

2019 Fraud Risk Survey

Introduction

Like any company, MTS Systems Corporation (MTS) may be a target for fraudulent acts perpetrated through both internal and external sources. In recent years, unethical and fraudulent activities have been identified resulting in disciplinary action up to and including employee terminations. Regulations require MTS to take reasonable steps to prevent fraudulent activity that could harm our employees, customers, suppliers, or shareholders.

This Fraud Risk Assessment Survey is one of many tools MTS uses to help reduce the potential for fraud. It is a reminder that you play a lead role in fraud prevention. This survey asks you to think about fraud risks in your business function and to independently assess if controls exist to reasonably protect MTS from those risks.

This survey should be answered based on your area and level of expertise. For example, Directors and Managers should answer from a management level perspective, and other MTS professionals should answer from their functional level perspective.

Please complete this survey **by Friday, September 14, 2019**. If you have any questions, please contact the Office of Risk and Compliance at MTS_Risk_And_Compliance@mts.com

What is Fraud?

Wrongful deception intended to result in financial or personal gain.

Types of fraud may include:

- a. **Asset Misappropriation** – Taking or using goods, services, money, or benefits, either internal or external to MTS, without due payment.
- b. **Third-Party Fraud** – Any fraud committed solely by a third party or committed by a third party in collusion with another party who may be internal or external to MTS.
- c. **Conflicts of Interest** – Situations where employee decisions and actions are influenced by personal interests.
- d. **Financial Reporting** – Deliberate misrepresentation of the financial condition of MTS accomplished through intentional misstatement or omission of amounts or disclosures in the financial statements.
- e. **Information Security and Cyber Fraud** – Any fraud involving the misappropriation of information, systems access, or the unauthorized use or manipulation of information networks for personal gain or financial – or other – loss of MTS.
- f. **Corruption and Bribery** – The use or offer of the use of money or power to influence another party's actions to perform unauthorized tasks in some unauthorized manner to benefit personal or organizational interests.
- g. **Global Trade** – Any fraud committed to bypass import laws, export laws or change the outcome of transactions involving the transfer of goods, services, technology, knowledge, and software across international borders.

Examples of what is NOT Fraud?

- a. An error in the calculation of inventory reserve or payroll accrual.
- b. Not reviewing account reconciliations in a timely manner.