

# GAO Topic of the Month – September 2024

## Occupational Fraud – Initial Detection



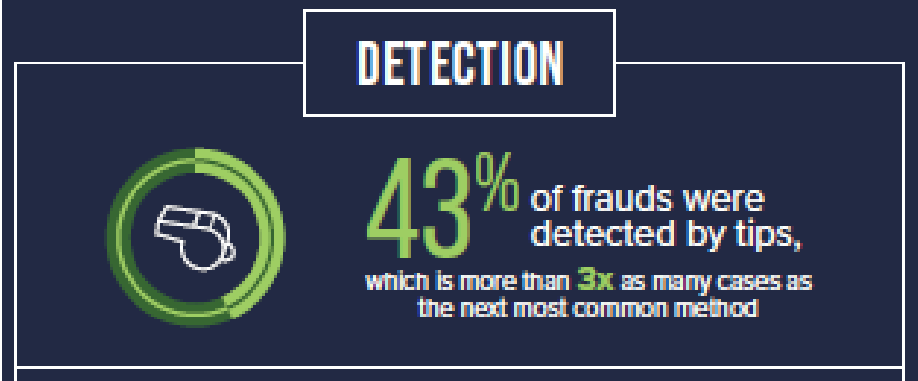
### Background

In May 2024, GAO presented Occupational Fraud as the Topic of the Month. This topic introduced the concept of Occupational Fraud and defined the three (3) different types of Occupational Fraud; asset misappropriation, corruption, and financial statement fraud. It also provided some real world examples on the three different types of occupational fraud and further identified how each fraud type is committed, the frequency of occurrence and cost of each fraud type, who commits the fraud, and how the fraud can be prevented and detected.

The more we know about occupational fraud the more we know where and what to look out for. Please review the May 2024 Topic of the Month for more background information on Occupational Fraud. More specifically, it is important that you understand the concepts of the Fraud Tree, The Fraud Triangle (identifies the factors that cause employees to commit fraud), as well as some common behavioral red flags so that you know what to look for when reporting the different types of occupational fraud.

Continuing on our topic of Occupational Fraud, this month’s topic will address Occupational Fraud – *Initial Detection*, which is the tip of the iceberg when it comes to identifying, reporting, and ultimately combatting occupational fraud. Before we dive into the data, ask yourself how is fraud initially detected at your agency?

### How is Occupational Fraud Initially Detected?



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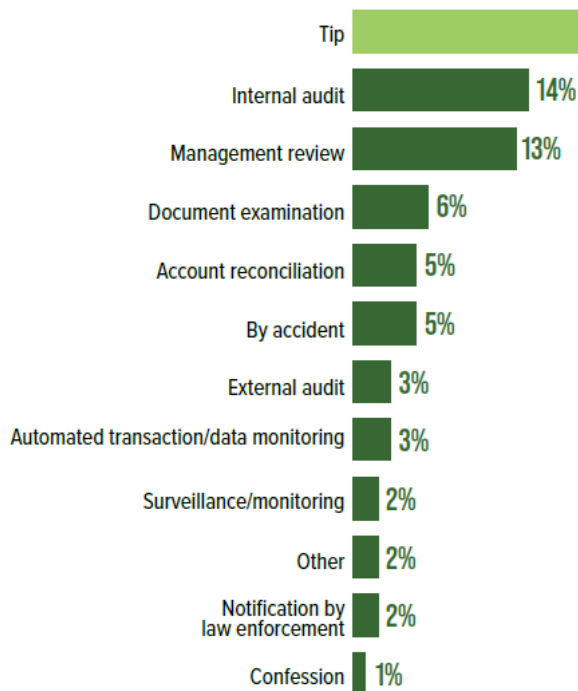
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Tips are the most common form of detection at 43%, which is approximately 30% higher than the next highest detection method, Internal Audit at 14%. Since tips are the most common form of detection, it is beneficial to understand who submits these tips.

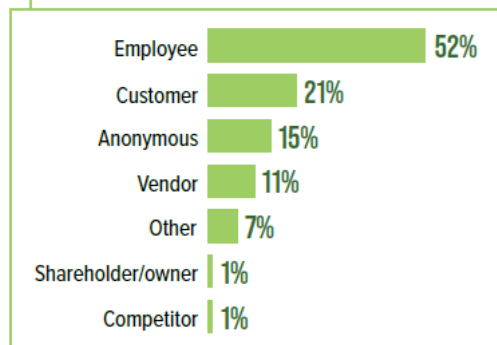
### Who Reports Occupational Fraud?

More than half of Tips come from employees at 52%, followed by customers at 21% and vendors at 11%, respectively. This reinforces the importance of providing and communicating reporting mechanisms to both internal and external parties.

**FIG. 13 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?**



**FIG. 14 WHO REPORTS OCCUPATIONAL FRAUD?**



### Fraud Awareness Training

In order for employees to report fraud, they need to be aware of what is fraud. The next chart illustrates the importance of providing fraud awareness training to staff at all levels of the organization. Providing training to staff at all levels of an organization is a vital part of a comprehensive anti-fraud program. For example, the chart below indicates that 67% of employees who reported fraud had received formal fraud awareness training and that tips are 2x as likely to come from employees who received formal fraud training. Quite simply, organizations that do not provide fraud awareness training lose 2x more than organizations that do.

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### 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.

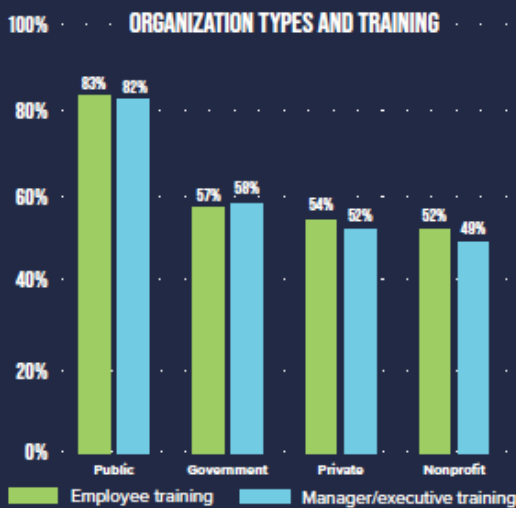
#### A GROWING PERCENTAGE OF ORGANIZATIONS ARE PROVIDING FRAUD AWARENESS TRAINING FOR THEIR STAFF



Organizations that **DID NOT PROVIDE** fraud awareness training lost nearly **2X MORE**.



#### 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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### Conclusion

Employees are one of your strongest and most valuable tools to report actions and behaviors that look suspicious. They are the largest group that will prevent, detect, and report fraud at your agency. Most of the time when fraud has been prevented, it is because of an employee's deliberate action to question and not perform the action that the fraudster (internal or external) wanted to occur. This may include bypassing existing internal controls, processing payments or wires, sending approvals, changing banking information, forwarding emails, opening attachments, etc. Fraud can occur in a number of different areas and therefore, should be included as a regular part of your agency's discussions regarding policies, procedures, and processes. Because frauds change and evolve over time, your agency's internal controls should be evaluated and tested periodically to make sure they are appropriate, working sufficiently, and do not need to be updated as circumstances change.

As the largest group at your agency to detect, prevent and report fraud, it is critical that all employees receive fraud awareness training so they know what to look for, as well as, where and how to report it. As the data has indicated, fraud training should occur at all levels of an organization (agency) to include managers, employees, executives, etc. It should not be limited to just finance or accounting personnel and include both administrative and operational staff. The more eyes and ears looking for and aware of potential fraud, the better the chance the fraud can be prevented before it occurs, and detected if it does occur, to minimize the amount and frequency of occurrence.

Agencies should consider having and maintaining an agency specific reporting mechanism (e.g. a website, email, hotline phone number, etc.), policies, and processes. Employees are your agency's best resource to question an action or process as it occurs in order to prevent fraud from occurring in the first place. In these situations, internal discussions and proper internal controls could potentially prevent fraud from occurring if the employee knows what to look for, is able to raise their concerns timely, and take appropriate action (or lack of action if appropriate).

An agency-specific reporting mechanism will allow for the fastest potential agency response. All agencies should consider what actions will be taken when fraud is reported and/or found. While the GAO Report Fraud mailbox collects reports of fraud to help facilitate communication with others as necessary and collect information for proper statewide financial reporting, the GAO does not conduct fraud investigations. If fraud is reported pertaining to a particular agency, the agency will still need to conduct and/or coordinate any necessary investigation and corrective actions, including involving the appropriate law enforcement agencies if needed.

In most cases, the agency must conduct the initial fraud investigation. Therefore, it is necessary to understand your resources and expertise, and develop plans of actions before finding yourself in a situation where immediate action is required.

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Regardless of the status of your agency's reporting mechanism, all employees should be trained on the proper reporting mechanisms and responsibilities, both agency-specific and statewide (i.e. [reportfraud@azdoa.gov](mailto:reportfraud@azdoa.gov)).

### Resources

- [2024 Report to the Nations](#), Occupational Fraud 2024: A Report to the Nations. Copyright 2024 by the Association of Certified Fraud Examiners, Inc.
- SAAM Topic 05, *Internal Controls*
- SAAM 0530 - *Fraud, Theft, Waste, and Abuse*
- [GAO Topics of the Month](#) (May 2024 – *Occupational Fraud*, January 2024 - *Reporting Fraud*, October 2023 - *Internal Controls*)
- “Occupation Fraud.” *Florida Atlantic University College of Business*, <https://business.fau.edu/centers/center-for-forensic-accounting/public-resources-on-fraud/fraud-in-businesses-and-non-profits/occupation-fraud/>. Accessed 14 May 2024.”
- “What is Occupational Fraud and How to Prevent it?”, *NSKT Global*, March 4, 2024, <https://www.nsktglobal.com/usa/blog/what-is-occupational-fraud-and-how-to-prevent-it>