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Putting a Face to the Fraud

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What do fraudsters look like? Do they dress, act, or talk a certain way?

In the Association of Certified Fraud Examiners' ("ACFE") 2018 *Report to the Nations*, the ACFE explores common characteristics and risk profiles for those who commit occupational fraud.

The ACFE's findings are based on a study of 2,690 cases of occupational fraud that were investigated between January 2016 and October 2017. The following is a summary of some of the key characteristic findings reported on by the ACFE.

Position in an organization – Owners and executives committed only 19% of the frauds studied; however, the median loss by these individuals was $850,000.

Fraud loss caused by *owners and executives* is almost six times larger than the median loss by managers. *Managers* committed 34% of the frauds and caused a median loss of $150,000. *Lower-level employees* accounted for 44% of the frauds and a median loss of $50,000.

This data shows how strong a factor the perpetrator's position level is in their ability to commit sizeable frauds. The ACFE reported that a significant correlation between authority and fraud loss has been acknowledged in every report going back to 1996.

Tenure – Losses from fraud typically increase with the length of the perpetrator's tenure at the organization. Fraudsters with less than one year at their organization were responsible for a median loss of $40,000, while fraudsters with over ten years caused a median loss of $241,000.

Gender – 69% of fraud perpetrators were male. The median loss attributed to men was $156,000 and $89,000 to women. Historical studies have all shown that fraudsters tend to be male and that men are responsible for larger fraud losses.

Age – Median fraud losses of $480,000 were the largest and seen in the study's second oldest age range of 56 to 60. The next largest median loss was $355,000 which was caused by those older than 60. Median loss related to those 25 years of age and younger was $23,000.

Education – The data indicates that more-educated perpetrators may be more effective at committing fraud. Education is also correlated with authority, which has already been shown to increase the extent of losses due to fraud. Fraudsters with a postgraduate degree were responsible for 14% of frauds with a median loss of $230,000, while those with a high school diploma or less were responsible for 24% of frauds and a median loss of $75,000. Those with a university degree committed 47% of the frauds and caused a median loss of $160,000.

Collusion – About 50% of cases investigated involved collusion among multiple fraudsters. Fraud losses increased with the number of perpetrators involved. For example, 52% of the cases involved one perpetrator causing a median loss of $74,000 and 30% of the cases involved three or more perpetrators causing a median loss of $339,000.

Behavioral traits can also present themselves as warning signs. The six most frequently identified behaviors displayed by fraudsters were: living beyond means; financial difficulties; unusually close association with a vendor or customer; excessive control issues or unwillingness to share duties; recent divorce or family problems; and a general “wheeler-dealer” attitude. Read more about the warning signs of fraud in *“If You’re Waiting for a Sign, This Might Be It – Six Behavioral Red Flags of Fraud."*

Should you identify fraud, or have concerns of fraud occurring in your organization, contact Joel Rosenthal at 412.697.5387 or jrosenthal@sdcpa.com or Alyssa Brunatti at 412.697.5371 or abrunatti@sdcpa.com to see how we can help you address those risks.

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