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MANAGING THE RISK OF FRAUD

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The ACFE survey estimated that US organizations lose 7% of their annual revenues to fraud.

This translates to approximately \$994 billion in annual fraud losses.

Small Businesses Suffer from Company Fraud

Any business is vulnerable to fraud within its ranks, but small firms are especially susceptible, according to new data from the Association of Certified Fraud Examiners.

The median loss suffered by organizations with fewer than 100 employees was \$200,000, a figure higher than the median loss in any other category including the largest organizations. Check tampering and fraudulent billing were the most common small business fraud schemes, found in the Report to the Nation on Occupational Fraud and Abuse.

Fraud

The study was based on data compiled from 959 cases of occupational fraud that were investigated between January and February 2008.

The typical fraud in the study lasted two years from the time it began until it was caught by the victim organization. The most common fraud scheme for businesses of all sizes was corruption, which occurred in 27 percent of all cases. Fraudulent billing schemes happened in 24 percent of the cases.

Financial statement fraud was the most costly category with a median loss of \$2 million.

Occupational fraudsters are generally first-time offenders, the fraud examiners found. Only 7 percent of fraud perpetrators in the study had prior convictions.

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Profile of a Fraudster

What type of person is most likely to commit fraud? According to a report published by the Association of Certified Fraud Examiners (ACFE), new research shows that men, 41-50 years old, working in an accounting department are the most common offenders.

The ACFE's 2008 Report to the Nation on Occupational Fraud & Abuse examines the characteristics of fraud perpetrators as one aspect of its comprehensive look at the problem of fraud among U.S. organizations. In most cases, offenders are a trusted part of a team who take advantage of their situation to get their hands on company assets.

The Report provides benchmarking data compiled from 959 cases of occupational fraud that were investigated

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Fraud *(Continued from page 1)*

tions and 12 percent had been previously terminated by an employer for fraud-related conduct.

The experts also said that fraud perpetrators often display certain behaviors that can indicate possible illegal activity. The most commonly cited red flags were the criminals living beyond their apparent means, which occurred in 39 percent of the cases, or experiencing financial difficulties, which happened 34 percent of the time. In financial statement fraud cases, excessive company pressure to perform well was a particularly strong sign.

Most businesses surveyed said they did not have internal controls for spotting fraud and most information about a possible fraud came from a tipster.

*Ultimately, all frauds
will become big frauds!*

WE CAN HELP

The Investigative Auditing Division of LEVI & SINCLAIR can help you secure your corporate assets and create an environment which is hostile to fraud.

It is important that you be aware of the symptoms of fraud and that these not be ignored.

THE BEST WEAPON AGAINST

FRAUD IS KNOWLEDGE

The Report also found that:

- Fraud schemes tend to be extremely costly. The median loss caused by the occupational frauds in this study was \$175,000. More than one-quarter of frauds involved losses of at least \$1 million.
- Schemes frequently continue for years before they are detected. The typical fraud in the study lasted two years from the time it began until the time it was caught by the victim organization.
- Frauds were most often committed by the accounting department or upper management, and most fraudsters were first-time offenders. Only seven percent of fraud perpetrators in the study had prior convictions and only 12 percent had been previously terminated by an employer for fraud-related conduct.
- Occupational frauds are much more likely to be detected by a tip than by audits, controls or other means.
- Small businesses are especially vulnerable to occupational fraud.
- Seventy-eight percent of victim organizations modified their anti-fraud controls after discovering that they had been defrauded.
- The Report also details findings such as how organizations were impacted based upon industry, how the implementation of anti-fraud controls affected exposure to fraud, and the most common behavioral traits ob-

MANAGING THE RISK OF FRAUD has been prepared for the general information of our clients, staff and other interested parties. The enclosed comments are of a general nature and are not intended to cover all aspects of the subject matter. Prior to implementing any planning based upon information in this publication, the specific facts pertaining to any particular situation should be carefully considered. We will be pleased to assist in this regard and to provide further details pertaining to the matters discussed herein.

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Profile of a Fraudster *(Continued from page 1)*

by Certified Fraud Examiners (CFEs) between January 2006 and February 2008. The Report examines different factors such as losses by industry, the effect of internal controls, and the average cost of different types of occupational fraud, with eye-opening statistics that paint a grim picture: participants in the survey estimated that U.S. organizations lose 7 percent of their annual revenues to fraud.

In the ACFE's Report, the world's premier provider of anti-fraud training and education found that:

- **Fraud is a man's world.** According to the survey, males are more than twice as likely to commit fraud as their female colleagues. Significantly, the median loss of fraud by men is more than twice as great as frauds perpetrated by women, according to the study. One hypothesis: the gender disparity might be due to the remaining "glass ceiling" phenomenon, with males holding more management and executive level positions – and having a greater opportunity to commit costly frauds.
- **Many fraudsters are in their forties.** The highest percentage of fraudsters in the study were between the ages of 41-50 (in more than half of all cases, the perpetrator was over 40). Generally speaking, older professionals often occupy positions with authority and more access to company resources. The Report finds that the median loss from fraud rose as the age of the fraudster increased. Schemes perpetrated by individuals in their 50s resulted in a median loss of \$500,000, twice as high as any age bracket below them.
- **The 'lone wolf' versus cooperative crooks.** In nearly two-thirds of the fraud schemes covered by the study, the perpetrator acted alone. Yet when the scheme did involve collusion of two or more parties, the results were much more costly. Cases of collusion resulted in a
 - median loss over four times higher than the amount lost to fraudsters acting alone. This might mean that collusion enables employees to better circumvent controls that might stop a single perpetrator.
- **Education and position.** Most perpetrators have attended or graduated from college. About 11 percent have obtained a post-graduate degree. In general, the higher the education level, the more costly the fraud. Furthermore, the highest percentage of fraudsters worked in the accounting department when they executed their scheme. Because these employees handle financial transactions, they normally have the easiest access to fiscal assets and the most opportunity to conceal a fraud. Executives and upper management made up the second-most common category of fraudsters. The least common perpetrators? Internal auditors.
- **Living the fraud life.** According to the Report, there are several behaviors that serve as red flags displayed by perpetrators. The two most common traits are a tendency to live beyond one's means, and a struggle with financial difficulties. More than a third of those identified displayed at least one of the aforementioned behaviors, and about 20 percent had either a "wheeler-dealer attitude," control issues (unwillingness to share duties), or personal problems, such as a divorce. Other red flags might include irritability or defensiveness, addiction problems, past legal problems, refusal to take vacation and complaining about inadequate pay.

The presence of these characteristics does not in and of itself signify that a fraud is occurring or will occur in the future. However, every organization needs anti-fraud professionals in their ranks who are trained to understand and identify the potential warning signs of fraudulent conduct. Certified Fraud Examiners provide the expertise needed to detect, prevent, and com-

About the Report to the Nation on Occupational Fraud & Abuse. The first Report to the Nation was published by the ACFE in 1996. The ACFE has published subsequent editions in 2002, 2004, 2006, and now 2008, and over that time the Report has come to be regarded as the most authoritative statistical resource available on occupational fraud. The Report to the Nation is available for download online at the ACFE's web site: www.ACFE.com/RTTN.

ABOUT LEVI & SINCLAIR

LEVI & SINCLAIR is a firm of chartered accountants that traces its origin in Montreal to 1950. We pride ourselves on being more than just an accounting firm. We offer an effective blend of personalized service, experience and technological leadership, coupled with a steadfast commitment to consistently deliver excellence. Our Chartered Accountants and Business Consultants provide advisory services on a broad range of issues to both our individual and corporate clients. The members of our firm possess unique talents, expertise and experience, giving our clients access to a knowledge base of considerable breadth and depth. Together with our support personnel, we share a commitment to developing practical solutions for the business challenges of today, and to devising strategies for tomorrow.

OUR SERVICES

Our firm takes pride in adding value to every client that we serve through our extensive expertise and proactive approach to your financial needs. We match our dedication to adding value with experience and expertise: we have experience in servicing virtually every type of industry and professional practice.

TAXATION

Our office has a strong basis in federal and provincial tax issues. Our tax group has been in existence for 50+ years and is highly qualified and experienced. Our accountants work hard to minimize your taxes, yet make sure that you fulfill your tax requirements ethically while working to add value. We can fill a variety of tax needs, both domestic and international as well as corporate and personal. Our specialties lie in tax reporting and representation, tax planning (business, personal, divorce and litigation), tax structuring of entities and transactions and tax research.

FINANCIAL

LEVI & SINCLAIR can meet all of your basic financial needs with our exemplary Accounting Services Group that can truly add value whether it's your business or your personal finances that we are reviewing. We work with business entities as well as non-profits and foundations. Our accounting services include; auditing and compilation review of financial statements, budgets and forecasts, and government reporting. We won't simply process your financial statements, our mission is to add value. We will go the extra mile to help you forecast or locate opportunities that you may be missing.

BUSINESS CONSULTING

LEVI & SINCLAIR's Business Consulting unit has proven itself as a valuable resource to businesses of all kinds. We can help you plan your future, whether you see it coming or not. We can help you bring seminal business events to life; like mergers and acquisitions, business valuation, leases and contracts, or business development plans, all of which take a huge amount of planning and attention to detail. If there are no big events on your horizon, we can still be of service by helping you to anticipate the unexpected through our forecasting, real estate projections, risk management assessments, or our feasibility studies. We look at your business and all of its many facets, to find both issues and opportunities and bring that valuable insight to you.

LITIGATION SUPPORT AND DISPUTE RESOLUTION SERVICE AREAS

- **Civil and criminal Fraud Investigation**
- **Management and employee fraud and theft**
- **Identification of secret commissions and kickbacks**
- **Sarbanes-Oxley compliance audits**
- **Sarbanes-Oxley 404 audits**
- **Intellectual Property Litigation Support**
- **Training on fraud awareness and prevention**
- **Due Diligence Audits**
- **Business valuation**
- **Fairness opinions**
- **Insurance claim assistance**
- **Retail sales audits**
- **Contract dispute resolution**
- **Professional negligence litigation support**
- **Fraud prevention program design, implementation and evaluation**
- **Bank due diligence audits**
- **Employee background audits**
- **Financial discrepancy analysis**
- **Divorce litigation support**
- **Insurance claim quantification**
- **Breach of contract quantification**
- **Electronic Discovery and Data Recovery**
- **Computer forensics**

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