



Acquiring the Facts to Empower our Clients

WHAT TO DO WHEN YOU SUSPECT FRAUD

Bernard Ebbers and Scott Sullivan at WorldCom, Andrew Fastow and Kenneth Lay at Enron, Dennis Kozlowski and Mark Swartz at Tyco, John and Timothy Rigas at Adelphia. The list could go on and on because for several years the media has been relentlessly reminding us of the existence of corporate fraud and the devastation it has caused. We have witnessed the collapse of enormous businesses, corresponding catastrophic financial losses to investors, the loss of thousands of direct and indirect jobs, and the disappearance of employee pension funding, all resulting from fraud.

Yet, organizational fraud is not a recent phenomenon, and unfortunately is not confined to lavish executive suites or to a small segment of businesses or other organizations. The 2004 Wells Report estimates that the typical United States organization loses six percent of its annual revenues to fraud. Applied to the United States Gross Domestic Product for 2003, this translates into approximately \$660 billion in total losses. This fraud, which now almost always involves the use of an organization's computer network, is often difficult to detect, even by audit. Perhaps surprisingly, over 60 percent of identified organizational fraud is discovered by tip or accident, rather than by external or internal audit, internal controls, or other means.

While it is our desire to assist each of our clients with implementing IT security and risk management procedures in order to minimize exposure to fraud, we also want you to know what we believe should be done if you suspect, or confirm, that fraud has occurred.

If fraudulent activity is suspected, we strongly advise you to:

- Contact the computer forensic and fraud experts at Gary C. Johnson and Associates immediately
- Take no action until we have analyzed the situation and recommended a fraud investigation strategy

If fraudulent activity is indeed occurring, any delay in initiating an inquiry with our forensics team may allow the potential loss resulting from the fraudulent activity to increase.

On the other hand, any action taken before we have had the opportunity to analyze the circumstances and suggest an investigative plan may result in missed opportunities for effective investigation and/or resolution.

Certainly, none of us want to encounter, or be required to address, fraudulent activity that has occurred within our organization. However, sometimes, despite our best efforts, fraud emerges and must be swiftly, properly, and expertly dealt with.



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