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INTRODUCTION

In April 2020, the ACFE released the 2020 Report to the Nations, the latest in our global studies on the costs and effects of occupational fraud (i.e., fraud committed by individuals against the organizations that employ them). The 2020 global study examined 2,504 cases of occupational fraud reported from 125 countries throughout the world—including 95 cases that occurred in Eastern Europe and Western/Central Asia. This supplemental report focuses more closely on these 95 cases, providing a deeper view into the ways that these frauds were perpetrated, the means by which they were detected, the demographic characteristics of the victim organizations, the profiles of the perpetrators, and the results of the cases after the frauds were discovered. We hope this report will be useful to anti-fraud professionals and organizations throughout Eastern Europe and Western/Central Asia as they design and implement their programs to protect against the harms of occupational fraud.
HOW OCCUPATIONAL FRAUD IS COMMITTED

Our study examined the methods by which occupational fraudsters in Eastern Europe and Western/Central Asia perpetrate their schemes.
WHAT ARE THE MOST COMMON OCCUPATIONAL FRAUD SCHEMES IN EASTERN EUROPE AND WESTERN/CENTRAL ASIA?

HOW OCCUPATIONAL FRAUD IS COMMITTED IN EASTERN EUROPE AND WESTERN/CENTRAL ASIA?

- **Asset misappropriation**: 78%
- **Corruption**: 61%
- **Financial statement fraud**: 10%

**Median Loss**
- **$112,000**
- **$200,000**

*Median loss calculation omitted for categories with fewer than ten cases.*

**HOW OCCUPATIONAL FRAUD IS COMMITTED**

- **Corruption**: 61%
- **Noncash**: 22%
- **Billing**: 17%
- **Cash on hand**: 13%
- **Financial statement fraud**: 10%
- **Skimming**: 8%
- **Expense reimbursements**: 7%
- **Cash larceny**: 7%
- **Payroll**: 5%
- **Check and payment tampering**: 4%
- **Register disbursements**: 1%
DETECTION

Our study revealed how occupational frauds are most often detected in Eastern Europe and Western/Central Asia, as well as insights on how fraud reporting hotlines and employee training can improve detection.
TIPS ARE BY FAR THE MOST COMMON DETECTION METHOD

HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?

<table>
<thead>
<tr>
<th>Tip</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tip</td>
<td>51%</td>
</tr>
<tr>
<td>Internal audit</td>
<td>14%</td>
</tr>
<tr>
<td>Management review</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
<tr>
<td>Surveillance/monitoring</td>
<td>4%</td>
</tr>
<tr>
<td>Document examination</td>
<td>3%</td>
</tr>
<tr>
<td>Account reconciliation</td>
<td>3%</td>
</tr>
<tr>
<td>Notified by law enforcement</td>
<td>2%</td>
</tr>
<tr>
<td>IT controls</td>
<td>2%</td>
</tr>
<tr>
<td>External audit</td>
<td>2%</td>
</tr>
<tr>
<td>By accident</td>
<td>2%</td>
</tr>
<tr>
<td>Confession</td>
<td>1%</td>
</tr>
</tbody>
</table>

THE TOP 3 SOURCES OF TIPS WERE:

- Employees: 45%
- Customers: 26%
- Vendors: 11%
Detection by tip was twice as likely at large organizations.

**Effectiveness of hotlines**

- **Median Loss**
  - Without hotlines: $100,000
  - With hotlines: $300,000

- **Median Duration**
  - Without hotlines: 15 months
  - With hotlines: 21 months

Tips submitted through hotline or formal reporting mechanisms were completely absent without employee training.

**Detected by Tip**

- **Substantially Higher at Organizations with Hotlines**
  - 57% of cases detected by tip
  - 32% of cases detected by tip

**Whistleblowers used a variety of reporting mechanisms**

- Web-based/online form: 33%
- Mailed letter/form: 33%
- Email: 17%
- Telephone hotline: 11%
VICTIM ORGANIZATIONS

To gain a better understanding of the victim organizations in Eastern Europe and Western/Central Asia, we asked respondents to provide information about the victim’s type, size, schemes, and industry.
PRIVATE COMPANIES EXPERIENCED THE MOST CASES, WHILE PUBLICLY TRADED COMPANIES SUFFERED THE GREATEST MEDIAN LOSS.

THE TOP SCHEMES IN SMALL AND LARGE ORGANIZATIONS WERE:

**<100 EMPLOYEES**

- Corruption: 56%
- Billing: 39%
- Payroll: 28%
- Noncash: 28%
- Cash on hand: 22%

**100+ EMPLOYEES**

- Corruption: 62%
- Noncash: 20%
- Billing: 12%
- Cash on hand: 11%
- Financial statement fraud: 9%

*Median loss calculation omitted for categories with fewer than ten cases.*
WHAT INDUSTRIES WERE VICTIMIZED MOST OFTEN BY OCCUPATIONAL FRAUD IN EASTERN EUROPE AND WESTERN/CENTRAL ASIA?

**Banking and financial services**
- % of cases: 28%
- Median Loss: $65,000

**Manufacturing**
- % of cases: 18%
- Median Loss: $100,000

**Telecommunications***
- % of cases: 9%

**Energy***
- % of cases: 8%

**Agriculture, forestry, fishing, and hunting***
- % of cases: 4%

*Median loss calculation omitted for categories with fewer than ten cases.
ANTI-FRAUD CONTROLS AT THE VICTIM ORGANIZATION

We analyzed the anti-fraud controls that the victim organizations in Eastern Europe and Western/Central Asia had in place at the time the frauds occurred, as well as the internal control weaknesses that contributed to the frauds.
**ANTI-FRAUD CONTROLS**

**WHAT ANTI-FRAUD CONTROLS ARE THE **MOST COMMON** IN EASTERN EUROPE AND WESTERN/CENTRAL ASIA?**

<table>
<thead>
<tr>
<th>Control</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>External audit of financial statements</td>
<td>89%</td>
</tr>
<tr>
<td>Code of conduct</td>
<td>87%</td>
</tr>
<tr>
<td>Management review</td>
<td>84%</td>
</tr>
<tr>
<td>Internal audit department</td>
<td>80%</td>
</tr>
<tr>
<td>Management certification of financial statements</td>
<td>78%</td>
</tr>
<tr>
<td>Hotline</td>
<td>76%</td>
</tr>
<tr>
<td>Anti-fraud policy</td>
<td>73%</td>
</tr>
<tr>
<td>Independent audit committee</td>
<td>72%</td>
</tr>
<tr>
<td>External audit of internal controls over financial reporting</td>
<td>71%</td>
</tr>
<tr>
<td>Fraud training for employees</td>
<td>67%</td>
</tr>
<tr>
<td>Fraud training for managers/executives</td>
<td>66%</td>
</tr>
<tr>
<td>Dedicated fraud department, function, or team</td>
<td>58%</td>
</tr>
<tr>
<td>Formal fraud risk assessments</td>
<td>51%</td>
</tr>
<tr>
<td>Surprise audits</td>
<td>45%</td>
</tr>
<tr>
<td>Proactive data monitoring/analysis</td>
<td>42%</td>
</tr>
<tr>
<td>Employee support programs</td>
<td>29%</td>
</tr>
<tr>
<td>Job rotation/mandatory vacation</td>
<td>29%</td>
</tr>
<tr>
<td>Rewards for whistleblowers</td>
<td>9%</td>
</tr>
</tbody>
</table>
The presence of several anti-fraud controls was associated with notable reductions in both losses and duration of fraud.

**What are the primary internal control weaknesses that contribute to occupational fraud in Eastern Europe and Western/Central Asia?**

- **25%** Override of existing internal controls
- **25%** Lack of internal controls
- **14%** Lack of management review
- **13%** Poor tone at the top
PROFILE OF A FRAUD PERPETRATOR

Our study includes data on the characteristics of fraud offenders in Eastern Europe and Western/Central Asia, which can help organizations assess their internal fraud risk.
### Profile of a Fraud Perpetrator

#### How Does the Perpetrator’s Level of Authority Relate to Occupational Fraud?

<table>
<thead>
<tr>
<th>Level of Authority</th>
<th>Percent of Cases</th>
<th>Median Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>34%</td>
<td>$49,000</td>
</tr>
<tr>
<td>Manager</td>
<td>37%</td>
<td>$150,000</td>
</tr>
<tr>
<td>Owner/executive</td>
<td>26%</td>
<td>$454,000</td>
</tr>
</tbody>
</table>

Losses caused by fraudsters above the median age were significantly larger than losses caused by those below the median.

#### Where Did Perpetrators Work Within Their Organizations?

- **Sales**: 25%
- **Executive/Upper Management**: 18%
- **Operations**: 10%
- **Purchasing**: 7%

These were the four most common departments.
PROFILE OF A FRAUD PERPETRATOR

GENDER

81% OF FRAUDS WERE COMMITTED BY MEN

- **MALE**
  - Median loss: $146,000
- **FEMALE**
  - Median loss: $50,000

Losses caused by men were nearly 3x as large as those caused by women.

COLLUSION

Median losses were far greater when fraudsters colluded.

- **ONE PERPETRATOR**
  - Median loss: $50,000
- **TWO OR MORE PERPETRATORS**
  - Median loss: $230,000

THE 5 MOST COMMON RED FLAGS

86% OF ALL FRAUDSTERS displayed at least one behavioral red flag.

- **40%**
  - Living beyond means
- **29%**
  - Unusually close association with vendor/customer
- **19%**
  - Financial difficulties
- **12%**
  - "Wheeler-dealer" attitude
- **11%**
  - Irritability, suspiciousness, or defensiveness

TENURE

Fraudsters who had been with their organizations for more than five years stole slightly more.

- **5 YEARS’ TENURE OR LESS**
  - Median loss: $118,000
- **MORE THAN 5 YEARS’ TENURE**
  - Median loss: $135,000

OUT OF 73 REPORTED CASES NONE OF PERPETRATORS HAD A PRIOR FRAUD CONVICTION
CASE RESULTS

Survey respondents in Eastern Europe and Western/Central Asia provided information on the results of the fraud investigation, including internal punishment, litigation results, and recovery of defrauded assets.
HOW DO VICTIM ORGANIZATIONS PUNISH FRAUD PERPETRATORS?

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Termination</td>
<td>73%</td>
</tr>
<tr>
<td>Perpetrator was no longer with organization</td>
<td>11%</td>
</tr>
<tr>
<td>Permitted or required resignation</td>
<td>11%</td>
</tr>
<tr>
<td>Settlement agreement</td>
<td>6%</td>
</tr>
<tr>
<td>No punishment</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
</tbody>
</table>

CRIMINAL LITIGATION

- Cases referred to law enforcement: 49%
- Cases not referred to law enforcement: 51%

Median loss in cases with criminal referral: $250,000

CIVIL LITIGATION

- Civil suit: 33%
- No civil suit: 67%

Median loss in cases with civil suits: $130,000

OWNERS/EXECUTIVES WERE LESS LIKELY TO RECEIVE INTERNAL PUNISHMENT

- 86% Non-owners/executives punished
- 75% Owners/executives punished

RECOVERY

- 61% of victim organizations did not recover any of their fraud losses.
- 11% Recovered all losses
- 61% Recovered nothing
- 28% Made a partial recovery
The 2020 Report to the Nations is based on the results of the 2019 Global Fraud Survey, an online survey opened to 51,608 Certified Fraud Examiners (CFEs) from July 2019 to September 2019. As part of the survey, respondents were asked to provide a narrative description of the single largest occupational fraud case they had investigated since January 2018.

Respondents were then presented with 77 questions regarding the particular details of the fraud case, including information about the perpetrator, the victim organization, and the methods of fraud employed, as well as fraud trends in general. (Respondents were not asked to identify the perpetrator or the victim.) Additionally, after completing the survey the first time, respondents were provided the option to submit information about a second case. We received 7,516 total responses to the survey, 2,504 of which were usable for purposes of our global study. Of those usable response, 95 involved occupational fraud perpetrated against organizations in Eastern Europe and Western/Central Asia; the data contained in this report is based solely on the information provided in these 95 survey responses.

Analysis Methodology

**Percentages**

In calculating the percentages discussed throughout this report, we used the total number of complete and relevant responses for the question(s) being analyzed. Specifically, we excluded any blank responses or instances where the participant indicated that they did not know the answer to a question. Consequently, the total number of cases included in each analysis varies.

In addition, several survey questions allowed participants to select more than one answer. Therefore, the sum of percentages in many figures throughout the report exceeds 100%. The sum of percentages in other figures might not be exactly 100% (i.e., it might be 99% or 101%) due to rounding of individual category data.

**Loss Amounts**

All loss amounts were expressed in terms of U.S. dollars, which is how respondents reported this information in the Global Fraud Survey. Unless otherwise indicated, all loss amounts discussed throughout the report are calculated using median loss rather than mean, or average, loss. Using median loss provides a more conservative—and we believe more accurate—picture of the typical impact of occupational fraud schemes. Additionally, we excluded loss calculations for categories for which there were fewer than ten responses.

Because the direct losses caused by financial statement frauds are typically spread among numerous stakeholders, obtaining an accurate estimate for this amount is extremely difficult. Consequently, for schemes involving financial statement fraud, we asked survey participants to provide the gross amount of the financial statement misstatement (over- or under-statement) involved in the scheme. All losses reported for financial statement frauds throughout this report are based on those reported amounts.
ABOUT THE ACFE

Founded in 1988 by Dr. Joseph T. Wells, CFE, CPA, the Association of Certified Fraud Examiners (ACFE) is the world’s largest anti-fraud organization and premier provider of anti-fraud training and education. Together with more than 85,000 members, the ACFE is reducing business fraud worldwide and providing the training and resources needed to fight fraud more effectively. The ACFE provides educational tools and practical solutions for anti-fraud professionals through events, education, publications, networking, and educational tools for colleges and universities.

Certified Fraud Examiners

The ACFE offers its members the opportunity for professional certification with the Certified Fraud Examiner (CFE) credential. The CFE is preferred by businesses and government entities around the world, and indicates expertise in fraud prevention and detection. CFEs are anti-fraud experts who have demonstrated knowledge in four critical areas: Financial Transactions and Fraud Schemes, Law, Investigation, and Fraud Prevention and Deterrence.

Membership

Members of the ACFE include accountants, internal auditors, fraud investigators, law enforcement officers, lawyers, business leaders, risk/compliance professionals, and educators, all of whom have access to expert training, educational tools, and resources. Whether their career is focused exclusively on preventing and detecting fraudulent activities or they just want to learn more about fraud, the ACFE provides the essential tools and resources necessary for anti-fraud professionals to accomplish their objectives.

To learn more, visit ACFE.com or call (800) 245-3321 / +1 (512) 478-9000.

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