



White Paper

The Role of Automated Account Reconciliation in Fighting Occupational Fraud



Fiserv White Paper

While enterprise fraud detection strategies may focus primarily on external threats, an even greater threat may come from within. Occupational fraud – committed by an organization’s officers, directors or employees – costs businesses an estimated \$4 trillion annually. With the right combination of internal controls such as automated account reconciliation and audits, however, organizations can effectively win the fight against occupational fraud.

In its Report to the Nations: 2018 Global Study on Occupational Fraud and Abuse, the Association of Certified Fraud Examiners provided an in-depth analysis of occupational fraud cases around the world. The study examined 2,690 cases of occupational fraud from January 2016 to October 2017, with input from more than 2,000 Certified Fraud Examiners (CFE).

Financial Statement Fraud Leads in Financial Losses

Based on CFE estimates, the study concluded that organizations may be losing up to 5 percent of their annual revenues to occupational fraud. This amounts to a potential loss of up to \$4 trillion annually worldwide.

Common occupational fraud schemes are classified into three categories:

Financial Statement Fraud

Financial statement fraud includes schemes in which employees intentionally cause misstatements or omissions of material information in financial reports. It can include recording fictitious revenue, understating reported expenses or artificially inflating reported assets.

The study found financial statement fraud to be the least common but most costly form of occupational fraud, occurring in 10 percent of all fraud cases reviewed. Organizations incurred a median loss of \$800,000 per case.

Asset Misappropriation

This type of fraud occurs when an employee steals or misuses business resources. It may include theft of cash, inflated expense reports or false billing schemes. The study found that asset misappropriations were the most common but least costly form of occupational fraud, occurring in 89 percent of cases with a median loss of \$114,000.

Corruption

Corruption schemes occur when an employee exerts their influence in business transactions for direct or indirect personal benefit in ways that violate their duty to an employer. It includes bribery and conflicts of interest. The study found that corruption schemes made up 38 percent of occupational fraud cases with a median loss of \$250,000.

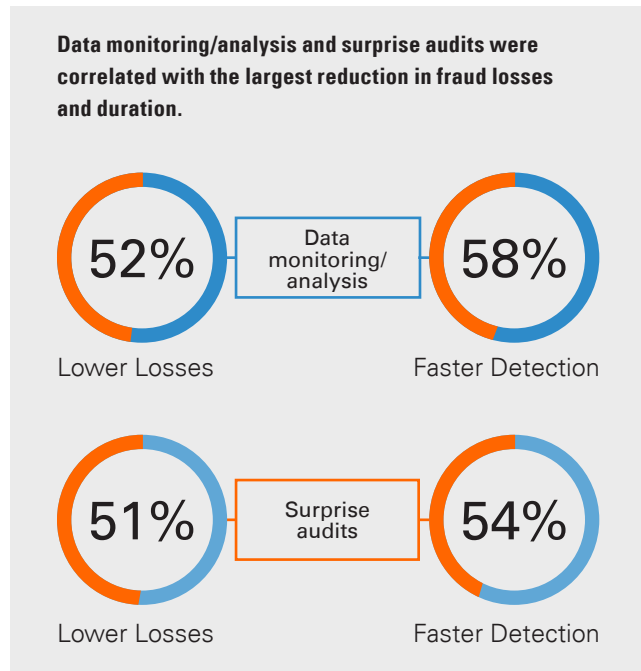
Across industries, financial services organizations reported the highest number of occupational fraud cases with a median loss of \$110,000. Employees in accounting, finance and upper management were the most likely to commit financial statement fraud at 13 percent, 16 percent and 30 percent respectively. Some companies received monetary fines for lacking adequate controls or allowing the fraud to occur.

Financial statement fraud is the least common but most costly occupational fraud scheme, with a median loss of \$800,000.

– Report to the Nations: 2018 Global Study on Occupational Fraud and Abuse, Association of Certified Fraud Examiners

Detection Tools Make a Difference

According to the study, occupational fraud schemes that lasted 60 months or longer were 20 times more costly than schemes that were stopped within the first six months. The study concluded that active fraud detection methods such as data monitoring and analysis are more effective than passive methods such as accidental discovery. Organizations that used data monitoring and analysis reported 58 percent faster detection and 52 percent lower financial losses.

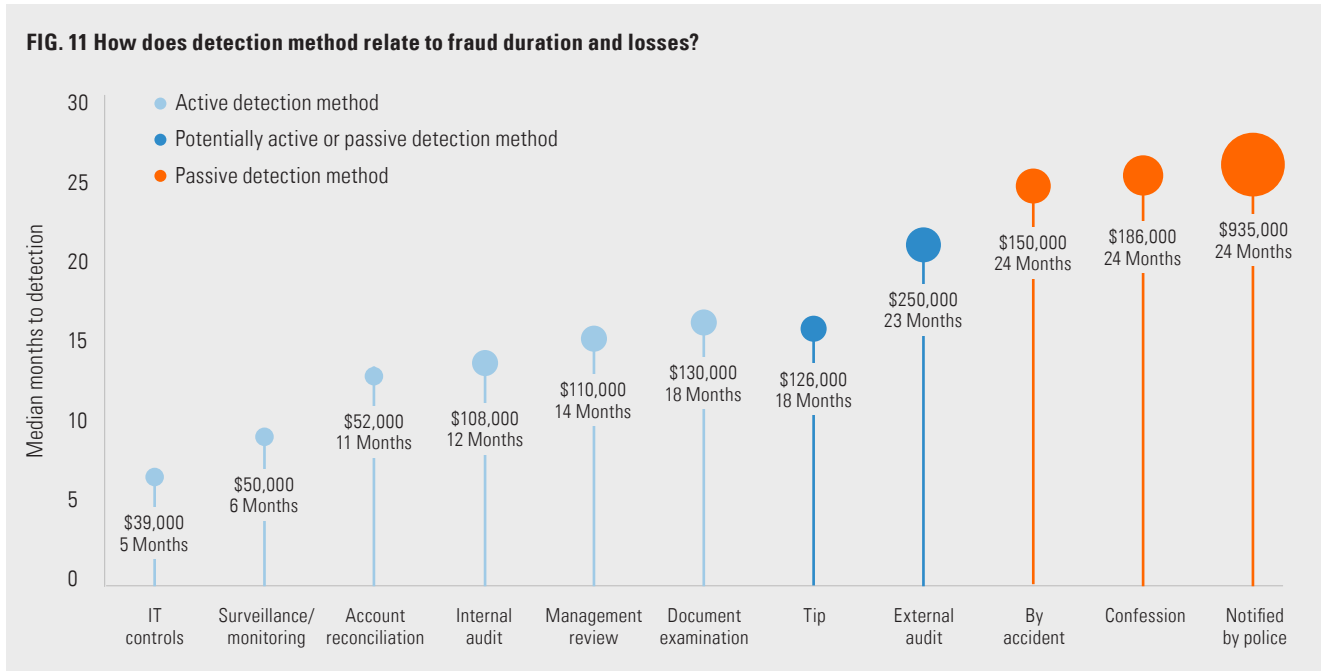


Source: Report to the Nations: 2018 Global Study on Occupational Fraud and Abuse, the Association of Certified Fraud Examiners

“A key takeaway from this data is that organizations can reduce the impact of fraud by pursuing internal controls and policies that actively detect fraud, such as thorough management review, account reconciliation and surveillance/monitoring. Organizations that do not actively seek out fraud are likely to experience schemes that continue for much longer and at a higher cost,” the study concluded.

Some active detection methods worked better than others. The study found that fraud detected by account reconciliation lasted an average of 11 months, at a cost of \$52,000 per case, while fraud detected by manual document examination lasted an average of 18 months, at a cost of \$130,000.

FIG. 11 How does detection method relate to fraud duration and losses?



Source: Report to the Nations: 2018 Global Study on Occupational Fraud and Abuse, Association of Certified Fraud Examiners

The Case for Automated Reconciliation

Automated account reconciliation and certification have been recognized as an effective component of an internal fraud control program mandated under the Sarbanes-Oxley Act of 2002 and Federal Deposit Insurance Corporation (FDIC) regulations. The case for implementing an automated account reconciliation and certification system is further bolstered by the Association of Certified Fraud Examiners report, which found that weak internal controls were responsible for nearly 50 percent of all the fraud cases.

In 30 percent of the cases, a lack of internal controls was the main factor that enabled fraud to occur; 19 percent of cases occurred because the perpetrator was able to override the controls that had been put in place.

Automated reconciliation and certification solutions offer precisely the added controls that would have enabled faster detection or prevented the fraud cases analyzed in the report. They provide transaction-level details, introduce automated workflow processes that minimize errors and data manipulation, and provide a full audit trail for both internal and external analysis.

The detailed audit trail capabilities found in robust account reconciliation solutions effectively identify five of the top eight fraud concealment methods, which include:

- Creation of fraudulent transactions in the accounting system
- Alteration of transactions in the accounting system
- Alteration of electronic documents or files
- Creation of fraudulent electronic documents or files
- Creation of fraudulent journal entries

Moreover, these systems provide the financial team, including managers who sign off on financial statements, complete visibility into the underlying financial data, making it easier to identify and resolve exceptions.

Be Prepared with the Right Mix of Fraud Solutions

Occupational fraud costs businesses trillions of dollars each year and is often preventable with the right internal controls. A proven enterprise reconciliation and certification solution, in concert with audits, management reviews and employee fraud education, can prevent and detect fraud while helping organizations meet regulatory requirements.

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Frontier™ Reconciliation

Frontier Reconciliation from Fiserv is an end-to-end reconciliation and certification solution that provides a complete account reconciliation view across your enterprise. It makes exceptions instantly visible and reduces manual interventions, helping to provide early detection and prevention of occupational fraud. Frontier Reconciliation strengthens internal controls, minimizes the risk of financial misstatements and allows all financial data to be traced to the source. Availability of a detailed audit trail helps organizations meet stringent audit requirements.

Connect With Us

For more information about Frontier Reconciliation call 800-872-7882, email getsolutions@fiserv.com or visit www.fiserv.com.

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