

Fraud Happens: Practical Lessons in Prevention, Detection & Investigation

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What Size Companies Face the Most Fraud Risk?

- A) Less than 100 Employees
- B) 100 to 1000 employees
- C) 1000 to 10,000 employees
- D) Greater than 10,000 employee



The Data

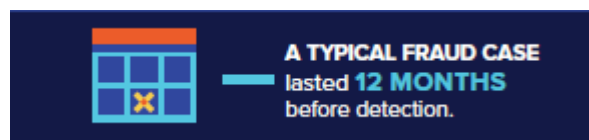
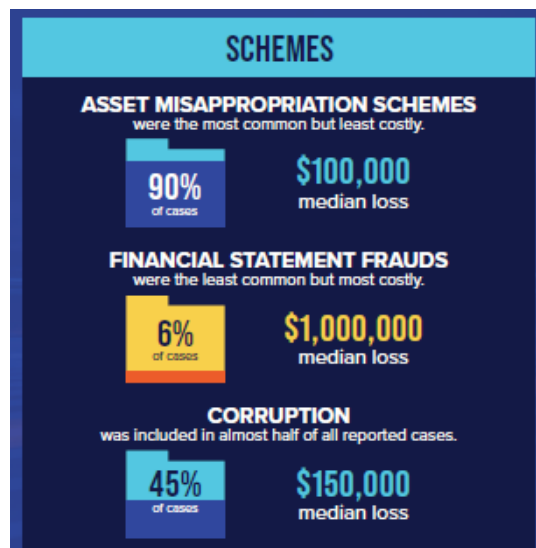


FIG. 26 What are the most common occupational fraud schemes in various industries?

Industry	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Banking and financial services	437	13%	10%	17%	13%	41%	7%	4%	17%	5%	3%	8%
Government and public administration	217	19%	13%	6%	10%	48%	11%	6%	18%	15%	2%	7%
Manufacturing	192	21%	5%	4%	9%	61%	15%	7%	41%	8%	1%	3%
Health care	140	32%	6%	7%	10%	44%	14%	6%	17%	11%	2%	8%
Retail	110	19%	10%	15%	9%	40%	10%	6%	39%	7%	11%	20%
Construction	92	35%	13%	8%	13%	50%	11%	5%	23%	11%	1%	9%
Technology	89	19%	6%	8%	7%	64%	15%	3%	25%	9%	0%	1%
Energy	89	20%	6%	6%	4%	58%	18%	6%	29%	8%	4%	10%
Education	82	30%	6%	20%	7%	34%	28%	2%	20%	21%	4%	16%
Religious, charitable, or social services	82	27%	10%	10%	15%	37%	24%	1%	15%	10%	2%	13%
Transportation and warehousing	76	24%	1%	3%	1%	54%	12%	4%	30%	4%	0%	7%
Insurance	76	20%	3%	4%	13%	46%	11%	8%	8%	14%	0%	5%
Food service and hospitality	53	30%	6%	11%	19%	45%	25%	11%	28%	19%	6%	15%
Agriculture, forestry, fishing, and hunting	52	35%	15%	13%	15%	65%	21%	13%	35%	15%	4%	12%

Less risk

More risk

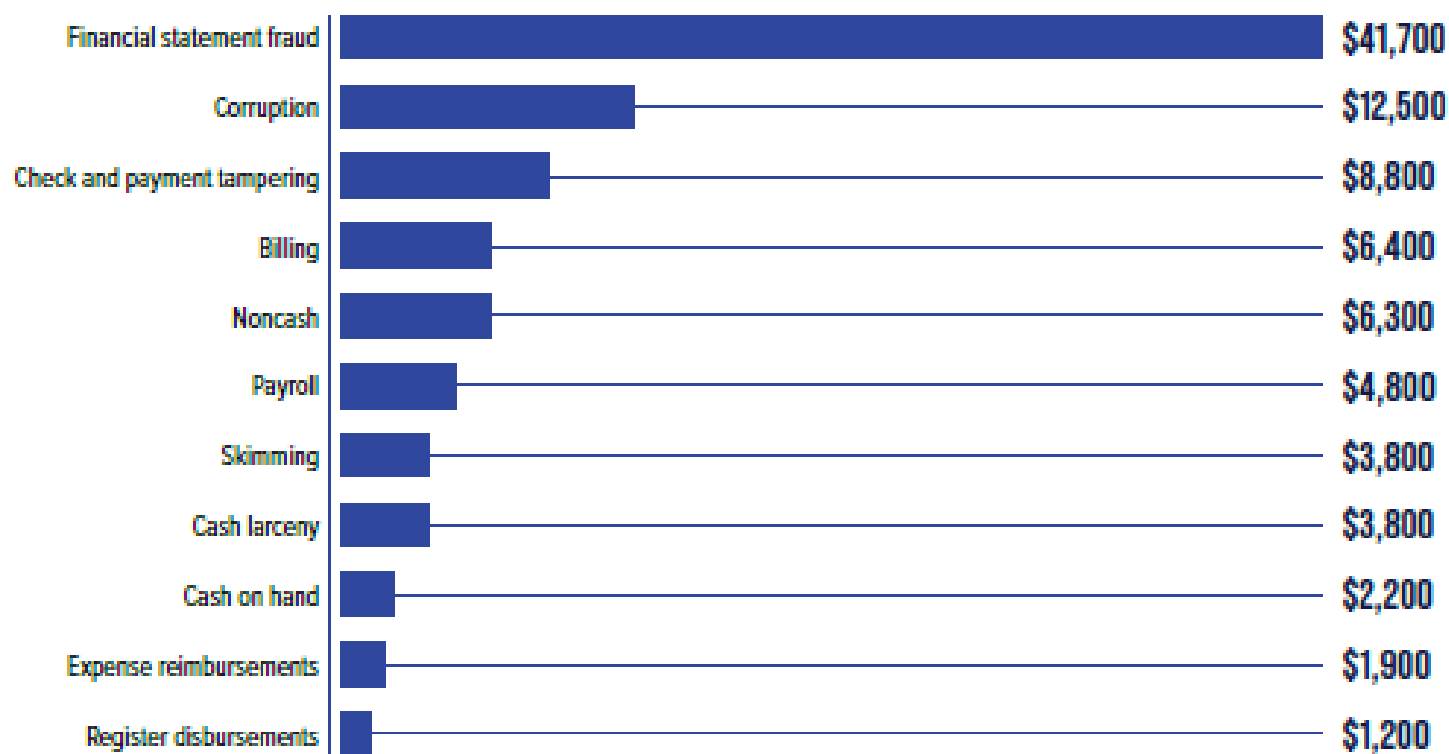
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The Data (continued)

FIG. 9 What is the typical velocity (median loss per month) of different occupational fraud schemes?



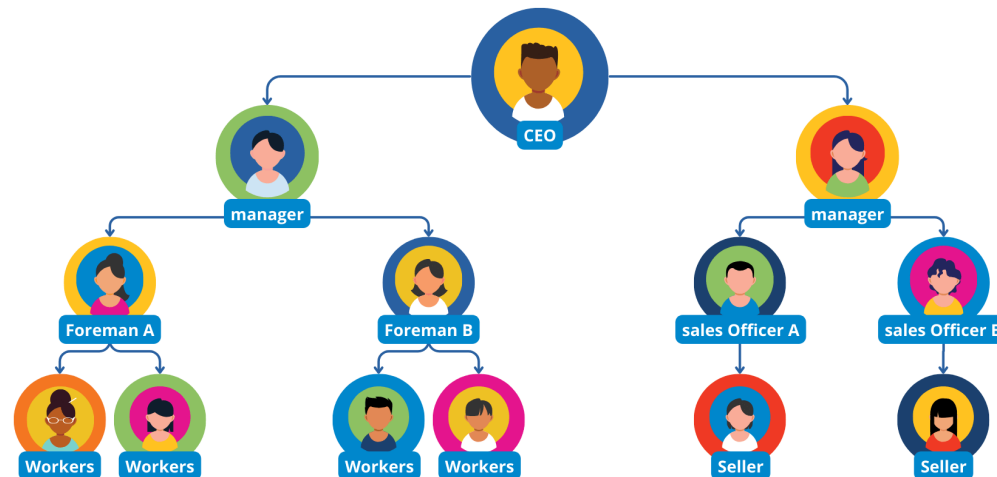
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What Type of Employee Poses the Most Risk?

- A) New Employee (less than one-year)
- B) Post Probationary (one to three years)
- C) Senior Employee (more than three years)

chrmp

Organizational Chart



Understanding the Typical Fraudster



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FRAUD IN THE HEADLINES

RECENT CASES AFFECTING ARCHITECTURE & ENGINEERING FIRMS

NEWS SOURCE: U.S. DEPARTMENT OF JUSTICE

MARCH 6, 2025



BUSINESS OWNER PLEADS GUILTY IN FRAUD CONSPIRACY OVER ALLEGED \$4.8 MILLION IN UNFINISHED CUSTOM HOMES

The owner of a custom home building business pleaded guilty to conspiracy to commit wire fraud for allegedly defrauding customers out of more than \$4.8 million by accepting payments for construction projects that were never completed.



CUSTOM HOME BUILDER
U.S. BASED

2022 – 2025

KEY LESSON:

Misrepresenting project status and misusing customer funds can lead to severe criminal and financial consequences.

NEWS SOURCE: U.S. DEPARTMENT OF JUSTICE

JANUARY 13, 2023



STRUCTURAL ENGINEERING FIRM PRINCIPAL PLEADS GUILTY TO MULTIPLE FRAUD SCHEMES

The principal of a structural engineering firm pleaded guilty to bank fraud, honest services fraud, tax evasion, and falsifying records. He defrauded clients of more than \$775,000 and diverted over \$718,000 from the firm.



STRUCTURAL ENGINEERING FIRM
U.S. BASED

2017 – 2021

KEY LESSON:

Compliance fraud can lead to significant financial, legal, and public safety risks.

NEWS SOURCE: U.S. DEPARTMENT OF JUSTICE

JANUARY 22, 2025



ENGINEERING FIRM EXECUTIVES CHARGED IN BRIBERY SCHEME INVOLVING CITY OFFICIALS

Three executives of an engineering and design firm were charged with conspiring to pay bribes to city officials in exchange for expedited permits and inspections.



ENGINEERING & DESIGN FIRM
U.S. BASED

2018 – 2024

KEY LESSON:

Bribery and corruption can destroy a firm's reputation and result in criminal penalties.



Different firms. Different schemes. One common theme:

CONTROL FAILURES CREATE OPPORTUNITY.

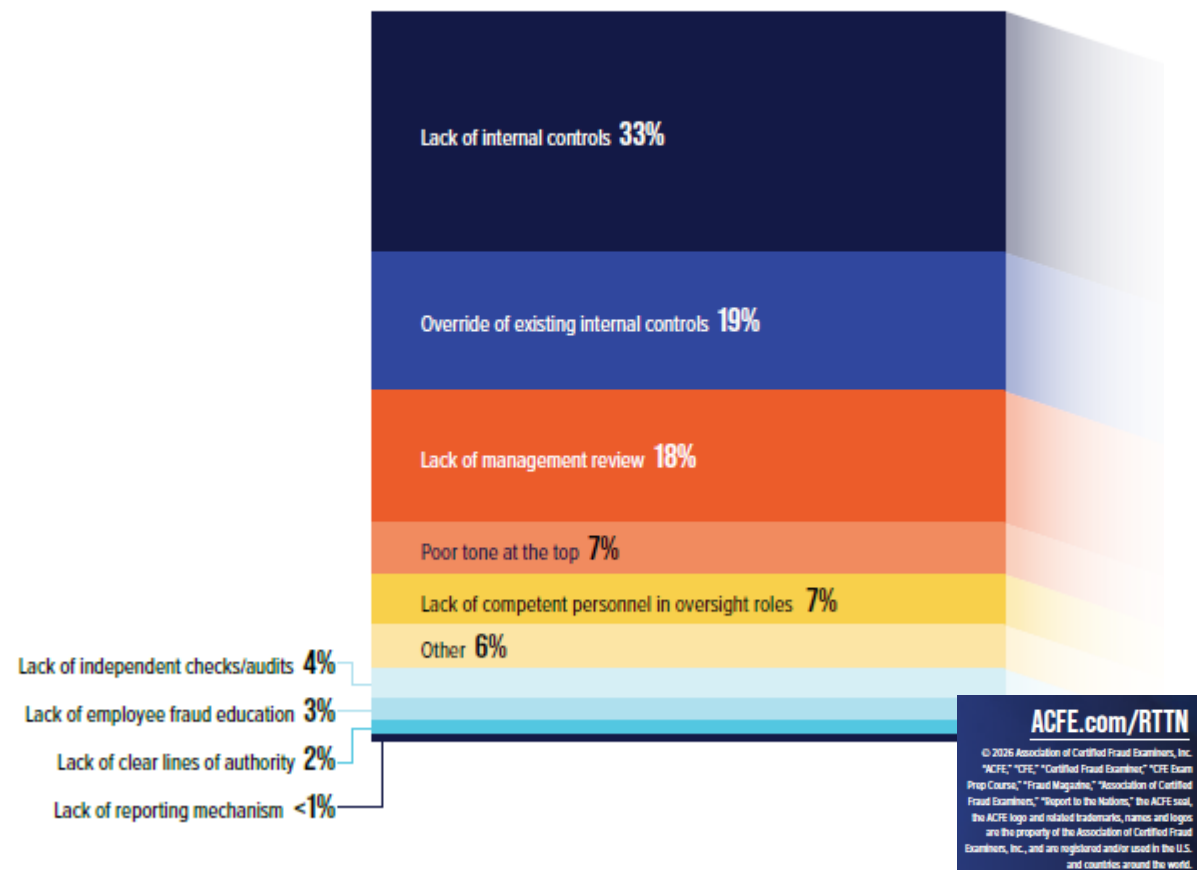
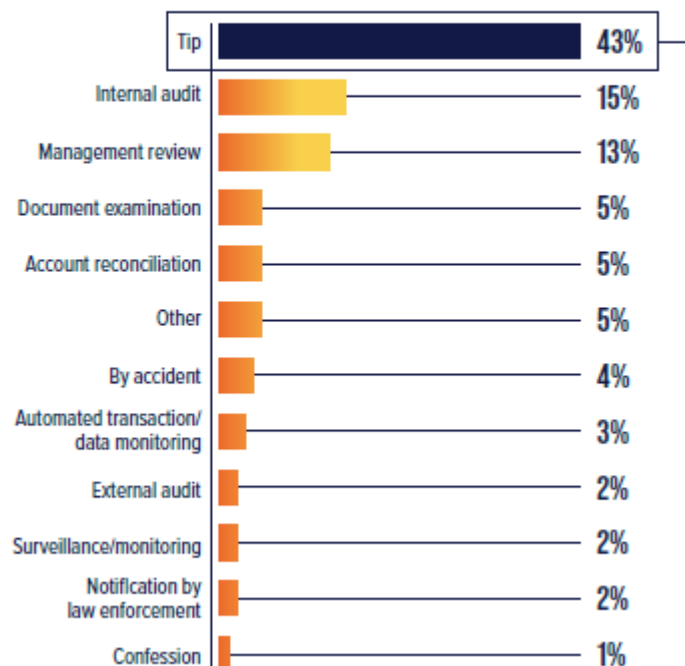
False Claims Act (“FCA”)

- The FCA provides that any person who knowingly submits, or causes to submit, false claims to the government is liable for three times the government’s damages plus a penalty that is linked to inflation.
 - Boston Central Artery Tunnel Project
 - Aggregate Industries
 - McCourt Construction
 - Powers Fasteners

Detection & Prevention: What Actually Works

FIG. 37 What are the primary internal control weaknesses that contribute to occupational fraud?

FIG. 13 How is occupational fraud initially detected?



Fraud Happens, Now What?



Inside an Investigation

- Meeting between lawyer and forensic accountant
 - Background on the case
 - Consultant vs expert
- Consider insurance
- Obtain and analyze data
 - Vendor and employee address or bank account matches
 - Weekend, holiday, or after-hours transactions
 - Payments just below approval thresholds
 - New vendors with rapid or unusually large payments
 - Employee expense and payroll anomalies
- Make a decision on accountability and restitution
 - Civil
 - Criminal



Key Takeaways & Best Practices

KEY TAKEAWAYS

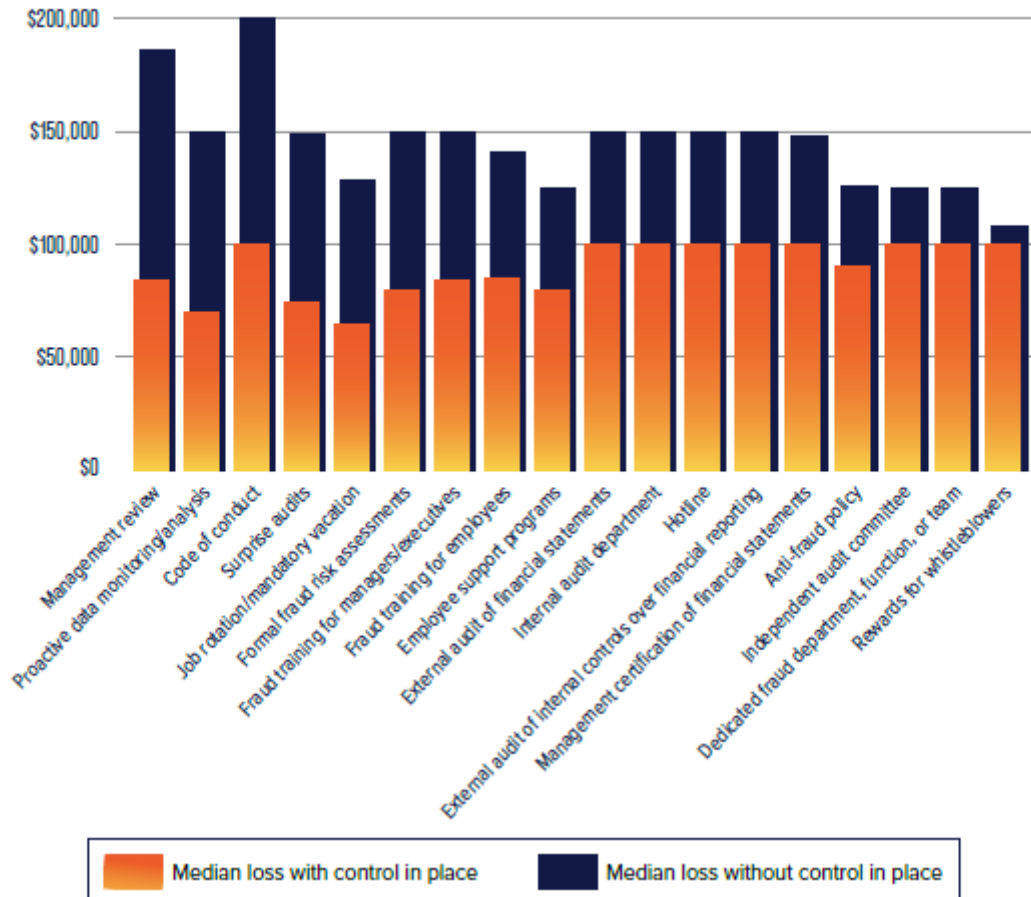
- 1 Fraud can affect organizations of every size and may continue for months before it is detected.
- 2 Asset misappropriation is most common; financial statement fraud is less common but significantly more costly.
- 3 Trusted, longer-tenured employees and managers may create greater exposure because of their access and control knowledge.
- 4 Tips are the leading detection method, while weak controls, management override, and limited review create opportunity.
- 5 The impact extends beyond financial loss to legal penalties, reputational damage, and operational disruption.

BEST PRACTICES

- 1 Set a strong tone at the top through ethical leadership, clear accountability, and recurring fraud-awareness training.
- 2 Provide confidential reporting channels, communicate how to use them, and prohibit retaliation against reporters.
- 3 Use segregation of duties, dual approvals, vendor due diligence, reconciliations, access controls, and multifactor authentication.
- 4 Monitor red flags such as vendor-employee matches, off-hours activity, threshold splitting, unusual vendors, and expense or payroll anomalies.
- 5 Follow a defined response protocol: assess, preserve, assemble, investigate, remediate, and monitor for recurrence.

Moving the Needle

FIG. 28 How does the presence of anti-fraud controls relate to median loss?



Control	Percent of cases	Control in place	Control not in place	Percent reduction
Management review	71%	\$84,000	\$186,000	55%
Proactive data monitoring/analysis	49%	\$70,000	\$150,000	53%
Code of conduct	88%	\$100,000	\$200,000	50%
Surprise audits	44%	\$74,000	\$149,000	50%
Job rotation/mandatory vacation	27%	\$65,000	\$128,000	49%
Formal fraud risk assessments	51%	\$80,000	\$150,000	47%
Fraud training for managers/executives	66%	\$84,000	\$150,000	44%
Fraud training for employees	67%	\$85,000	\$141,000	40%
Employee support programs	63%	\$80,000	\$125,000	36%
External audit of financial statements	83%	\$100,000	\$150,000	33%
Internal audit department	80%	\$100,000	\$150,000	33%
Hotline	73%	\$100,000	\$150,000	33%
External audit of internal controls over financial reporting	72%	\$100,000	\$150,000	33%
Management certification of financial statements	76%	\$100,000	\$148,000	32%
Anti-fraud policy	65%	\$90,000	\$126,000	29%
Independent audit committee	69%	\$100,000	\$125,000	20%
Dedicated fraud department, function, or team	54%	\$100,000	\$125,000	20%
Rewards for whistleblowers	14%	\$100,000	\$108,000	7%

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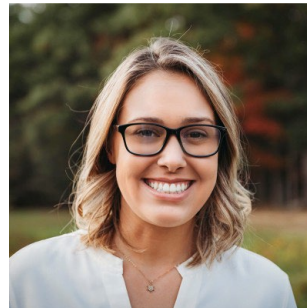
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