CORPORATE GOVERNANCE
FAILURE, FRAUD, & SCANDAL
DATA SPOTLIGHT
Employees engage in a number of fraudulent activities each year.

- **Billing**: 28%
- **Corruption**: 25%
- **Non-cash**: 17%
- **Skimming**: 16%
- **Expense reimbursements**: 16%
- **Check tampering**: 15%
- **Payroll**: 13%
- **Cash on hand**: 12%
- **Cash larceny**: 10%
- **Financial statement fraud**: 9%
- **Register disbursements**: 3%

Sample includes 2,410 cases of occupational fraud between January 2014 and October 2015. Source: Association of Certified Fraud Examiners (2016).
They employ a variety of tactics to conceal these activities.

- Created fraudulent physical documents: 61%
- Altered physical documents: 53%
- Created fraudulent transactions in accounting system: 43%
- Altered transactions in the accounting system: 36%
- Destroyed physical documents: 35%
- Altered account balances in the accounting system: 31%
- Created fraudulent electronic documents or files: 31%
- Altered electronic documents or files: 30%
- Created fraudulent journal entries: 28%
- Altered account reconciliations: 26%
- Deleted electronic documents or files: 24%
- Deleted transactions in accounting system: 20%
- Altered journal entries: 18%
- Deleted journal entries: 13%
- Other: 12%
- No concealment method: 8%

Sample includes 850 cases of corruption between January 2014 and October 2015.
Source: Association of Certified Fraud Examiners (2016).
The majority of fraud cases involve relatively small dollar amounts.

Sample includes 2,410 cases of occupational fraud between January 2014 and October 2015.
Source: Association of Certified Fraud Examiners (2016).
Fraud is detected by a variety of control mechanisms.

Sample includes 2,410 cases of occupational fraud between January 2014 and October 2015. Source: Association of Certified Fraud Examiners (2016).
Behavioral cues can serve as a “red flag” to indicate fraud.

- Living beyond means: 46%
- Financial difficulties: 30%
- Unusually close association with vendor or customer: 20%
- Control issues, unwilling to share duties: 15%
- Wheeler-dealer attitude: 15%
- Divorce or family problems: 13%
- Irritability, suspiciousness, or defensiveness: 12%
- Addiction problems: 10%
- Complained about inadequate pay: 9%
- Refusal to take vacations: 8%
- Excessive pressure from within organization: 7%
- Past employment-related problems: 7%
- Social isolation: 6%
- Past legal problems: 6%
- Excessive family or peer pressure for success: 5%
- Complained about lack of authority: 4%
- Instability in life circumstances: 4%
- Other: 6%
- No behavioral red flags: 9%

Sample includes 2,410 cases of occupational fraud between January 2014 and October 2015. Source: Association of Certified Fraud Examiners (2016).
Executives are willing to engage in unethical activities to meet financial targets.

- Would justify unethical behavior to meet financial targets: 42%
- Would offer entertainment: 24%
- Would change the assumptions determining valuations and reserves: 16%
- Would make cash payment to win or retain business: 13%
- Would offer personal gifts or services: 12%
- Would extend the monthly reporting period: 11%
- Would backdate contracts: 7%
- Would justify misstating financial performance: 4%

Sample includes 2,825 finance executives worldwide. Source: EY 14th Global Fraud Survey (2016).
Questionable behavior can take many forms....

- Lied to board, shareholders: 34%
- Had sexual affair or relations: 13%
- Engaged in questionable financial practices: 16%
- Objectionable language or behavior: 16%
- Expressed controversial views publicly: 21%

Sample includes 38 incidents ethically or morally questionable behavior.
Source: Larcker and Tayan (2016).
... The majority of CEOs that engage in such behavior are fired.

Sample includes 38 incidents ethically or morally questionable behavior.
Source: Larcker and Tayan (2016).
The number of companies forced to restate their financials has fallen in recent years.

Reissuance restatements are disclosed in a Form 8-K, Item 4.02, and indicate that past financial statements can no longer be relied upon and indicate that the restatement was severe. Minor restatements require no reissuance.

Source: Audit Analytics (2017).
The size of restatements has also fallen in recent years.

Source: Audit Analytics (2017).
The number of securities class action lawsuits has remained fairly stable.

Includes cases filed in federal and state court.
Source: Advisen (2017).

gsb.stanford.edu/cgri-research
Settlement for these cases can be very large.

Source: Cornerstone Research (2017)
The number of bankruptcy filings peaked following the telecom and dotcom crash. They peaked again during the financial crisis.
The size of bankruptcies was considerably higher during the financial crisis. The Lehman Brothers bankruptcy alone involved $600 billion in assets (2008).

Source: BankruptcyData (2017).
FOREIGN CORRUPT PRACTICES ACT (FCPA)

Federal agencies have aggressively prosecuted allegations of foreign bribery...

Source: Gibson Dunn (2017).

gsb.stanford.edu/cgri-research
FOREIGN CORRUPT PRACTICES ACT (FCPA)

... and have extracted large settlements from U.S. listed corporations.

![Bar chart showing the total value of monetary resolutions from 2008 to 2016.]

Resolutions include the combined value of penalties, disgorgements, and interest to resolve FCPA violations. Source: Gibson Dunn (2017).
The SEC receives thousands of whistleblower tips each year.

The Whistleblower Rules program became effective August 2011. FY2011 reflects a partial year.
These tips allege a wide variety of corporate malfeasance.

- Corporate disclosures & financials: 936
- Offering fraud: 646
- Manipulation: 472
- Insider trading: 262
- Trading and pricing: 257
- FCPA: 238
- Unregistered offerings: 143
- Market events: 102
- Municipal Securities & public pensions: 67
- Other: 996
- Not reported: 97

The Whistleblower Rules program became effective August 2011. FY2011 reflects a partial year.
If successful, whistleblowers can receive large awards for their tips.

As of July 2017. The nature of the case leading to the award is not disclosed.
GOVERNMENT WHISTLEBLOWER PROGRAM

Most complaints against corporations involve personnel matters.

Based on 3,355 complaints received in FY2016.
The majority of complaints are dismissed or withdrawn.

"Merit" represents complaints found in favor of the complainant; "kick out" represents actions for de novo review in a district court. Source: U.S. Department of Labor, Whistleblower Investigation Data, FY2006-2016.


