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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 101 cases that occurred in Latin America and the Caribbean. This supplemental report focuses more closely on these 101 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 Latin America and the Caribbean 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 Latin America and the Caribbean perpetrate their schemes.
HOW IS OCCUPATIONAL FRAUD COMMITTED IN LATIN AMERICA AND THE CARIBBEAN?

- Asset misappropriation: 77%  
  - $100,000
- Corruption: 51%  
  - $425,000
- Financial statement fraud: 19%  
  - $2,000,000

WHAT ARE THE MOST COMMON OCCUPATIONAL FRAUD SCHEMES IN LATIN AMERICA AND THE CARIBBEAN?

- Corruption: 51%
- Noncash: 23%
- Financial statement fraud: 19%
- Billing: 18%
- Skimming: 13%
- Expense reimbursements: 10%
- Cash on hand: 10%
- Payroll: 9%
- Check and payment tampering: 8%
- Cash larceny: 8%
- Register disbursements: 4%
DETECTION

Our study revealed how occupational frauds are most often detected in Latin America and the Caribbean, as well as insights on how fraud reporting hotlines and employee training can improve detection.
## How Is Occupational Fraud Initially Detected?

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tip</td>
<td>55%</td>
</tr>
<tr>
<td>Internal audit</td>
<td>12%</td>
</tr>
<tr>
<td>Management review</td>
<td>9%</td>
</tr>
<tr>
<td>Notified by law enforcement</td>
<td>5%</td>
</tr>
<tr>
<td>External audit</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
</tr>
<tr>
<td>IT controls</td>
<td>3%</td>
</tr>
<tr>
<td>By accident</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>Confession</td>
<td>1%</td>
</tr>
</tbody>
</table>

### The Top 3 Sources of Tips Were:

- **Employees**: 55%
- **Customers**: 13%
- **Vendors**: 13%
Effectiveness of hotlines

72% of victim organizations had hotlines. Detection by tip was higher at organizations with hotlines.

Detection by tip was much more common at large organizations.

Effect of employee fraud awareness training on hotlines and reporting

Tips submitted through hotline or formal reporting mechanisms increased with employee training.

- Tips with training: 60%
- Tips without training: 53%

The three most common reporting mechanisms were:

- Web-based/online form: 49%
- Email: 40%
- Telephone hotline: 23%
To gain a better understanding of the victim organizations in Latin America and the Caribbean, we asked respondents to provide information about the victims’ type, size, 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: 42%
- Cash on hand: 25%
- Cash larceny: 25%
- Check and payment tampering: 25%
- Noncash: 25%

**100+ EMPLOYEES**

- Corruption: 52%
- Noncash: 23%
- Financial statement fraud: 20%
- Billing: 19%
- Skimming: 12%

*Median loss calculation omitted for categories with fewer than ten cases.
WHAT INDUSTRIES WERE VICTIMIZED MOST OFTEN BY OCCUPATIONAL FRAUD IN LATIN AMERICA AND THE CARIBBEAN?

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage of cases</th>
<th>Median Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>21%</td>
<td>$600,000</td>
</tr>
<tr>
<td>Banking and financial services</td>
<td>13%</td>
<td>$100,000</td>
</tr>
<tr>
<td>Health care*</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Agriculture, forestry, fishing, and hunting*</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Energy*</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Food service and hospitality*</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Mining*</td>
<td>5%</td>
<td></td>
</tr>
</tbody>
</table>

*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 Latin America and the Caribbean had in place at the time the frauds occurred, as well as the internal control weaknesses that contributed to the frauds.
<table>
<thead>
<tr>
<th>Anti-fraud control</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>External audit of financial statements</td>
<td>88%</td>
</tr>
<tr>
<td>Code of conduct</td>
<td>88%</td>
</tr>
<tr>
<td>Internal audit department</td>
<td>81%</td>
</tr>
<tr>
<td>Management certification of financial statements</td>
<td>72%</td>
</tr>
<tr>
<td>Hotline</td>
<td>72%</td>
</tr>
<tr>
<td>External audit of internal controls over financial reporting</td>
<td>71%</td>
</tr>
<tr>
<td>Independent audit committee</td>
<td>67%</td>
</tr>
<tr>
<td>Management review</td>
<td>65%</td>
</tr>
<tr>
<td>Fraud training for employees</td>
<td>58%</td>
</tr>
<tr>
<td>Anti-fraud policy</td>
<td>56%</td>
</tr>
<tr>
<td>Fraud training for managers/executives</td>
<td>54%</td>
</tr>
<tr>
<td>Dedicated fraud department, function, or team</td>
<td>46%</td>
</tr>
<tr>
<td>Employee support programs</td>
<td>45%</td>
</tr>
<tr>
<td>Formal fraud risk assessments</td>
<td>44%</td>
</tr>
<tr>
<td>Surprise audits</td>
<td>40%</td>
</tr>
<tr>
<td>Proactive data monitoring/analysis</td>
<td>26%</td>
</tr>
<tr>
<td>Job rotation/mandatory vacation</td>
<td>16%</td>
</tr>
<tr>
<td>Rewards for whistleblowers</td>
<td>9%</td>
</tr>
</tbody>
</table>
WHAT ARE THE PRIMARY INTERNAL CONTROL WEAKNESSES THAT CONTRIBUTE TO OCCUPATIONAL FRAUD IN LATIN AMERICA AND THE CARIBBEAN?

- **Lack of internal controls**: 28%
- **Override of existing internal controls**: 24%
- **Lack of management review**: 23%

ALL 17 ANTI-FRAUD CONTROLS ANALYZED were associated with QUICKER FRAUD DETECTION.

ADDITIONALLY, TWO WERE ASSOCIATED WITH LOWER FRAUD LOSSES.

- **Surprise audits**: 25% reduction
- **Management certification of financial statements**: 15% reduction

Anti-fraud controls at the victim organization | Report to the Nations: Latin America and the Caribbean Edition 14
PROFILE OF A FRAUD PERPETRATOR

Our study includes data on the characteristics of fraud offenders in Latin America and the Caribbean, 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>30%</td>
<td>$90,000</td>
</tr>
<tr>
<td>Manager</td>
<td>46%</td>
<td>$250,000</td>
</tr>
<tr>
<td>Owner/executive</td>
<td>20%</td>
<td>$800,000</td>
</tr>
</tbody>
</table>

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

- **Accounting**: 12%
- **Sales**: 12%
- **Customer Service**: 11%
- **Executive/Upper Management**: 10%
- **Operations**: 9%

These were the five most common departments.

#### Age

Losses caused by fraudsters above the median age were more than **6X larger** than losses caused by those below the median age.

<table>
<thead>
<tr>
<th>Median Age</th>
<th>Median Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>24 years</td>
<td>$80,000</td>
</tr>
<tr>
<td>40 years</td>
<td>$500,000</td>
</tr>
<tr>
<td>62 years</td>
<td></td>
</tr>
</tbody>
</table>
PROFILE OF A FRAUD PERPETRATOR

GENDER

76% OF FRAUDS WERE COMMITTED BY MEN

MALE
$250,000
Median loss

FEMALE
$90,000
Median loss

Losses caused by men were nearly 3x larger than those caused by women

COLLUSION
Median losses were significantly larger when fraudsters colluded

ONE PERPETRATOR

34% of cases

$55,000 Median loss

TWO OR MORE PERPETRATORS

66% of cases

$300,000 Median loss

THE 6 MOST COMMON RED FLAGS

86% OF ALL FRAUDSTERS displayed at least one BEHAVIORAL RED FLAG

45% Living beyond means

26% Financial difficulties

20% Unusually close association with vendor/customer

17% Irritability, suspiciousness, or defensiveness

13% Control issues, unwillingness to share duties

13% Complained about inadequate pay

TENURE

Fraudsters who had been with their organizations for more than five years stole 5x more

MEDIAN LOSS
$80,000

MEDIAN LOSS
$400,000

5 YEARS' TENURE OR LESS

MORE THAN 5 YEARS' TENURE

ONLY 1% OF PERPETRATORS HAD A PRIOR FRAUD CONVICTION
Survey respondents in Latin America and the Caribbean provided information on the results of the fraud investigation, including internal punishment, litigation results, and recovery of defrauded assets.
**HOW DO VICTIM ORGANIZATIONS IN LATIN AMERICA AND THE CARIBBEAN PUNISH FRAUD PERPETRATORS?**

- **Termination**: 73%
- **Settlement agreement**: 17%
- **Perpetrator was no longer with the organization**: 14%
- **Probation or suspension**: 7%
- **Permitted or required resignation**: 6%
- **No punishment**: 3%
- **Other**: 2%

**OWNERS/EXECUTIVES WERE MORE LIKELY TO RECEIVE INTERNAL PUNISHMENT**

- Owners/executives punished: 84%
- Non-owners/executives punished: 77%

**CRIMINAL LITIGATION**

- Cases referred to law enforcement: 45%
- Cases not referred to law enforcement: 55%

**Median loss in cases with criminal referral**: $291,000

**CIVIL LITIGATION**

- Civil suit: 36%
- No civil suit: 64%

**Median loss in cases with civil suits**: $500,000

**RECOVERY**

- 60% of victim organizations did not recover any fraud losses
- 9% recovered all losses
- 60% recovered nothing
- 31% made a partial recovery

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**CASE RESULTS**

60% of victim organizations did not recover any fraud losses.
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. 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.) 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 responses, 101 involved occupational fraud perpetrated against organizations in Latin America and the Caribbean; the data contained in this report is based solely on the information provided in these 101 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.
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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