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TIP SHEET

Five things you should know about fraud

1. Most employees are **honest** and appreciate working for an honest company.
2. Responsibility for fraud prevention lies with management as overseen by the **board of directors**.
3. Some fraud statistics:
 - The typical organization loses an estimated 5% of annual revenue to fraud (2010 Report to the Nation ACFE). For \$500,000 in revenue, that's **\$25,000 lost** every year!
 - If a company nets 20% on sales, it must sell **five items at regular prices** to recover losses from the theft of one item; if 10% net, **ten additional sales** to recover one lost.
 - An estimated 51% of all **business failures** are a direct result of fraud (Albrecht).
4. The best and most widely accepted model for why people commit fraud is the **fraud triangle** developed by Cressey. When all three elements are present, people are more likely to commit fraud:
 - Pressure
 - Opportunity
 - Rationalization
5. It is easier to prevent fraud than to detect it. An **effective fraud prevention program** reduces pressures on employees to commit fraud, reduces perceived opportunities to commit fraud, and dispels rationalizations for engaging in fraudulent activities.

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