CHAPTER 17

Fraud Detection

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PREAMBLE

Fraud can be defined as a criminal activity, involving false representations to gain an unjust advantage (Concise Oxford Dictionary). Fraud occurs in a wide variety of forms and is ever changing as new technologies and new economic and social systems provide new opportunities for fraudulent activity. The total extent of business losses due to fraudulent activities is difficult to define. One estimate claims that financial losses range from $100–150 billion per year. The Association of Certified Fraud Examiners estimates that U.S. organizations lose about 7% of their revenues to fraud. If this were to hold true for all organizations contributing to the Gross Domestic Product of about $14 trillion for 2007, fraud losses could be as high as $1 trillion.

This discussion of fraud detection is not intended to be inclusive of all types of fraud, nor is it definitive of even the types discussed in the following sections. The purpose of this chapter is to introduce you to fraud detection, give you a simple example of how to build a fraud model, and direct you to additional references to broaden and deepen your knowledge of the vast scope of fraud detection.