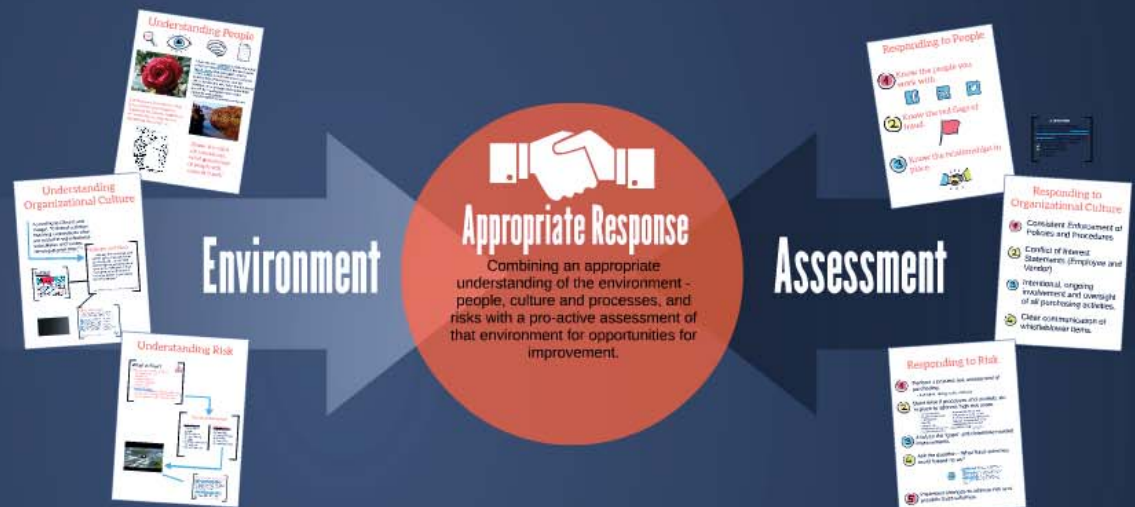


Contact Information:

Ben Kohnle
Grant Thornton
ben.kohnle@us.gt.com
214-561-2260

Calvin E. Webb II
Gradient Solutions Corporation
calvin@gogradient.com
817-233-5999



The Risk of Fraud in Purchasing

Ben Kohnle and Calvin Webb II



Contact Information:

**Ben Kohnle
Grant Thornton
ben.kohnle@us.gt.com
214-561-2260**

**Calvin E. Webb II
Gradient Solutions Corporation
calvin@gogradient.com
817-233-5999**

Environment



Appropriate Response

Combining an appropriate understanding of the environment - people, culture and processes, and risks with a pro-active assessment of that environment for opportunities for improvement.

Assessment

Understanding People

It has been estimated that 70% of the world's population is now living in urban areas. This has led to a significant increase in the number of people living in close proximity to each other, which has led to a significant increase in the number of people who are exposed to environmental risks.

Understand the risks that are associated with the environment. This includes understanding the risks that are associated with the environment, such as the risks that are associated with the environment, such as the risks that are associated with the environment.

Understand the risks that are associated with the environment. This includes understanding the risks that are associated with the environment, such as the risks that are associated with the environment, such as the risks that are associated with the environment.

Responding to People

- 1 Know the people you work with.
- 2 Know the red flags of fraud.
- 3 Know the relationships in place.

Responding to Organizational Culture

- 1 Consistent Enforcement of Policies and Procedures
- 2 Conflict of Interest Statements (Employee and Vendor)
- 3 Intentional, ongoing involvement and oversight of all purchasing activities.
- 4 Clear communication of whistleblower items.

Responding to Risk

- 1 Perform a process risk assessment of purchasing.
- 2 Determine if processes and controls are in place to address high risk areas.
- 3 Analyze the "gaps" and determine needed improvements.
- 4 Ask the question - What fraud schemes could happen to us?
- 5 Implement changes to address risk and possible fraud schemes.

Understanding Organizational Culture

According to Clavin and Yeager, "Criminal activities are located in organizational subcultures and values developed over time."

Organizational Culture

Organizational Culture

Understanding Risk

What is Risk?

Risk is the possibility of loss or damage to an organization's assets, reputation, or operations.

Risk is the possibility of loss or damage to an organization's assets, reputation, or operations.

The Risk of Fraud in Purchasing

Ben Kohnle and Calvin Webb II





Appropriate Response

Combining an appropriate understanding of the environment - people, culture and processes, and risks with a pro-active assessment of that environment for opportunities for improvement.

ment

ASS

Understanding People



It has become common to view the value of human relationships in the workplace as an asset that managers need to cultivate. People with behaviors that encourage performance, and who demonstrate loyalty, have the potential to engage and inspire their colleagues. It is important to understand the underlying factors that drive these behaviors.

During news interviews, what is one of the most frequent responses by friends, neighbors, or co-workers in response to something shocking?





Under the right circumstances, what percentage of people will commit fraud?

Understanding Organizational Culture

According to Cinsard and Yeager, "Criminal activities involving corporations often are rooted in organizational subcultures and values, developed over time."

Hollinger and Clark: "...argue the most important source of organizational fraud can be traced to the fact that fraud and unethical behavior are in large part a reflection of how management at all levels of the organization is perceived by the employees."

Subtle?



Understanding Risk

What is Risk?

- The possibility of loss or injury
- The possibility of damage to property
- The possibility of financial loss
- The possibility of reputational damage

Practical Examples

- **Internal Control:** Weak internal controls, lack of segregation of duties, inadequate oversight, etc.
- **External Control:** Weak external controls, lack of industry oversight, etc.
- **Human Resources:** Poor hiring practices, inadequate training, etc.
- **Information Technology:** Weak IT security, lack of data backup, etc.
- **Legal/Regulatory:** Weak legal/Regulatory oversight, etc.




Appropriate Responses

Combining an appropriate understanding of the environment, people, culture and processes, a risk with a pro-active assessment that environment for opportunities improvement.

Environment

The Risk of Fraud in

Understanding People



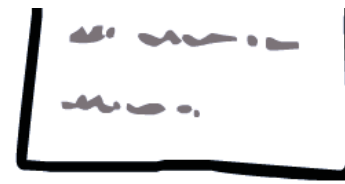
It has become common to extol the value of human relationships in the workplace. We all agree that managers need to connect deeply with followers to ensure outstanding performance, and we celebrate leaders who have the emotional intelligence to engage and inspire their people by creating bonds that are authentic and reliable.

<https://hbr.org/2007/12/making-relationships-work>

During news interviews, what is one of the most frequent responses by friends, neighbors, or co-workers in response to something shocking? 🔍



Under the right circumstances, what percentage of people will commit fraud?



It has become common to extol the value of human relationships in the workplace. We all agree that managers need to connect deeply with followers to ensure outstanding performance, and we celebrate leaders who have the emotional intelligence to engage and inspire their people by creating bonds that are authentic and reliable.

<https://hbr.org/2007/12/making-relationships-work>

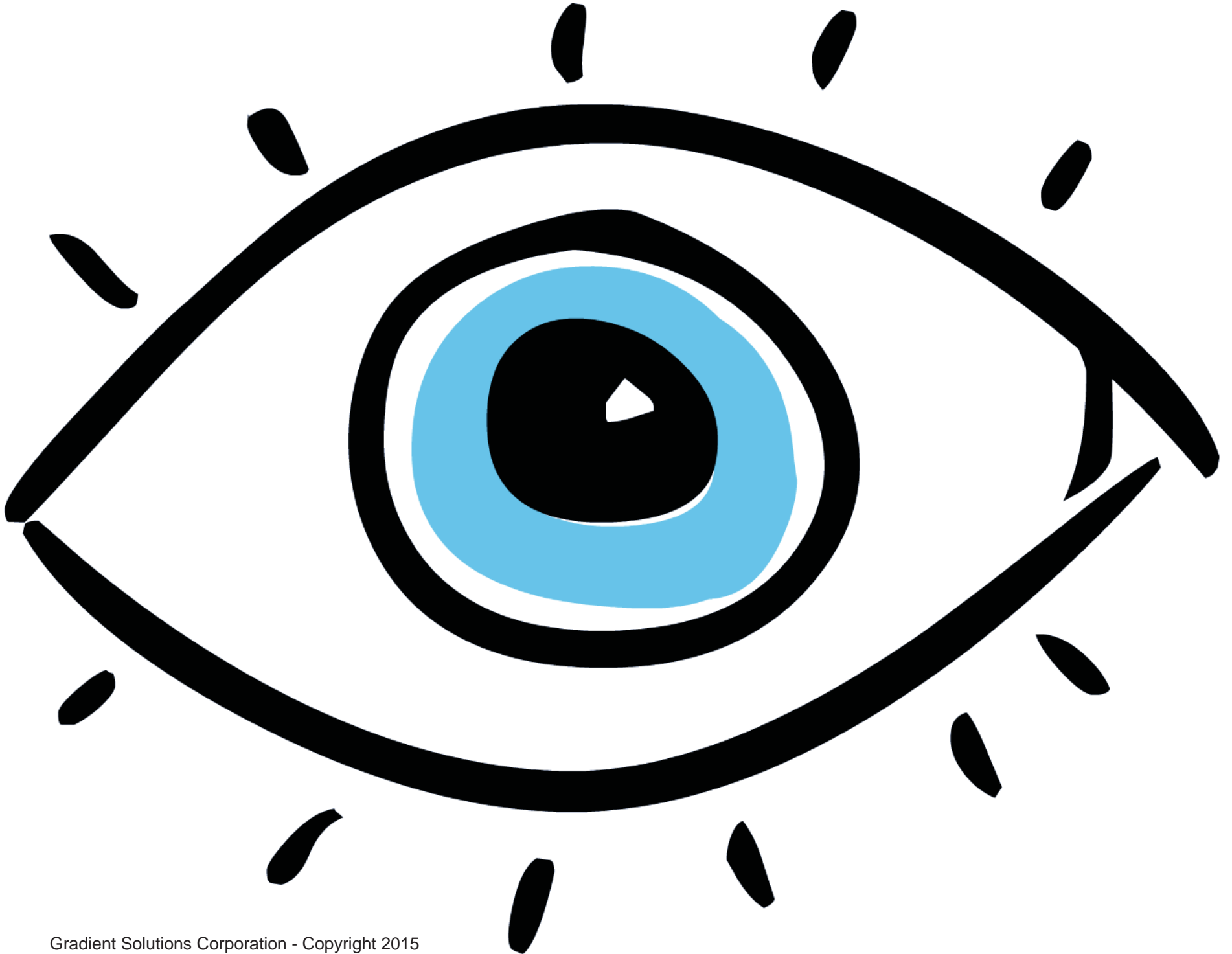








coolbubble.com





During news interviews, what is one of the most frequent responses by friends, neighbors, or co-workers in response to something shocking? 

© Original Artist
Reproduction rights obtainable from
www.CartoonStock.com



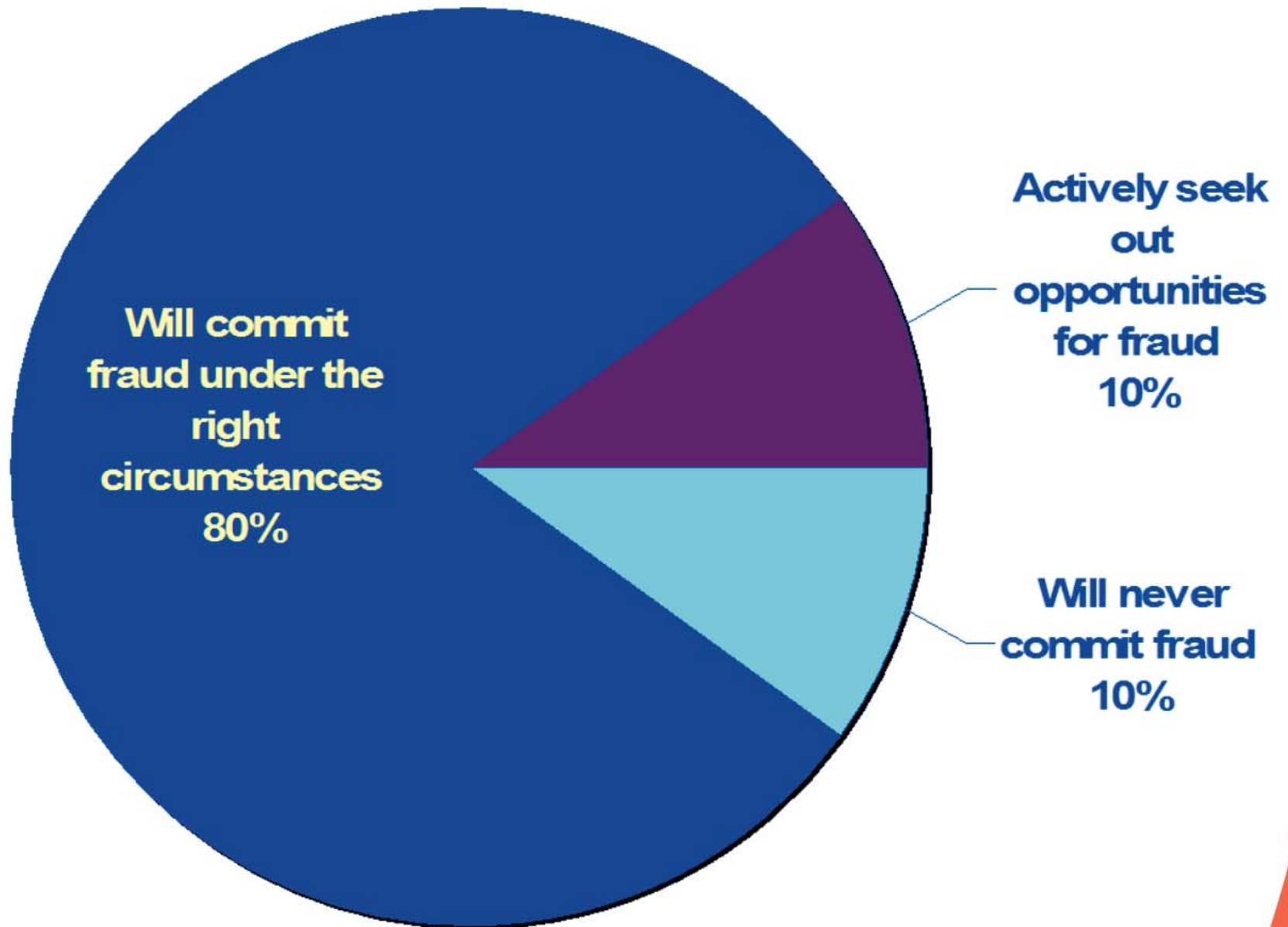
© Original Artist
Reproduction rights obtainable from
www.CartoonStock.com



Mosedale,

'I've written you a disciplinary letter in French to soften the blow.'

Under the right
circumstances,
what percentage
of people will
commit fraud?



Gradient Solutions Corporation Copyright 2016 * Source: Fraud Toolkit for ACL by David G. Coderre

Profile of a FRAUDSTER

Data from the ACFE's 2014 Global Fraud Study, *Report to the Nations on Occupational Fraud and Abuse*.

Download the full Report and view interactive graphs at ACFE.com/RTTN.

Our study includes demographic information on more than **1,400** occupational fraudsters from more than **100** countries.

POSITION

The majority of occupational frauds were committed by staff at the employee or managerial level.

42%

EMPLOYEE

36%

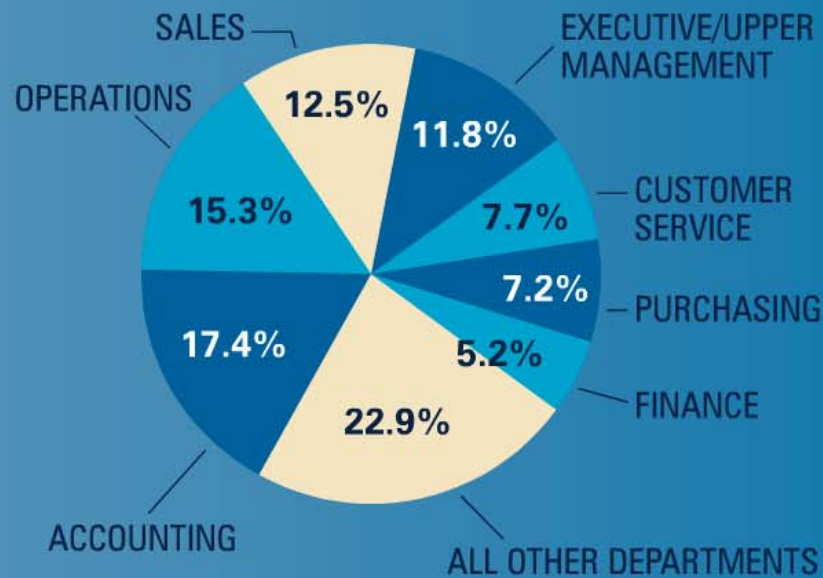
MANAGER

19%

OWNER/EXECUTIVE

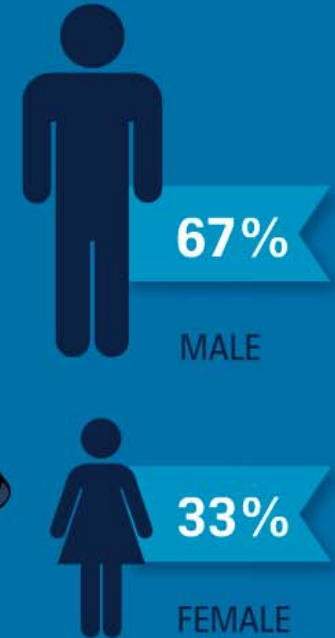
DEPARTMENT

77% of all occupational frauds originated in one of seven organizational departments: accounting, operations, sales, executive/upper management, customer service, purchasing and finance.



GENDER

Male fraudsters outnumbered females two to one.



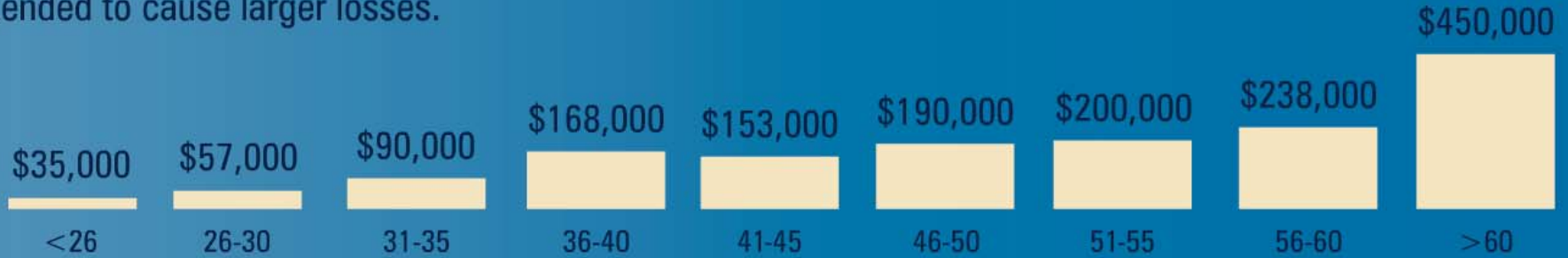
MEDIAN LOSS BY GENDER

Losses attributed to males were **123%** higher than losses caused by females.



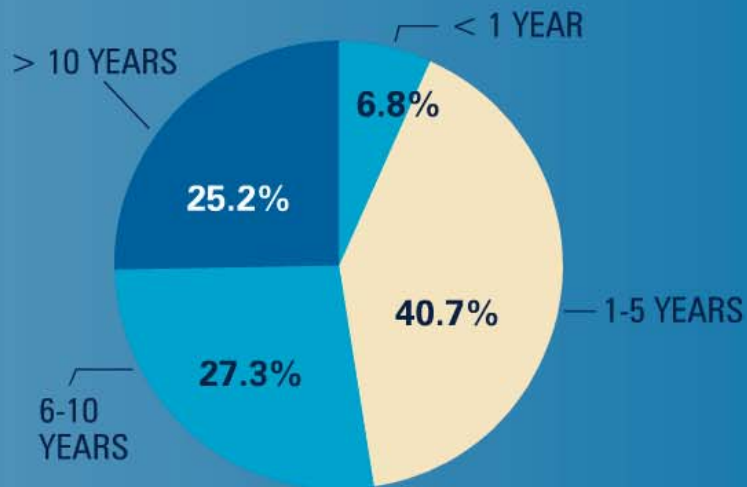
AGE

52% of fraudsters were between 31 and 45 years old, but older fraudsters tended to cause larger losses.



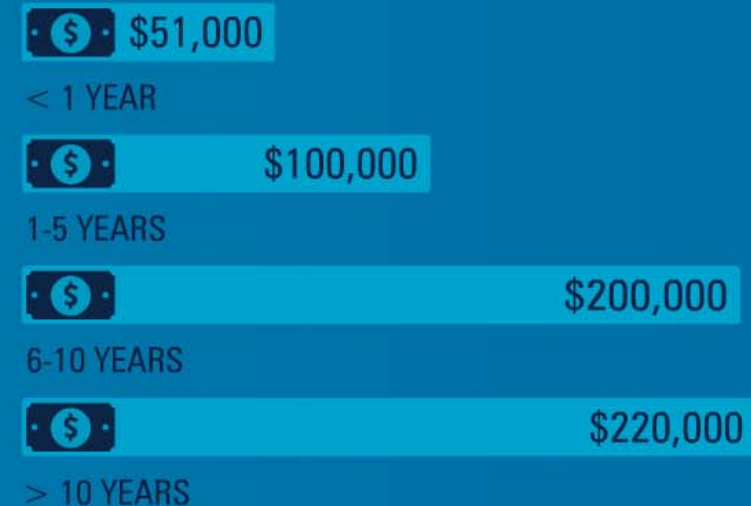
TENURE

7% of perpetrators committed fraud during their first year on the job. **53%** had been with their organizations for more than five years.



MEDIAN LOSS BY TENURE

The longer a fraudster had worked for a company, the more harm he or she was likely to cause.



Understanding People



It has become common to read the value of human resources in the workplace, but it is often difficult to measure. Correctly identifying employees and calculating performance, and our ability to engage them, are the essential skills for any business that is successful.

During news interviews, what is one of the most frequent responses by friends, neighbors, or co-workers in response to something shocking?





Under the right circumstances, what percentage of people will commit fraud?

Understanding Organizational Culture

According to Cline and Yeager, "Criminal activities involving corporations often are rooted in organizational subcultures and values, developed over time."

Hollinger and Clark: "...analyze the social environment, social policy, and culture that can be seen - as that first and foremost decision as to how best to manage all of levels of the organization is mirrored by the employee."

Subtle?




Understanding Risk

What is Risk?

- The possibility of loss or damage
- The chance of an event occurring that will have a negative impact on the organization
- The potential for harm or injury
- The possibility of a loss of assets or resources

Practical Examples

- **Operational Risk:**
 - Human Error
 - Process Failure
 - System Failure
 - Supplier Failure
 - Natural Disasters
- **Financial Risk:**
 - Market Volatility
 - Credit Default
 - Liquidity Shortage
 - Foreign Exchange
 - Interest Rate Fluctuation
- **Reputational Risk:**
 - Negative Publicity
 - Social Media
 - Product Recall
 - Data Breach
 - Environmental Incidents



Environment



Appropriate Responses

Combining an appropriate understanding of the environment, people, culture and processes, a risks with a pro-active assessment that environment for opportunities improvement.

The Risk of Fraud in



Appropriate Response

Combining an appropriate understanding of the environment - people, culture and processes, and with a pro-active assessment of environment for opportunities for improvement.



Assessment

Responding to People

- 1 Know the people you work with.
 - Facebook icon
 - LinkedIn icon
 - Twitter icon
- 2 Know the red flags of fraud.
 - Red flag icon
- 3 Know the relationships in place.
 - Handshake icon



Responding to Organizational Culture

- 1 Consistent Enforcement of Policies and Procedures
- 2 Conflict of Interest Statements (Employee and Vendor)
- 3 Intentional, ongoing involvement and oversight of all purchasing activities.
- 4 Clear communication of whistleblower items.

Responding to Risk

- 1 Perform a process risk assessment of purchasing.
 - Definition, rating scale, exercise
- 2 Determine if processes and controls are in place to address high risk areas.
 - Accounting risk
 - Operational risk
 - Legal risk
 - Reputational risk
 - Regulatory risk
 - Compliance risk
 - Information security risk
 - Strategic risk
 - Environmental risk
 - Performance measurement
 - Business model risk
 - Policy and procedure risk
 - Acquisition risk
 - Financial risk
- 3 Analyze the "gaps" and determine needed improvements.
- 4 Ask the question - What fraud schemes could happen to us?
 - Small icon of a document
- 5 Implement changes to address risk and possible fraud schemes.

Fraud in Purchasing



Responding to People

① Know the people you work with.



② Know the red flags of fraud.



③ Know the relationships in place.



Responsibility for
Fraud prevention is an
endeavor that incorp
controls, effective to
ethical culture. But w
preventing fraud with
The answer is everyo
✓ The board of direc
✓ The audit committe
• Management
• Employees

Responding to People



Know the people you work with.



Know the red flags of fraud.



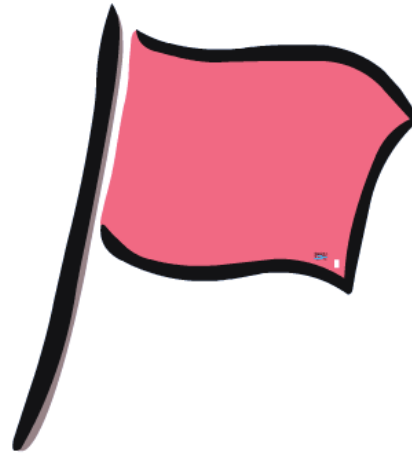
The vast majority of occupational fraudsters are first-time offenders; only 5% had been convicted of a fraud-related offense prior to committing the crimes in our study. Furthermore, 82% of fraudsters had never previously been punished or terminated by an employer for fraud-related conduct. While background checks can be useful in screening out some bad applicants, they might not do a good job of predicting fraudulent behavior. Most fraudsters work for their employers for years before they begin to steal, so ongoing employee monitoring and an understanding of the risk factors and warning signs of fraud are much more likely to identify fraud than pre-employment screening.

- <http://www.acfe.com/rtnn-conclusions-2014.aspx>

WORK WITH.



Know the red flags of fraud.

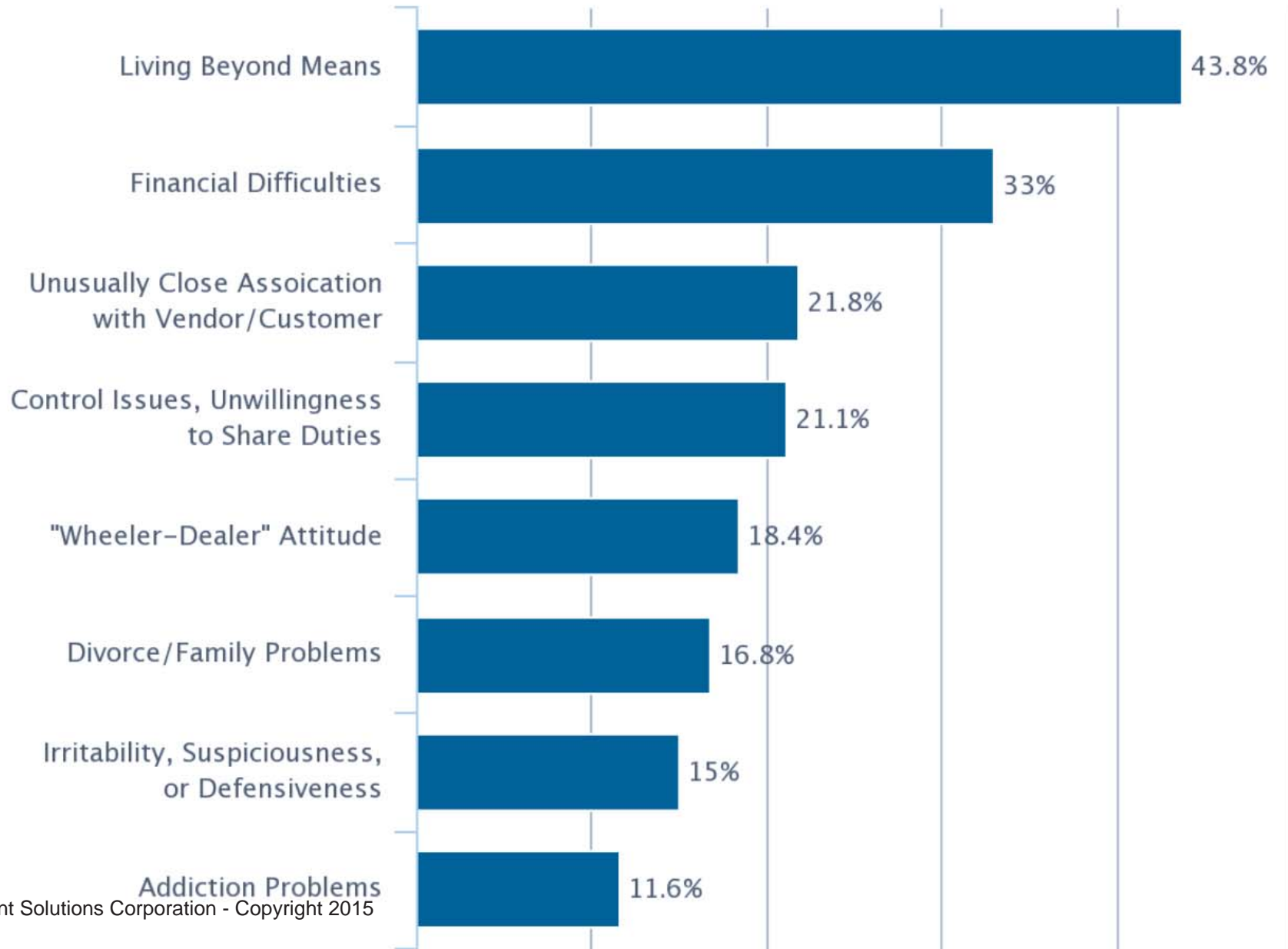


Know the relationships in place.

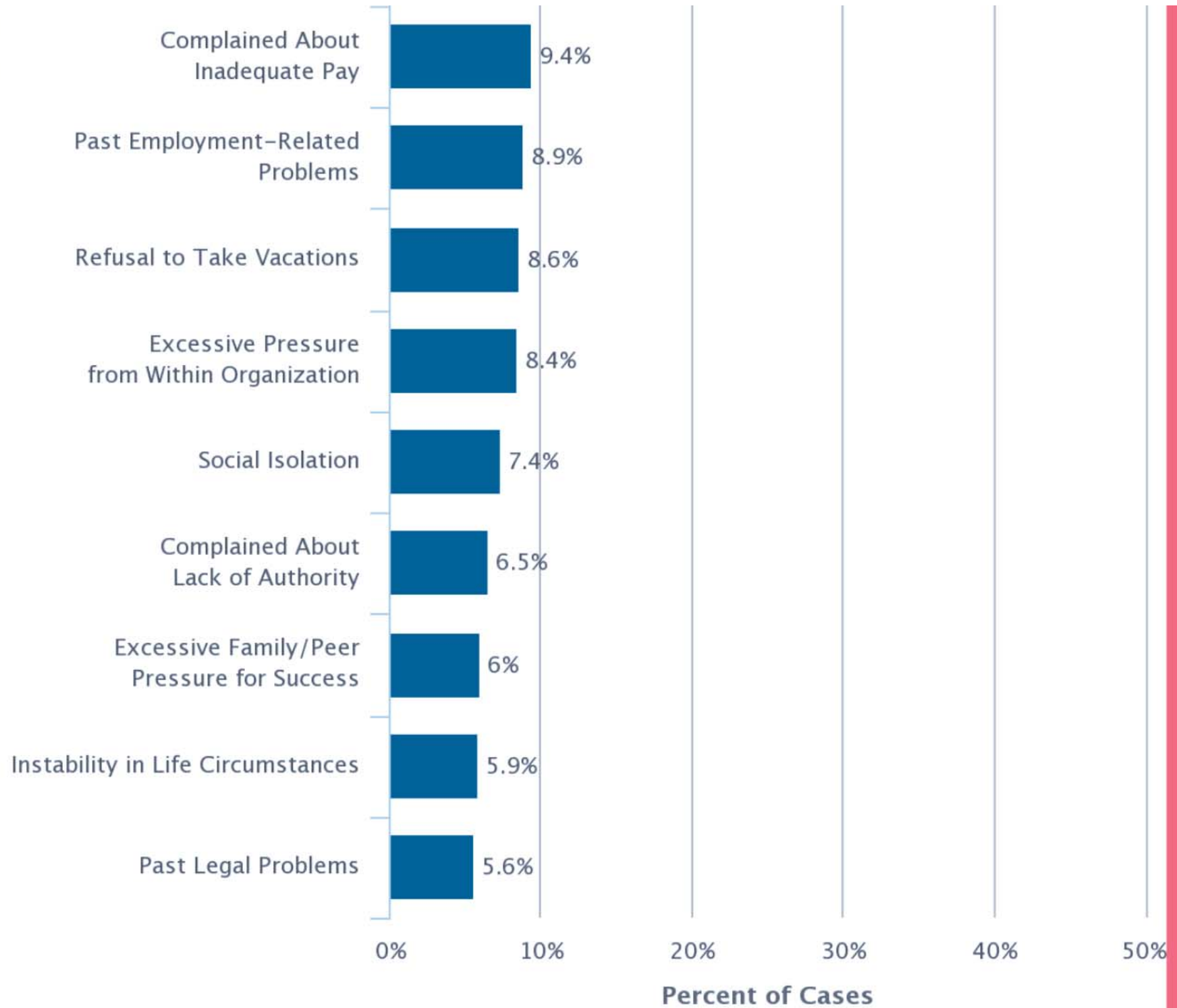
Most occupational fraudsters exhibit certain behavioral traits that can be warning signs of their crimes, such as living beyond their means or having unusually close associations with vendors or customers. In 92% of the cases we reviewed, at least one common behavioral red flag was identified before the fraud was detected. Managers, employees, auditors and others should be trained to recognize these warning signs that, when combined with other factors, might indicate fraud.

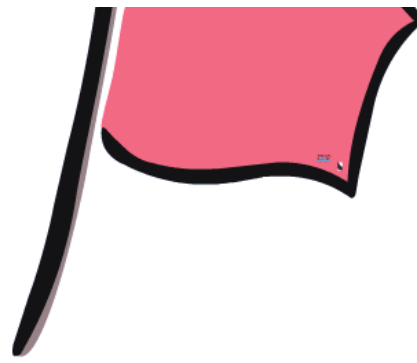
- <http://www.acfe.com/rtnn-conclusions-2014.aspx>

Behavioral Red Flags Displayed Perpetrators



Behavioral Re

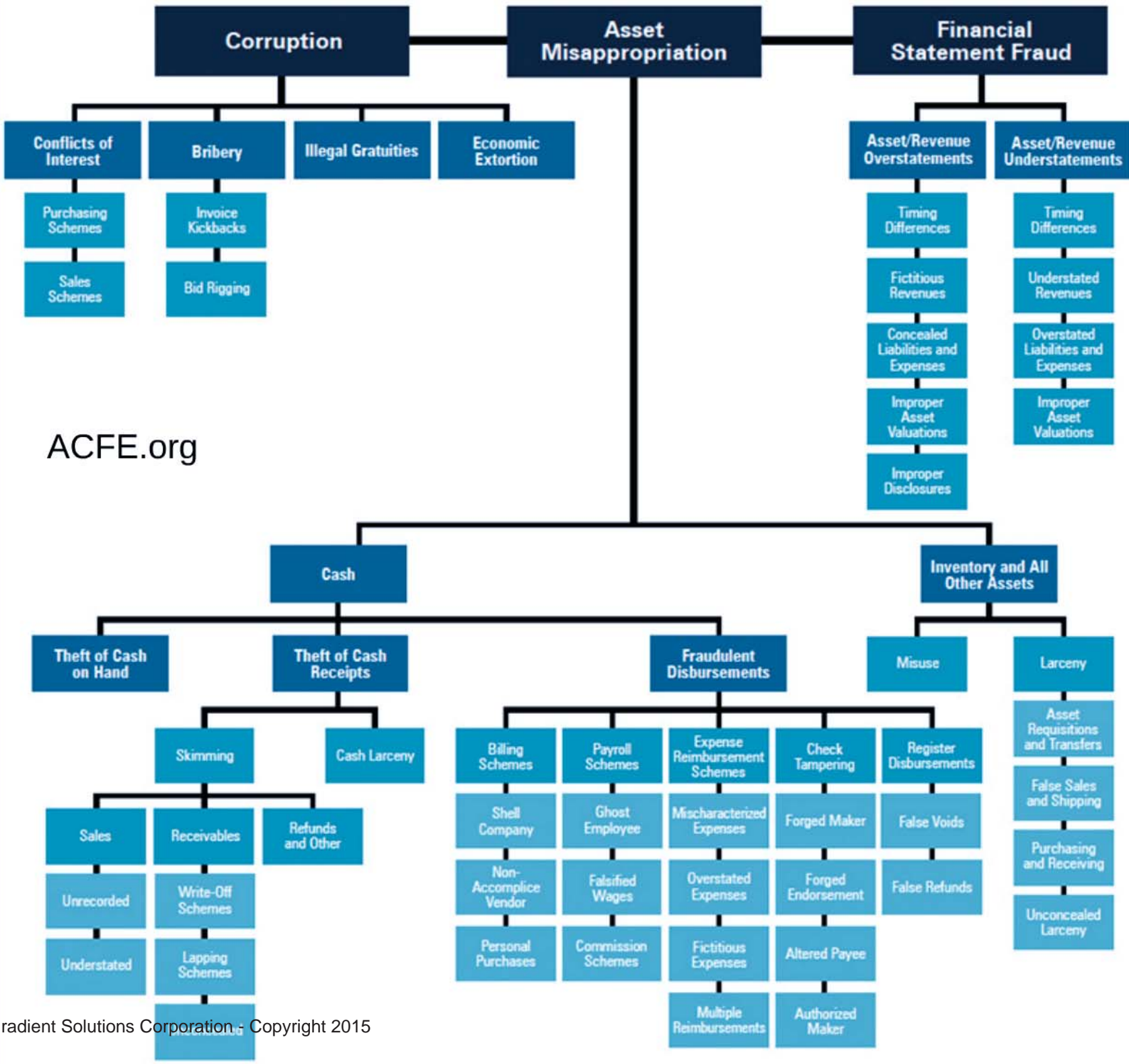




3

Know the relationships in place.





ACFE.org

Corruption

```
graph TD; A[Corruption] --> B[Conflicts of Interest]; A --> C[Bribery]; A --> D[Illegal Gratuities]; B --> E[Purchasing Schemes]; B --> F[Sales Schemes]; C --> G[Invoice Kickbacks]; C --> H[Bid Rigging];
```

Conflicts of Interest

Purchasing Schemes

Sales Schemes

Bribery

Invoice Kickbacks

Bid Rigging

Illegal Gratuities

Understanding People

It has become common to read the value of human relationships in the workplace. You all agree that employees need to understand performance, and our employees who have the required skills to engage our people in their work. This is the key to success.

During these times, what is one of the most frequent reasons for fraud? It is not the lack of money, but the lack of understanding of the company's goals and objectives.

Under the right circumstances, what percentage of people will commit fraud?

Understanding Organizational Culture

According to Cline and Yeager, "Criminal activities involving corporations often are rooted in organizational subcultures and values, developed over time."

Hollinger and Clark: "...analyze the social environment, and identify the factors that can be used to predict a high level of fraud. Management at all levels of the organization is involved in the process."

Subtle?

Understanding Risk

What is Risk?

- The possibility of loss or damage
- The chance of an event occurring that will have a negative impact on the organization
- The potential for harm or injury
- The likelihood of a loss or damage occurring

Practical Examples

- **Internal Control:** Weak internal controls, lack of segregation of duties, inadequate oversight, etc.
- **External Control:** Lack of industry knowledge, poor reputation, etc.
- **Human Resources:** Poor hiring practices, inadequate training, etc.
- **Information Technology:** Weak IT security, lack of data backup, etc.
- **Legal and Regulatory:** Non-compliance with laws and regulations, etc.

Appropriate Responses

Combining an appropriate understanding of the environment, people, culture and processes, a risks with a pro-active assessment that environment for opportunities improvement.

Environment

The Risk of Fraud in

Understanding Organizational Culture

According to Clinard and Yeager, "Criminal activities involving corporations often are rooted in organizational subcultures and values, developed over time."¹⁰

Fraud Examiners Manual, Association of Certified Fraud Examiners, 2008

Hollinger and Clark

"...perhaps the most important overall policy implication that can be drawn...is that theft and workplace deviance are in large part a reflection of how management at all levels of the organization is perceived by the employee."

Fraud Examiners Manual, Association of Certified Fraud Examiners, 2008, 4.524.

Subtle?



Ethics Advantage

A survey of MBA students found that 94% of them would accept an average of 14% lower pay to work for an organization with a reputation for high ethical standards.

94% of Americans believe it is "critical" or "important" to work for an ethical company.

33% of employees have left a company because they disagreed with its business ethics.

70% of Americans have decided not to purchase a company's product because of its questionable ethics.

72% of Americans prefer to buy higher priced products and services from companies with ethical business practices.

Citizens, Center for Business Ethics, Division of Management and Organization of High Integrity and Superior Performance, Princeton, NJ, Vol. 6, Series 2003



According to Clinard and Yeager, "Criminal activities involving corporations often are rooted in organizational subcultures and values, developed over time."



"Fraud Examiners Manual, Association of Certified Fraud Examiners, 2008"

Holl

" ...



Hollinger and Clark

“...perhaps the most important overall policy implication that can be drawn...is that theft and workplace deviance are in large part a reflection of how management at all levels of the organization is perceived by the employee.”

“Fraud Examiners Manual, Association of Certified Fraud Examiners, 2008, 4.524.”

Ethics Advantage

A survey of MBA students found that 94% of them would accept an average of 14% lower pay to work for an organization with a reputation for high ethical standards.

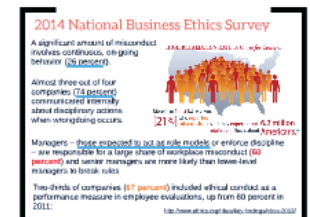
94% of Americans believe it is "critical" or "important" to work for an ethical company.

33% of employees have left a company because they disagreed with its business ethics.

70% of Americans have decided not to purchase a company's product because of its questionable ethics.

72% of Americans prefer to buy higher priced products and services from companies with ethical business practices.

Collins, Denis. *Essentials of Business Ethics: Creating an Organization of High Integrity and Superior Performance*. Hoboken, NJ: Wiley & Sons, 2009.



2014 National Business Ethics Survey

A significant amount of misconduct involves continuous, on-going behavior (26 percent).

Almost three out of four companies (74 percent) communicated internally about disciplinary actions when wrongdoing occurs.

Managers – those expected to act as role models or enforce discipline – are responsible for a large share of workplace misconduct (**60 percent**) and senior managers are more likely than lower-level managers to break rules

Two-thirds of companies (**67 percent**) included ethical conduct as a performance measure in employee evaluations, up from 60 percent in 2011;

HIGH RETALIATION RATE: A Cause for Concern



More than 1 in 5 U.S. workers

[21%] who reported misconduct said they experienced **6.2 million** retaliation. That is about **Americans."**

Understanding People

It has become common to view the value of human relationships in the workplace as an asset that managers need to cultivate. However, with technology to automate performance, and our ability to engage our employees through mobile devices that are always on and always connected, the nature of work is changing.

During these times of stress, what is one of the most frequent responses by friends, neighbors, or co-workers in response to something shocking?

Under the right circumstances, what percentage of people will commit fraud?

Understanding Organizational Culture

According to Cinsard and Yeager, "Criminal activities involving corporations often are rooted in organizational subcultures and values, developed over time."

Hollinger and Clark: "...analyze the social environment, social policy, and culture that can be seen - as that first and foremost decision as to how to best get a job done or how to manage it at all levels of the organization is mirrored by the employee."

Subtle?

Understanding Risk

What is Risk?

Practical Examples

What is the Corporate Culture?



Appropriate Responses

Combining an appropriate understanding of the environment, people, culture and processes, a risk with a pro-active assessment that environment for opportunities improvement.

Environment

The Risk of Fraud in



Appropriate Response

Combining an appropriate understanding of the environment - people, culture and processes, and with a pro-active assessment of environment for opportunities for improvement.

Assessment

Responding to People

- 1 Know the people you work with.
 - Facebook icon
 - LinkedIn icon
 - Twitter icon
- 2 Know the red flags of fraud.
 - Red flag icon
- 3 Know the relationships in place.
 - Handshake icon



Responding to Organizational Culture

- 1 Consistent Enforcement of Policies and Procedures
- 2 Conflict of Interest Statements (Employee and Vendor)
- 3 Intentional, ongoing involvement and oversight of all purchasing activities.
- 4 Clear communication of whistleblower items.

Responding to Risk

- 1 Perform a process risk assessment of purchasing.
 - Definition, rating scale, exercise
- 2 Determine if processes and controls are in place to address high risk areas.
 - Accounting risk
 - Operational risk
 - Legal risk
 - Reputational risk
 - Regulatory risk
 - Compliance risk
 - Information security risk
 - Strategic risk
 - Environmental risk
 - Performance measurement
 - Public and practitioner risk
 - Brand reputation risk
 - Financial risk
- 3 Analyze the "gaps" and determine needed improvements.
- 4 Ask the question - What fraud schemes could happen to us?
- 5 Implement changes to address risk and possible fraud schemes.

Fraud in Purchasing





Responding to Organizational Culture

- ① Consistent Enforcement of Policies and Procedures
- ② Conflict of Interest Statements (Employee and Vendor)
- ③ Intentional, ongoing involvement and oversight of all purchasing activities.
- ④ Clear communication of whistleblower items.

Understanding People

It has become common to read the value of human relationships in the workplace. You all agree that employees need to understand performance, and our employees who have the required skills to engage and inspire their colleagues and subordinates.

During these times, what is one of the most frequent responses by friends, neighbors, or co-workers in response to something shocking?

Under the right circumstances, what percentage of people will commit fraud?

Understanding Organizational Culture

According to Cline and Yeager, "Criminal activities involving corporations often are rooted in organizational subcultures and values, developed over time."

Hollinger and Clark: "...analyze the social environment, social policy, and organizational structure... as they relate to the level of management at which the risk is most likely to occur."

Subtle?

Understanding Risk

What is Risk?

- The possibility of loss or injury
- The possibility of damage to property
- The possibility of financial loss
- The possibility of reputational damage
- The possibility of legal action
- The possibility of physical harm
- The possibility of environmental damage

Practical Examples

- **Internal Control:** Weak internal controls, lack of segregation of duties, inadequate oversight, etc.
- **External Control:** Weak external controls, lack of external oversight, etc.
- **Operational Risk:** Weak operational controls, lack of operational oversight, etc.
- **Financial Risk:** Weak financial controls, lack of financial oversight, etc.
- **Reputational Risk:** Weak reputational controls, lack of reputational oversight, etc.
- **Physical Risk:** Weak physical controls, lack of physical oversight, etc.
- **Environmental Risk:** Weak environmental controls, lack of environmental oversight, etc.

Appropriate Responses

Combining an appropriate understanding of the environment, people, culture and processes, a risks with a pro-active assessment that environment for opportunities improvement.

Environment

The Risk of Fraud in



Understanding Risk

What is Risk?



- Different types of risk definitions:
 - Exposure to danger
 - Risk of Loss
 - Investment Risk
 - Insurance Related
 - Business Risk
- A simple definition:
 - Risk can be anything that has potential to prevent you from reaching your goals both opportunities as well as negative risks.

Practical Examples

Risk Reduction

- Home Alarms
- Airbags
- Smoke Alarms
- Annual Physical
- Helmets
- Building Inspections/ Fire Marshal
- Identity Protection

Risky behavior...

- Sky Diving
- Eating Sushi
- Camping in Alaska
- Bull Riding
- Driving on Ice
- Playing Basketball



Risk in the Context of Fraud

"You can't foresee all future circumstances, and you can't specify adequate future conduct. You don't know what will be required. Instead you have to set up certain behavioral processes which will lead the individual to design his own "good" conduct when the time comes."

- B.F. Skinner

...increasing the perception of detection may be the best way to deter employee theft while increasing the sanctions that are imposed on occupational fraudsters will have a limited effect.

What is Risk?



- Different types of risk definitions:
 - Exposure to danger
 - Risk of Loss
 - Investment Risk
 - Insurance Related
 - Business Risk
- A simple definition:
 - Risk can be anything that has potential to prevent you from reaching your goals both opportunities as well as negative risks.




Practical Examples

Risk Reduction

- Home Alarms
- Airbags
- Smoke Alarms
- Annual Physical
- Helmets
- Building Inspections/
Fire Marshal
- Identity Protection

Risky behavior...

- Sky Diving
 - Eating Sushi
 - Camping in Alaska
 - Bull Riding
 - Driving on Ice
 - Playing Basketball
- 



YouTube

Risk in the Context of Fraud

"You can't foresee all future circumstances, and you can't specify adequate future conduct. You don't know what will be required. Instead you have to set up certain behavioral processes which will lead the individual to design his own "good" conduct when the time comes."

• *B.F. Skinner*

"...increasing the perception of detection may be the best way to deter employee theft while increasing the sanctions that are imposed on occupational fraudsters will have a limited effect."

"Fraud Examiners Manual, Association of Certified Fraud Examiners, 2008, 4.523."



Appropriate Response

Combining an appropriate understanding of the environment - people, culture and processes, and with a pro-active assessment of environment for opportunities for improvement.



Assessment

Responding to People

- 1 Know the people you work with.
 - Facebook icon
 - LinkedIn icon
 - Twitter icon
- 2 Know the red flags of fraud.
 - Red flag icon
- 3 Know the relationships in place.
 - Handshake icon



Responding to Organizational Culture

- 1 Consistent Enforcement of Policies and Procedures
- 2 Conflict of Interest Statements (Employee and Vendor)
- 3 Intentional, ongoing involvement and oversight of all purchasing activities.
- 4 Clear communication of whistleblower items.

Responding to Risk

- 1 Perform a process risk assessment of purchasing.
 - Definition, rating scale, exercise
- 2 Determine if processes and controls are in place to address high risk areas.
 - Accounting risk
 - Operational risk
 - Legal risk
 - Reputational risk
 - Regulatory compliance risk
 - Strategic risk
 - Information technology risk
 - Environmental risk
 - Performance measurement risk
 - Public and product risk
 - Acquisition risk
 - Financial risk
- 3 Analyze the "gaps" and determine needed improvements.
- 4 Ask the question - What fraud schemes could happen to us?
- 5 Implement changes to address risk and possible fraud schemes.

Fraud in Purchasing



Responding to Risk

- 1 Perform a process risk assessment of purchasing.

 - Definition, rating scale, exercise
- 2 Determine if processes and controls are in place to address high risk areas.

 - Accounting risk
 - Communications risk
 - Contract risk
 - HR risk
 - Integrity risk
 - Payment accuracy risk
 - Vendor relations risk
 - Payment timeliness risk
 - Performance incentive risk
 - Performance measurement risk
 - Policies and procedures risk
 - Segregation of duties risk
 - ★ Systems risk
- 3 Analyze the "gaps" and determine needed improvements.
- 4 Ask the question - What fraud schemes could happen to us?

 - Shell company schemes, which occur when an employee submits invoices for payment from a fictitious company controlled by the employee
 - Pay-and-return schemes, which occur when an employee arranges for overpayment of a vendor invoice and pockets the overpayment amount when it is returned to the company
 - Personal purchase schemes, which occur when an employee submits an invoice for personal purchases to the company for payment, or when an employee uses a company credit card for personal purchases

ACFE.org
- 5 Implement changes to address risk and possible fraud schemes.

- Accounting risk
- Communications risk
- Contract risk
- HR risk
- Integrity risk
- Payment accuracy risk
- Vendor relations risk

Address high risk areas

- Payment timeliness risk
- Performance incentive risk
- Performance measurement risk
- Policies and procedures risk
- Segregation of duties risk

sk ★ Systems risk 

Outdated, poorly designed, or non-interfacing purchasing and accounting systems may inhibit the ability to management purchasing, disbursements, and accounts payable liabilities resulting in inaccurate processing and untimely reporting.

gaps" and determine

duties risk

Outdated, poorly designed, or non-interfacing purchasing and accounting systems may inhibit the ability to management purchasing, disbursements, and accounts payable liabilities resulting in inaccurate processing and untimely reporting.

Responding to Risk

① Perform a process risk assessment of purchasing.

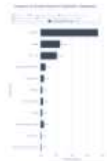
- Definition, rating scale, exercise

② Determine if processes and controls are in place to address high risk areas.

- Accounting risk
- Communications risk
- Contract risk
- HR risk
- Integrity risk
- Payment accuracy risk
- Vendor relations risk
- Payment timeliness risk
- Performance incentive risk
- Performance measurement risk
- Policies and procedures risk
- Segregation of duties risk
- ★ Systems risk

③ Analyze the "gaps" and determine needed improvements.

④ Ask the question - What fraud schemes could happen to us?



- Shell company schemes, which occur when an employee submits invoices for payment from a fictitious company controlled by the employee
- Pay-and-return schemes, which occur when an employee arranges for overpayment of a vendor invoice and pockets the overpayment amount when it is returned to the company
- Personal purchase schemes, which occur when an employee submits an invoice for personal purchases to the company for payment, or when an employee uses a company credit card for personal purchases

ACFE.org

⑤ Implement changes to address risk and possible fraud schemes.

CONTROL WEAKNESSES CONTRIBUTING TO FRAUD



Lack of Internal Controls



Lack of Management Review



Override of Existing Internal Controls



Poor Tone at the Top



Lack of Competent Personnel in Oversight Roles



Other



Lack of Independent Checks/Audits



Lack of Employee Fraud Education



Lack of Clear Lines of Authority



Lack of Reporting Mechanism

PERCENT OF FRAUDS WERE DETECTED BY EXTERNAL AUDITS

External financial statement audits serve many useful purposes and were the most common control implemented by victim organizations. However, they were responsible for uncovering **ONLY 3% OF FRAUDS** in our study.

CFEs cited the lack of effective internal controls as the primary contributing factor in nearly **1/3** cases.



Together, Reducing Fraud Worldwide

© 2014 Association of Certified Fraud Examiners, Inc. All rights reserved. "ACFE," "CFE," "Certified Fraud Examiner," "Association of Certified Fraud Examiners," the ACFE Logo and related trademarks, names and logos are the property of the Association of Certified Fraud Examiners, Inc., and are registered and/or used in the U.S. and countries around the world.



Responding to Risk

- 1 Perform a process risk assessment of purchasing.

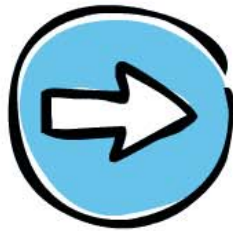
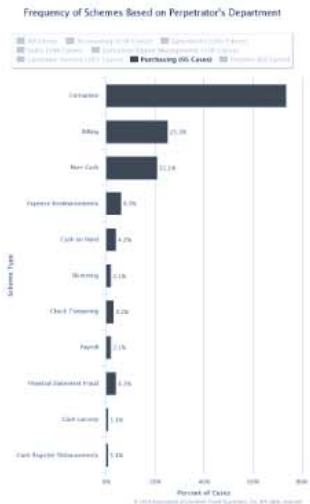
 - Definition, rating scale, exercise
- 2 Determine if processes and controls are in place to address high risk areas.

 - Accounting risk
 - Communications risk
 - Contract risk
 - HR risk
 - Integrity risk
 - Payment accuracy risk
 - Vendor relations risk
 - Payment timeliness risk
 - Performance incentive risk
 - Performance measurement risk
 - Policies and procedures risk
 - Segregation of duties risk
 - ★ Systems risk
- 3 Analyze the "gaps" and determine needed improvements.
- 4 Ask the question - What fraud schemes could happen to us?

 - Shell company schemes, which occur when an employee submits invoices for payment from a fictitious company controlled by the employee
 - Pay-and-return schemes, which occur when an employee arranges for overpayment of a vendor invoice and pockets the overpayment amount when it is returned to the company
 - Personal purchase schemes, which occur when an employee submits an invoice for personal purchases to the company for payment, or when an employee uses a company credit card for personal purchases

ACFE.org
- 5 Implement changes to address risk and possible fraud schemes.

the question - What fraud schemes would happen to us?



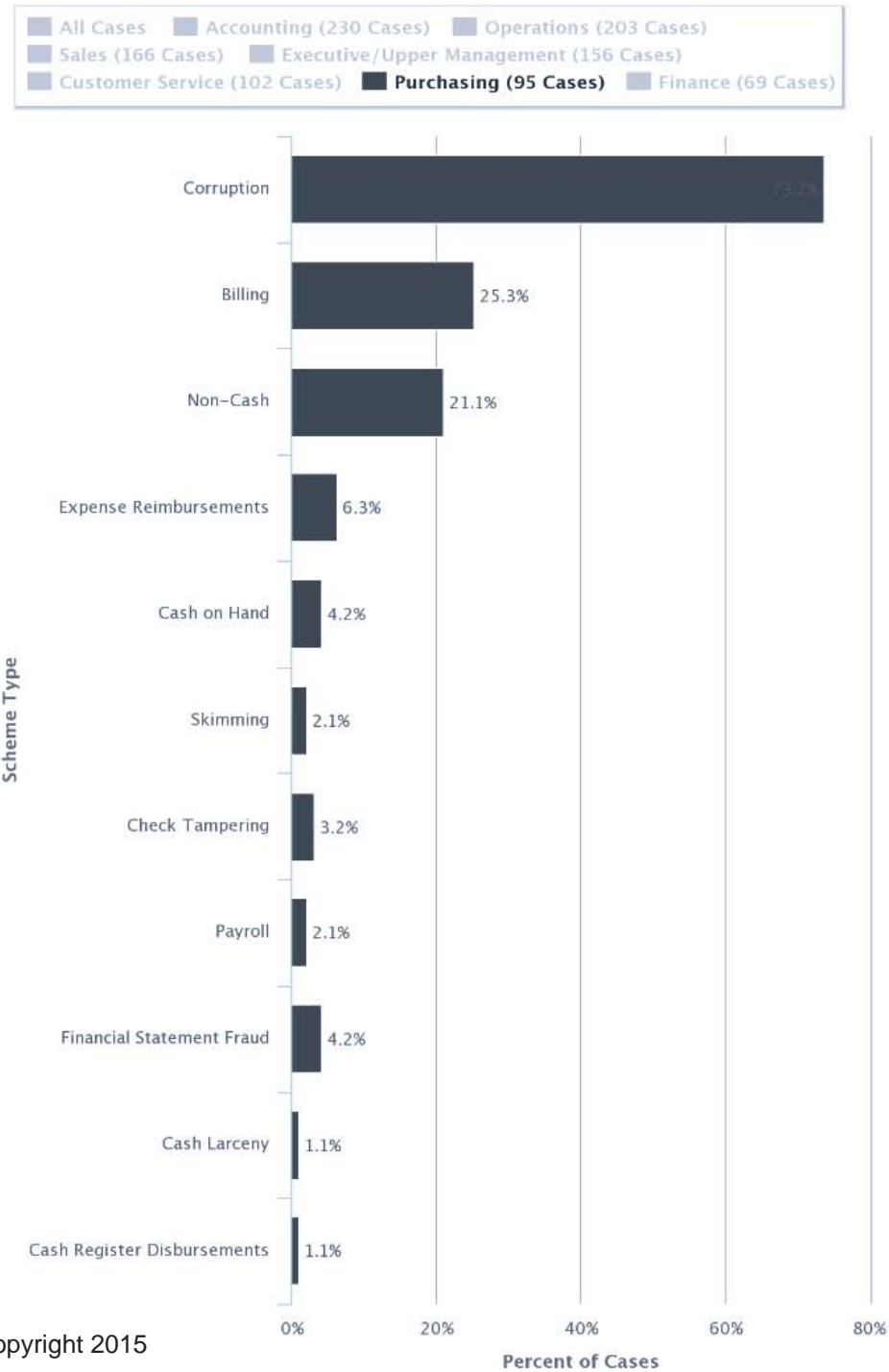
- Shell company schemes, which occur when an employee submits invoices for payment from a fictitious company controlled by the employee
- Pay-and-return schemes, which occur when an employee arranges for overpayment of a vendor invoice and pockets the overpayment amount when it is returned to the company
- Personal purchase schemes, which occur when an employee submits an invoice for personal purchases to the company for payment, or when an employee uses a company credit card for personal purchases

ACFE.org



Implementation changes to address risk and possible fraud schemes.

Frequency of Schemes Based on Perpetrator's Department



us?

- Shell company schemes, which occur when an employee submits invoices for payment from a fictitious company controlled by the employee
- Pay-and-return schemes, which occur when an employee arranges for overpayment of a vendor invoice and pockets the overpayment amount when it is returned to the company
- Personal purchase schemes, which occur when an employee submits an invoice for personal purchases to the company for payment, or when an employee uses a company credit card for personal purchases

ACFE.org



ges to address risk an

FIGURE 5: A New Fraud Diamond Emerges With a Common Element



Responding to Risk

① Perform a process risk assessment of purchasing.

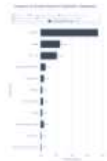
- Definition, rating scale, exercise

② Determine if processes and controls are in place to address high risk areas.

- Accounting risk
- Communications risk
- Contract risk
- HR risk
- Integrity risk
- Payment accuracy risk
- Vendor relations risk
- Payment timeliness risk
- Performance incentive risk
- Performance measurement risk
- Policies and procedures risk
- Segregation of duties risk
- ★ Systems risk

③ Analyze the "gaps" and determine needed improvements.

④ Ask the question - What fraud schemes could happen to us?



- Shell company schemes, which occur when an employee submits invoices for payment from a fictitious company controlled by the employee
- Pay-and-return schemes, which occur when an employee arranges for overpayment of a vendor invoice and pockets the overpayment amount when it is returned to the company
- Personal purchase schemes, which occur when an employee submits an invoice for personal purchases to the company for payment, or when an employee uses a company credit card for personal purchases

ACFE.org

⑤ Implement changes to address risk and possible fraud schemes.

Environment

Assessment



Appropriate Response

Combining an appropriate understanding of the environment - people, culture and processes, and risks with a pro-active assessment of that environment for opportunities for improvement.

Understanding People



It has been estimated that 70% of the value of a company is derived from its people. The success of a company is directly related to the quality of its people. Understanding people is essential to the success of a company. It is not enough to simply hire people; you must understand them. This includes understanding their needs, their motivations, and their strengths. Only then can you create an environment where they can thrive and contribute to the success of the organization.

Understand the right circumstances, with the right mix of people, to avoid common fraud!

Responding to People

- 1 Know the people you work with.
- 2 Know the red flags of fraud.
- 3 Know the relationships in place.

Responding to Organizational Culture

- 1 Consistent Enforcement of Policies and Procedures
- 2 Conflict of Interest Statements (Employee and Vendor)
- 3 Intentional, ongoing involvement and oversight of all purchasing activities.
- 4 Clear communication of whistleblower items.

Responding to Risk

- 1 Perform a process risk assessment of purchasing.
- 2 Determine if processes and controls are in place to address high risk areas.
- 3 Analyze the "gaps" and determine needed improvements.
- 4 Ask the question - What fraud schemes could happen to us?
- 5 Implement changes to address risk and possible fraud schemes.

Understanding Organizational Culture

According to Clavin and Yeager, "Criminal activities are located in organizational subcultures and values developed over time."

Alignment and Clash

Alignment: The organization's values and culture are consistent with the ethical requirements of the purchasing process.

Clash: The organization's values and culture are inconsistent with the ethical requirements of the purchasing process.

Understanding Risk

What is Risk?

Risk is the potential for loss or damage to an organization's assets, reputation, or operations. It is a function of the likelihood of an event occurring and the magnitude of the consequences if it does occur.

Risk Strategies

1. Avoidance: Eliminating the activity that creates the risk.

2. Reduction: Implementing controls to reduce the likelihood or magnitude of the risk.

3. Acceptance: Acknowledging the risk and accepting the consequences.

4. Transfer: Shifting the risk to another party, such as an insurer.

The Risk of Fraud in Purchasing

Ben Kohnle and Calvin Webb II

