The annual “*Report To The Nations*” has been released. It is also called the “*2018 Global Study On Occupational Fraud and Abuse*”. Wow….what a title, huh? This is the definitive study on fraud and embezzlement. It comes out each year and is published by the ACFE….the **Association of Certified Fraud Examiners.**

It is 79 pages long and I read it through every year. It is THAT much fun!! And I am NOT kidding. In my humble opinion EVERY business owner should be forced to read this thing. I am going to spend the next few pages giving you some of the more salient and interesting information from it. Ready?

**Some general information:**

1. The study looked at 2,690 cases of occupational fraud in 125 countries in 23 industry categories.

2. Total losses were $7 billion. The median loss was $130,000 per case for all businesses. But the median loss is very different depending on the size of the business! Get this……

a. **Small businesses had MORE fraud!** The median loss for a small business (less than 100 employees) was $200,000.

b. Larger businesses (more than 100 employees) had a median loss of $104,000.

3. The average length of time the fraud went on before being caught was 16 months.

4. 89% of all the fraud cases were “asset misappropriation schemes” and the median loss was only $114,000. The rest of the cases were classified as “financial statement fraud schemes”….BUT, the median loss for this type of fraud was $800,000. OUCH.

5. The most common method for the initial detection of fraud was: TIPS. That’s right, tips. As a matter of fact, for those organizations with “hotlines”, 46% of cases caught were caught due to a tip (2/3 of tips come from existing employees).

6. IMPORTANT: Internal control weaknesses were responsible for nearly 50% of all frauds. This is huge. I have taught classes and seminars on this stuff. Small businesses are notorious for having horrible internal controls. More on this later.

7. Fraud done by owners and executives represented a small % of cases, only 19%, but the median loss from this fraud was $850,000. Wow. What does THAT tell you?

8. Losses caused by men were 75% larger than losses caused by women.

9. Fraudsters who had been with their company longer stole twice as much (median loss of $200,000 for employees with over 5 years there, and only $100,000 for employees with less than 5 years).

10. Only 4% of perpetrators had a prior fraud conviction on their records.

11. Most often, the fraudster is someone you know and trust (sorry ‘bout that!).

**Some global numbers:**

Here’s a nice breakdown showing the major geographical regions and their median losses. Note that the United States was the second lowest…..some good news.

Remember, the OVERALL median loss was $130,000. So let’s see how that shakes out globally.

|  |  |
| --- | --- |
| **Global Region** | **Median Loss** |
| **Asia Pacific** | 236,000 |
| **Middle East & North Africa** | 200,000 |
| **Western Europe** | 200,000 |
| **Canada** | 200,000 |
| **Latin America and the Caribbean** | 193,000 |
| **Eastern Europe and Western/Central Asia** | 150,000 |
| **United States** | 108,000 |
| **Sub-Saharan Africa** | 90,000 |

**Let’s break down that $130,000 median loss figure……**

Okay, so we know that the overall median loss was $130,000. But that means some had smaller losses and some had bigger losses. It would be interesting to see what % incurred what loss. Here we go…..

|  |  |
| --- | --- |
| **Median Dollar Loss** | **What %** |
| **Less than $200,000** | 55% |
| **$200,000 – $399,999** | 11% |
| **$400,000 - $599,999** | 7% |
| **$600,000 - $799,999** | 3% |
| **$800,000 - $999,999** | 2% |
| **$1 million or more** | 22% |

So, looking at the above numbers, it’s nice to know that 55% of all losses were under $200,000. But, on the other hand, it is interesting to note that the next largest % is when the loss gets to over $1 million…..22%! Wow.

**What type of organization gets hit with fraud?**

|  |  |  |
| --- | --- | --- |
| **Type of organization** | **% of cases** | **Median loss** |
| **Private Companies** | 42% | $164,000 |
| **Public Companies** | 29% | $117,000 |
| **Government** | 16% | $118,000 |
| **Not-for-profits** | 9% | $75,000 |
| **Other** | 4% | $120,000 |

**Digging a bit deeper, here’s the top 10 industries hit with fraud**

|  |  |  |
| --- | --- | --- |
|  | **Industry** | **Median loss** |
| **1** | **Communications and publishing** | 525,000 |
| **2** | **Energy** | 300,000 |
| **3** | **Services (Professional)** | 258,000 |
| **4** | **Manufacturing** | 240,000 |
| **5** | **Construction** | 227,000 |
| **6** | **Mining** | 208,000 |
| **7** | **Real Estate** | 180,000 |
| **8** | **Insurance** | 153,000 |
| **9** | **Technology** | 150,000 |
| **10** | **Utilities** | 150,000 |

*What industry are YOU in?!*

**Let’s wrap this up!!**

I am out of space. However, I want you to know that there is a TON of information in that report that is NOT in this newsletter. And it is fascinating stuff. Really.

It goes into depth on the 3 types of fraud: Asset misappropriation, Corruption, and Financial Statement Fraud. It shows exactly how a lot of the fraud occurred.

For instance, a lack of internal controls is responsible for 42% of fraud. LACK OF INTERNAL CONTROLS!!

This is gigantic! Most small businesses are woefully deficient when it comes to having internal controls. I have been touting this for decades. I have taught seminars on it, met with clients about it, written articles, and more. I am willing to sit down with ANY business owner and discuss this. I have done studies in our community for various organizations helping them to set up and implement internal controls. *I love this stuff!*

**How do you get your own copy of this report? EASY…..**

In your browser, type in “Report to the Nations” and it should be the first hit. You will be directed to the website and you can download it there. HINT: If you have any problem doing this, find a 15 year old kid and ask him/her to do it for you (isn’t that embarrassing?)!!

Again, the report has TONS of information in it that I am not covering here due to space.

**MIKE’S MONSTER CHALLENGE**

I am going to throw out a challenge to all of you. If you own a business, I want you to get a copy of the report and read it. Make notes, underline passages, etc. IF YOU DO THIS, I AM WILLING TO SIT DOWN WITH YOU FOR AN HOUR ***AT NO CHARGE*** AND TALK ABOUT WHAT YOU CAN DO IN YOUR BUSINESS TO IMPROVE INTERNAL CONTROLS. But, be fair! If you are not willing to take a couple of hours to read the report, then I am not willing to help you for FREE. I think you will agree that my position on this is honorable.

OK…I hope this will stir up some activity and help you decide that NOW is a great time to get going on fraud prevention.