REPORT TO THE NATIONS
2018 GLOBAL STUDY ON OCCUPATIONAL FRAUD AND ABUSE

LATIN AMERICA AND THE CARIBBEAN EDITION
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In April 2018, the ACFE released the 2018 *Report to the Nations*, which provided a global analysis of the costs and effects of occupational fraud (i.e., fraud committed against the organization by its own officers, directors, or employees). The 2018 *Report to the Nations*, which was based on 2,690 cases of occupational fraud reported from 125 countries, highlighted the tremendous impact occupational fraud has on organizations throughout the world.

With this report, we now focus more closely on how occupational fraud impacts organizations in Latin America and the Caribbean. This study is based on the 110 cases of occupational fraud in Latin America and the Caribbean that were reported in our 2017 *Global Fraud Survey*. Collectively, these cases, which accounted for 5% of all cases in our global study, caused a median loss of USD 193,000\(^1\) and lasted a median 18 months before they were detected. Figure 1 shows the countries in which these frauds occurred.

This report contains information on fraud losses in the cases in Latin America and the Caribbean that we analyzed, along with the methods of fraud committed, the ways in which the frauds were detected, the characteristics of the victim organizations and their anti-fraud controls, the characteristics of the fraud perpetrators, and the results of the cases after the frauds had been discovered.\(^2\) We hope this report will be of value to our readers in Latin America and the Caribbean, helping them tailor fraud prevention, detection, and investigation strategies to the specific fraud risks faced by their clients and employers.

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\(^1\) Readers should note that all losses in this report are presented in U.S. dollars (USD), which is how respondents reported this information in our 2017 *Global Fraud Survey*.

\(^2\) For a glossary of terms used in this report, please see pg. 78 of the 2018 *Report to the Nations*. 

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**FIG. 1 Cases by country in Latin America and the Caribbean**

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>1</td>
</tr>
<tr>
<td>Argentina</td>
<td>8</td>
</tr>
<tr>
<td>Bahamas</td>
<td>3</td>
</tr>
<tr>
<td>Belize</td>
<td>1</td>
</tr>
<tr>
<td>Brazil</td>
<td>22</td>
</tr>
<tr>
<td>Chile</td>
<td>8</td>
</tr>
<tr>
<td>Colombia</td>
<td>10</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>1</td>
</tr>
<tr>
<td>Curacao</td>
<td>2</td>
</tr>
<tr>
<td>Grenada</td>
<td>1</td>
</tr>
<tr>
<td>Haiti</td>
<td>1</td>
</tr>
<tr>
<td>Honduras</td>
<td>1</td>
</tr>
<tr>
<td>Jamaica</td>
<td>6</td>
</tr>
<tr>
<td>Mexico</td>
<td>29</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>3</td>
</tr>
<tr>
<td>Peru</td>
<td>5</td>
</tr>
<tr>
<td>Saint Kitts and Nevis</td>
<td>1</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total cases:</strong></td>
<td><strong>110</strong></td>
</tr>
</tbody>
</table>

**MEDIAN LOSS:**

**USD 193,000**
HOW OCCUPATIONAL FRAUD IS COMMITTED

As part of our ongoing research, we examine the methods by which occupational fraudsters perpetrate their schemes. Our results have consistently shown that occupational fraud cases can be broken down into three broad categories. The most common of these is asset misappropriation; 82% of cases in Latin America and the Caribbean involved the misappropriation of assets. These cases are also the least costly, causing a median loss of USD 235,000. On the other end of the spectrum in both frequency and median loss is financial statement fraud. This category accounted for 14% of cases in the region and had a median loss of USD 2,000,000. Corruption schemes fell in the middle in both respects, occurring in 51% of cases and causing a median loss of USD 500,000.
Because asset misappropriations account for such a large percentage of occupational fraud cases, we further divided that category into sub-schemes based on the specific mechanism used to misappropriate assets. Figure 3 shows the breakdown of the cases in Latin America and the Caribbean among the nine sub-categories of asset misappropriation, along with corruption and financial statement schemes for comparison purposes. Corruption schemes were more than twice as common as any other scheme type, followed by the misappropriation of noncash assets, which occurred in more than one-fifth of the cases reported to us from the region.

**FIG. 3** What are the most common occupational fraud schemes in Latin America and the Caribbean?

- Corruption: 51%
- Noncash: 22%
- Cash on hand: 17%
- Financial statement fraud: 14%
- Skimming: 12%
- Cash larceny: 11%
- Billing: 11%
- Payroll: 9%
- Check and payment tampering: 8%
- Register disbursements: 3%
- Expense reimbursements: 1%
DETECTION

We asked respondents to provide information about how frauds were initially detected. The importance of tips as a fraud detection method is clear; Figure 4 shows that almost half of cases were discovered this way in Latin America and the Caribbean, with internal audit being a distant second at 14% of cases. Our data also show that organizations can increase the amount of cases detected by tips by implementing hotlines—56% of cases were detected by tip when a hotline for reporting misconduct was in place, compared to 34% in organizations without one.

FIG. 4 How is occupational fraud initially detected in Latin America and the Caribbean?

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tip</td>
<td>49%</td>
</tr>
<tr>
<td>Internal audit</td>
<td>14%</td>
</tr>
<tr>
<td>Management review</td>
<td>10%</td>
</tr>
<tr>
<td>Surveillance/monitoring</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
<tr>
<td>External audit</td>
<td>5%</td>
</tr>
<tr>
<td>Account reconciliation</td>
<td>5%</td>
</tr>
<tr>
<td>By accident</td>
<td>4%</td>
</tr>
<tr>
<td>Document examination</td>
<td>3%</td>
</tr>
<tr>
<td>Confession</td>
<td>2%</td>
</tr>
<tr>
<td>IT controls</td>
<td>1%</td>
</tr>
</tbody>
</table>
Respondents provided information about hotlines and reporting mechanisms that can help us understand who is reporting fraud, how they are doing so, and how effective such mechanisms are in Latin America and the Caribbean.

68% of victim organizations had hotlines.

Fraud losses were almost 5x larger at organizations without hotlines than those with them.

Tips from employees were by far the most common, but a substantial number of tips came from customers and anonymous parties.

52% of tips came from employees, 19% from customers, and 17% were anonymous.

Out of 29 cases reported through formal reporting mechanisms, a telephone hotline was the most common method.

- Telephone hotline: 31% (9 cases)
- Email: 24% (7 cases)
- Web-based/online form: 24% (7 cases)
- Mailed letter/form: 21% (6 cases)

In the 21 cases in which a tip was made without a reporting mechanism, the top five parties whistleblowers reported to were:

- Fraud Investigation Team: 24% (5 cases)
- Direct Supervisor: 19% (4 cases)
- Internal Audit: 19% (4 cases)
- Coworker: 19% (4 cases)
- Executive: 14% (3 cases)
VICTIM ORGANIZATIONS

To gain a better understanding of the organizations victimized in our study, we asked respondents to provide information about the victims’ type, size, and industry. Participants also described the types of controls that were in place to prevent and detect fraud at the time the schemes occurred.

Type of Organization

As shown in Figure 5, nearly three-quarters of the frauds in Latin America and the Caribbean occurred at for-profit organizations, with 45% of the victim organizations being private companies and 29% being public companies. The private companies in our study suffered a median loss of USD 150,000, while the public companies had a median loss of USD 156,000. Only 13% of the reported frauds occurred at government organizations, yet these entities suffered the greatest median loss of USD 862,000.

FIG. 5  What types of organizations are victimized by occupational fraud in Latin America and the Caribbean?

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

Figure 6 shows that the greatest percentage of cases in the Latin America and Caribbean region occurred at businesses with 1,000 to 9,999 employees (30%); these organizations suffered a median loss of USD 250,000. Organizations with more than 10,000 employees represented 28% of all cases in the region and suffered a median loss of USD 143,000. Small businesses (those with fewer than 100 employees) represented 17% of the cases reported to us and suffered the greatest median loss of USD 300,000. It is important to note that small organizations are likely to be more significantly impacted by losses of this size than their larger counterparts.

FIG. 6 How does an organization’s size relate to its occupational fraud risk in Latin America and the Caribbean?
Industry of Organization

Figure 7 illustrates the breakdown of the cases reported to us based on the industry of the victim organization. More than half of the cases in Latin America and the Caribbean occurred in four industries: manufacturing, banking and financial services, government and public administration, and health care. Readers should note that this data most likely represents industries that tend to employ the greatest number of CFEs, and not necessarily the industries that are most susceptible to fraud.

Organizations in the manufacturing sector were the victims in 17% of cases and suffered a median loss of USD 175,000, while banking and financial services also accounted for 17% of cases and had a median loss of USD 138,000. Government and public administration organizations experienced the greatest median loss of USD 900,000.

FIG. 7 What industries were victimized by occupational fraud in Latin America and the Caribbean?
Anti-Fraud Controls in Latin America and the Caribbean

Internal controls play an important part in protecting organizations against fraud. As part of our research, we examined which anti-fraud controls the victim organizations had in place at the time the fraud occurred, as well as what internal control weaknesses primarily contributed to the fraud.

FIG. 8  What anti-fraud controls are the most common in Latin America and the Caribbean?

<table>
<thead>
<tr>
<th>Control</th>
<th>Percent of cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit department</td>
<td>89%</td>
</tr>
<tr>
<td>External audit of financial statements</td>
<td>86%</td>
</tr>
<tr>
<td>Code of conduct</td>
<td>81%</td>
</tr>
<tr>
<td>Management certification of financial statements</td>
<td>73%</td>
</tr>
<tr>
<td>Management review</td>
<td>71%</td>
</tr>
<tr>
<td>External audit of internal controls over financial reporting</td>
<td>70%</td>
</tr>
<tr>
<td>Hotline</td>
<td>68%</td>
</tr>
<tr>
<td>Independent audit committee</td>
<td>61%</td>
</tr>
<tr>
<td>Employee support programs</td>
<td>51%</td>
</tr>
<tr>
<td>Anti-fraud policy</td>
<td>50%</td>
</tr>
<tr>
<td>Fraud training for employees</td>
<td>50%</td>
</tr>
<tr>
<td>Fraud training for managers/executives</td>
<td>48%</td>
</tr>
<tr>
<td>Dedicated fraud department, function, or team</td>
<td>44%</td>
</tr>
<tr>
<td>Formal fraud risk assessments</td>
<td>40%</td>
</tr>
<tr>
<td>Surprise audits</td>
<td>35%</td>
</tr>
<tr>
<td>Proactive data monitoring/analysis</td>
<td>32%</td>
</tr>
<tr>
<td>Job rotation/mandatory vacation</td>
<td>26%</td>
</tr>
<tr>
<td>Rewards for whistleblowers</td>
<td>6%</td>
</tr>
</tbody>
</table>
We compared the median loss and median duration of fraud at victim organizations in Latin America and the Caribbean based on whether they had specific anti-fraud controls in place. The presence of several controls was associated with reductions of at least 40% in both losses and duration of fraud (see Figure 9).

FIG. 9 How does the presence of an anti-fraud control relate to the median loss and duration of fraud in Latin America and the Caribbean?
What are the primary internal control weaknesses that contribute to occupational fraud in Latin America and the Caribbean?

Lack of employee fraud education

Lack of clear lines of authority

Lack of internal controls 25%

Override of existing internal controls 21%

Lack of management review 17%

Poor tone at the top 15%

Other 11%

Lack of competent personnel in oversight roles 5%

Lack of reporting mechanism 1%
Understanding the common characteristics of fraud offenders can help organizations improve their ability to detect fraud and minimize their risk of loss. The following information is based on the perpetrators in our study who committed fraud in Latin America and the Caribbean.

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

- **Employee**: 40% of cases
- **Manager**: 40% of cases
- **Owner/executive**: 19% of cases

**Median Loss**

- **$100,000**
- **$150,000**
- **$900,000**

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

These were the six most common departments:

- **Sales**: 13% of cases
- **Administrative Support**: 11% of cases
- **Accounting**: 10% of cases
- **Operations**: 9% of cases
- **Executive/upper management**: 8% of cases
- **Purchasing**: 8% of cases

**Median age for all fraudsters in the region was** 40 years old.

**Losses caused by fraudsters above the median age were much larger than losses caused by those below the median:**

- **22 years old**: Median loss: $75,000 (younger than 40 years old)
- **40 years old**: Median loss: $500,000 (older than 40 years old)
79% of frauds were committed by men

$250,000 median loss

$175,000 median loss

Losses caused by women were 43% larger than losses caused by men

Fraudsters who had longer tenure with their organizations stole significantly more

More than 5 years’ tenure

$250,000 median loss

5 years’ tenure or less

$150,000 median loss

In 87% of cases, fraudsters displayed at least one behavioral red flag. The five most common red flags were:

- Living beyond means: 47%
- Unusually close association with vendor/customer: 24%
- Financial difficulties: 20%
- “Wheeler-dealer” attitude: 14%
- Divorce/family problems: 13%

Only 1% of perpetrators had a prior fraud conviction

Median losses were far greater when fraudsters colluded

One perpetrator

Median loss: $80,000

Two or more perpetrators

Median loss: $303,000
We also asked respondents what actions the victim organizations took against the perpetrators after the frauds had been detected. Figure 11 shows that 76% of perpetrators in Latin America and the Caribbean were either terminated or permitted or required to resign. However, some perpetrators remained at the organization, with 18% receiving probation, suspension, or no punishment.

**FIG. 11  How do victim organizations in Latin America and the Caribbean punish fraud perpetrators?**

- **Termination**: 67%
- **Perpetrator was no longer with organization**: 14%
- **No punishment**: 10%
- **Permitted or required resignation**: 9%
- **Settlement agreement**: 9%
- **Probation or suspension**: 8%
- **Other**: 2%
LITIGATION AND RECOVERY OF LOSSES

Victim organizations might refer fraud cases to prosecution or commence civil litigation to recover their losses. Our data indicate that organizations in Latin America and the Caribbean were more likely to refer cases to prosecution than to pursue a civil action.

49% OF CASES WERE REFERRED FOR CRIMINAL PROSECUTION

27% OF CASES RESULTED IN A CIVIL SUIT AGAINST THE FRAUDSTER

The top five reasons organizations chose not to refer cases to law enforcement:

- 36% Fear of bad publicity
- 34% Internal discipline sufficient
- 20% Too costly
- 14% Lack of evidence
- 11% Private settlement

After a fraud has been detected, the victim might try to recover its losses from the fraudster or other sources. Our data show that only 40% of victims made some recovery.

35% MADE A PARTIAL RECOVERY

60% RECOVERED NOTHING

5% RECOVERED ALL LOSSES
We received 7,232 total responses to the survey, 2,690 of which were usable for purposes of our global study. Of these usable responses, 110 involved occupational fraud cases perpetrated against organizations in Latin America and the Caribbean; the data contained in this report is based solely on the information provided in these 110 responses.

**Analysis Methodology**

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 he or she 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.

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**METHODOLOGY**

The 2018 *Report to the Nations* is based on the results of the 2017 *Global Fraud Survey*, an online survey opened to 41,573 Certified Fraud Examiners (CFEs) from July 2017 to October 2017. As part of the survey, respondents were asked to provide a narrative description of the single largest fraud case they had investigated since January 2016. Respondents were then presented with 76 questions to answer 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 that they investigated.

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 2016 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.
Unless otherwise indicated, all loss amounts discussed throughout the report are calculated using median loss rather than mean, or average, loss. Average losses were skewed by a limited number of very high-dollar frauds. Using median loss provides a more conservative—and we believe more accurate—picture of the typical impact of occupational fraud schemes.

Additionally, we excluded median 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 nearly 85,000 members in more than 180 countries, 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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