watching in internal newsletter or Intranet and expense reimbursement claims are open to audit and even surprise audits.

Take “Detective” Approach

- Use a third party auditor
- Conduct random checks
- Audit cash expenses
- Identify location and type of expense and where

#3 Information is Power: Data Entry

Note that Information is Power

- Set audit rules
- Receipt requirements type (paper, electronic, automated) and itemized
- Verify employment (HR systems)
  - Look for patterns of behavior

#4 Organize and Share Data to Empower

Understand how to organize your data set configurations

Share data and package it for key stakeholders within your organization

- Easy to understand and action
- Create healthy competition among departments

Review individual transactions and look for patterns: important information can be gathered to help with FCPA violations

#5 Key Triggers/Data Analytics

Review common areas of concern

- Volume of expense reimbursements, personal payments, top spenders, cash advances, high mileage, lump sum tips
- Remember that the economy influences behavior
- Benchmark your data, identify trends and find the outliers

Conclusion

Fraud is inevitable yet with proper planning and prevention companies can detect and manage it properly. “Red flags” can be found by companies who have a good understanding and controls in place to manage employee spend across an enterprise. In addition, savvy companies who pull together various departments of an organization who plan, manage and oversee employee spend can often find the weakest links that enable fraud in the first place. Setting up proper audit rules, coding ways to spend money properly, using effective spend reports that identify trends and outliers and revisiting policies and procedures are a few ways professionals can help manage this enterprise risk.

For more information:

Taking the Driver’s Seat: How to Prevent, Manage and Detect Fraud: Presentation & Webinar recording, July 19, 2016

ACFE Report to the Nations on Occupational Fraud and Abuse, 2016 Global Fraud Study

About the Association of Certified Fraud Examiners (ACFE)

About Concur

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