

ABUSE, THE ROADWAY TO FRAUD

Daniel G. Kyle

Fraud represents a failure of moral standards, both for the individual committing the fraud, for the entity where the fraud occurs, and for the society, as a whole. Fraud, generally, finds its origin in the selfish attitude that each of us is an entirely autonomous individual. Such a self-centered attitude asserts that no person has an interest in, or a responsibility for, any other human being. But that is not true. In contrast, as the seventeenth century clergyman and poet John Donne said: "No man is an island. Every man is a piece of the continent." We are connected to one another. We have obligations to one another. We have the responsibility to live by a code of ethical and moral behavior. If all people adhered to such a code, fraud, as well as many of the other problems that beset the world, would not exist.

But fraud does exist. Fraud is a problem, even though many people would rather not think about it. For to think about fraud is to admit some not very nice things about human nature. It would be much more pleasant to pretend that fraud, along with the other evils that afflict us, does not exist. But that path is the path of surrender; a path we must not take.

Therefore, we must think about fraud. We must do more than think about it. We must understand what fraud is, where fraud comes from, and how we are to combat it. For fraud, and the related problem of abuse, are major problems. According to the Association of Certified Fraud Examiners' 1996 "Report to the Nation," fraud and abuse cost employers an average of \$9 a day per employee, or more than \$400 billion annually.

What is \$400 billion? It is hard for any of us to imagine what that number means. Even for someone in the accounting profession, at a certain point numbers may begin to lose any connection with reality. Therefore, let me provide you with some illustrations.

- 400 billion is twice the number of stars in the entire Milky Way galaxy.
- \$400 billion is about fifty percent more than the United States budgeted for its national defense in Fiscal Year 2000.
- The \$400 billion that the United States annually loses to fraud exceeds the gross national products of 138 of the world's 150 countries. Only 12 coun-

Daniel G. Kyle, Ph.D., CPA, CFE, is Louisiana's Legislative Auditor. After teaching accounting for many years at Louisiana State University, he became Louisiana's third Legislative Auditor, responsible for auditing state and local government.