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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.

This supplemental report focuses specifically on the 338 cases in our study that occurred at government organizations, 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 government organizations around the world 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 government organizations perpetrate their schemes.
HOW OCCUPATIONAL FRAUD IS COMMITTED IN GOVERNMENT ORGANIZATIONS?

- **Asset misappropriation**: 84%
- **Corruption**: 51%
- **Financial statement fraud**: 7%

**Median Loss**
- **$100,000**
- **$245,000**
- **$1,250,000**

WHAT ARE THE MOST COMMON OCCUPATIONAL FRAUD SCHEMES IN GOVERNMENT ORGANIZATIONS?

- **Corruption**: 51%
- **Noncash**: 18%
- **Billing**: 18%
- **Expense reimbursements**: 14%
- **Payroll**: 14%
- **Cash on hand**: 9%
- **Skimming**: 9%
- **Financial statement fraud**: 7%
- **Check and payment tampering**: 5%
- **Cash larceny**: 5%
- **Register disbursements**: <1%
Our study revealed how occupational frauds are most often detected in government organizations, 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>43%</td>
</tr>
<tr>
<td>Internal audit</td>
<td>15%</td>
</tr>
<tr>
<td>External audit</td>
<td>9%</td>
</tr>
<tr>
<td>Management review</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
</tr>
<tr>
<td>Notified by law enforcement</td>
<td>5%</td>
</tr>
<tr>
<td>Surveillance/monitoring</td>
<td>3%</td>
</tr>
<tr>
<td>Account reconciliation</td>
<td>3%</td>
</tr>
<tr>
<td>Document examination</td>
<td>2%</td>
</tr>
<tr>
<td>IT controls</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: 54%
- Anonymous parties: 13%
- Vendors: 10%
**DETECTION**

**62% of victim organizations had hotlines**

**DETECTION BY TIP WAS SUBSTANTIALLY HIGHER AT ORGANIZATIONS WITH HOTLINES**

32% without hotlines

48% with hotlines

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**Effect of EMPLOYEE FRAUD AWARENESS TRAINING on hotlines and reporting**

- Employee training increased the likelihood of detection by tip of cases detected by tip with training: 50%
- Employee training increased the likelihood of detection by tip of cases detected by tip without training: 35%
- Use of hotline or formal reporting mechanisms increased with employee training:
  - Tips with training: 56%
  - Tips without training: 41%

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**Detection by tip was more common at large organizations**

- 100+ employees: 45% cases detected by tip
- <100 employees: 32% cases detected by tip

---

**WHISTLEBLOWERS USED A VARIETY OF REPORTING MECHANISMS**

- Web-based/online form: 42%
- Telephone hotline: 32%
- Email: 28%
- Mailed letter/form: 13%
VICTIM ORGANIZATIONS

To gain a better understanding of the victims in government organizations, we asked respondents to provide information about the victims’ government level, region, size, and schemes.
Victim organizations reported the most cases and suffered the greatest median loss.

The median loss in large government organizations was higher than in smaller organizations.

### National Levels of Government Reported

- **National:** 45%
- **State/provincial:** 21%
- **Local:** 32%

### Median Loss

- **National:** $200,000
- **State/provincial:** $91,000
- **Local:** $75,000

### The Top Schemes in Small and Large Government Organizations Were:

#### <100 Employees

- Corruption: 45%
- Billing: 24%
- Noncash: 21%
- Expense reimbursements: 19%
- Skimming: 15%

#### 100+ Employees

- Corruption: 53%
- Noncash: 18%
- Billing: 17%
- Payroll: 14%
- Expense reimbursement: 12%

#### The Median Loss in Large Government Organizations Was Higher Than in Smaller Organizations.
### Victim Organizations

#### How did the number of cases and median loss for government organizations vary by region?

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Cases</th>
<th>Median Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States and Canada</td>
<td>172</td>
<td>$75,000</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>64</td>
<td>$196,000</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>36</td>
<td>$173,000</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>14</td>
<td>$200,000</td>
</tr>
<tr>
<td>Western Europe</td>
<td>12</td>
<td>$106,000</td>
</tr>
<tr>
<td>Latin America and the Caribbean*</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Southern Asia*</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Eastern Europe and Western/Central Asia*</td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

*Median loss calculations for regions with fewer than ten cases were omitted.*
We analyzed the anti-fraud controls that the government organizations had in place at the time the frauds occurred, as well as the internal control weaknesses that contributed to the frauds.
**WHAT ANTI-FRAUD CONTROLS ARE THE MOST COMMON IN GOVERNMENT ORGANIZATIONS?**

<table>
<thead>
<tr>
<th>Control</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>External audit of financial statements</td>
<td>85%</td>
</tr>
<tr>
<td>Code of conduct</td>
<td>83%</td>
</tr>
<tr>
<td>Internal audit department</td>
<td>82%</td>
</tr>
<tr>
<td>External audit of internal controls over financial reporting</td>
<td>73%</td>
</tr>
<tr>
<td>Management certification of financial statements</td>
<td>69%</td>
</tr>
<tr>
<td>Employee support programs</td>
<td>65%</td>
</tr>
<tr>
<td>Hotline</td>
<td>62%</td>
</tr>
<tr>
<td>Management review</td>
<td>62%</td>
</tr>
<tr>
<td>Fraud training for managers/executives</td>
<td>54%</td>
</tr>
<tr>
<td>Fraud training for employees</td>
<td>53%</td>
</tr>
<tr>
<td>Anti-fraud policy</td>
<td>53%</td>
</tr>
<tr>
<td>Independent audit committee</td>
<td>52%</td>
</tr>
<tr>
<td>Dedicated fraud department, function, or team</td>
<td>39%</td>
</tr>
<tr>
<td>Surprise audits</td>
<td>36%</td>
</tr>
<tr>
<td>Formal fraud risk assessments</td>
<td>34%</td>
</tr>
<tr>
<td>Proactive data monitoring/analysis</td>
<td>30%</td>
</tr>
<tr>
<td>Job rotation/mandatory vacation</td>
<td>17%</td>
</tr>
<tr>
<td>Rewards for whistleblowers</td>
<td>15%</td>
</tr>
</tbody>
</table>
The presence of several anti-fraud controls was associated with notable reductions in both losses and duration of fraud.

**HOW DOES THE PRESENCE OF AN ANTI-FRAUD CONTROL RELATE TO THE MEDIAN LOSS AND DURATION OF FRAUD IN GOVERNMENT ORGANIZATIONS?**

- **40% LOWER LOSSES**
  - External audit of internal controls over financial reporting

- **25% FASTER DETECTION**
  - Management review

- **34% LOWER LOSSES**
  - External audit of financial statements

- **31% LOWER LOSSES**
  - Code of conduct

- **19% LOWER LOSSES**
  - Management certification of financial statements

**WHAT ARE THE PRIMARY INTERNAL CONTROL WEAKNESSES THAT CONTRIBUTE TO OCCUPATIONAL FRAUD IN GOVERNMENT ORGANIZATIONS?**

- **33%**
  - Lack of internal controls

- **18%**
  - Lack of management review

- **16%**
  - Override of existing internal controls

- **10%**
  - Poor tone at the top
Our study includes data on the characteristics of fraud offenders in government organizations, which can help these organizations assess their internal fraud risk.
The age of the perpetrator did not appear to significantly affect the size of the fraud:

**Median Age:** 45

**Median Loss:**
- **<45 years old:** $100,000
- **45 years old:** $110,000
- **>45 years old:** $100,000

**Where did perpetrators work within their organizations?**

- **Operations:** 16%
- **Accounting:** 11%
- **Executive/Upper Management:** 10%
- **Administrative Support:** 8%
- **Purchasing:** 7%

**How does the perpetrator’s level of authority relate to occupational fraud?**

<table>
<thead>
<tr>
<th>PERCENT OF CASES</th>
<th>MEDIAN LOSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>$50,000</td>
</tr>
<tr>
<td>Manager</td>
<td>$135,000</td>
</tr>
<tr>
<td>Executive</td>
<td>$264,000</td>
</tr>
</tbody>
</table>

**Profile of a fraud perpetrator**

**Report to the Nations: Government Edition**
PROFILE OF A FRAUD PERPETRATOR

GENDER

73% OF FRAUDS WERE COMMITTED BY MEN

<table>
<thead>
<tr>
<th>GENDER</th>
<th>MALE</th>
<th>FEMALE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median loss</td>
<td>$142,000</td>
<td>$45,000</td>
</tr>
</tbody>
</table>

Losses caused by men were more than 3x higher than those caused by women.

COLLUSION

Median losses were far greater when fraudsters colluded

ONE PERPETRATOR

$69,000 Median loss

TWO OR MORE PERPETRATORS

$250,000 Median loss

THE 5 MOST COMMON RED FLAGS

90% OF ALL FRAUDSTERS displayed at least one behavioral red flag

<table>
<thead>
<tr>
<th>Red Flag</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Living beyond means</td>
<td>43%</td>
</tr>
<tr>
<td>Financial difficulties</td>
<td>25%</td>
</tr>
<tr>
<td>Unusually close association with vendor/customer</td>
<td>22%</td>
</tr>
<tr>
<td>Control issues, unwillingness to share duties</td>
<td>17%</td>
</tr>
<tr>
<td>“Wheeler-dealer” attitude</td>
<td>15%</td>
</tr>
</tbody>
</table>

ONLY 4% OF PERPETRATORS HAD A PRIOR FRAUD CONVICTION

Profile of a fraud perpetrator | Report to the Nations: Government Edition
CASE RESULTS

Survey respondents in government organizations provided information on the results of the fraud investigations, including internal punishment, litigation results, and recovery of defrauded assets.
EXECUTIVES WERE LESS LIKELY TO RECEIVE INTERNAL PUNISHMENT

<table>
<thead>
<tr>
<th>Non-Executives punished</th>
<th>Executives punished</th>
</tr>
</thead>
<tbody>
<tr>
<td>77%</td>
<td>56%</td>
</tr>
</tbody>
</table>

CASE RESULTS

HOW DO GOVERNMENT ORGANIZATIONS PUNISH FRAUD PERPETRATORS?

- **Termination**: 49%
- **Probation or suspension**: 16%
- **Perpetrator was no longer with organization**: 12%
- **Permitted or required resignation**: 11%
- **Settlement agreement**: 10%
- **Other**: 8%
- **No punishment**: 8%

CRIMINAL LITIGATION

<table>
<thead>
<tr>
<th>Cases referred to law enforcement</th>
<th>Cases not referred to law enforcement</th>
</tr>
</thead>
<tbody>
<tr>
<td>70%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Median loss in cases with criminal referral: **$178,000**

CIVIL LITIGATION

<table>
<thead>
<tr>
<th>Civil suit</th>
<th>No civil suit</th>
</tr>
</thead>
<tbody>
<tr>
<td>21%</td>
<td>79%</td>
</tr>
</tbody>
</table>

Median loss in cases with civil suits: **$800,000**

RECOVERY

Over half of victim organizations did not recover any fraud losses

- **Recovered all losses**: 15%
- **Recovered nothing**: 57%
- **Made a partial recovery**: 28%
METHODOLOGY

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. Additionally, after completing the survey the first time, respondents were provided the option to submit information about a second case.

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.) We received 7,516 total responses to the survey, 2,504 of which were usable for purposes of our global study. Of those usable responses, 338 involved occupational fraud perpetrated against government organizations; the data contained in this report is based solely on the information provided in these 338 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 are 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.

Cases submitted were required to meet the following four criteria:

1. The case must have involved occupational fraud (defined as fraud committed by a person against the organization for which he or she works).
2. The investigation must have occurred between January 2018 and the time of survey participation.
3. The investigation must have been complete at the time of survey participation.
4. The respondent must have been reasonably sure the perpetrator(s) was (were) identified.
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.

Contact

Association of Certified Fraud Examiners
Global Headquarters
716 West Ave | Austin, TX 78701-2727 | USA
Phone: (800) 245-3321 / +1 (512) 478-9000
ACFE.com | info@ACFE.com

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