



# Cultivating Value

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## Thoughts From Tom

The fraud statistics are shocking and businesses of all types and sizes are vulnerable. A recent report published by the Association of Certified Fraud Examiners (ACFE) revealed that **36%** of the cases reported were from entities **with less than 100 employees** and the **median loss was \$190,000**. The application of fraud deterrence procedures by an experienced and trained professional can identify areas of weakness and develop controls and procedures to help to ensure that this does not happen to you.

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## Our Managing Director



**THOMAS P. BENSON, CPA, CFFA, CVA**

is the Managing Director of the Vineyard Group, LLC. An experienced executive and advisor, business valuation specialist and litigation support expert, he has twenty years of consulting and public accounting experience along with ten years in senior management positions with manufacturing companies. As a result, Tom has the unique blend of experience, skill, vision and understanding required for handling the complex challenges that today's professionals and businesses are constantly faced with.

In addition to being a Certified Public Accountant and a Certified Valuation Analyst, Tom holds the exclusive designation of Certified Forensic Financial Analyst. He is a member of the New York State Society of Certified Public Accountants, the American Institute of Certified Public Accountants and the National Association of Certified Valuation Analysts.

## Occupational Fraud and Abuse

Occupational Fraud is defined as "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets".

Occupational Fraud and Abuse imposes enormous costs on organizations. The estimation rendered by the last ACFE study shows that US organizations lose 5% of their annual revenues to fraud. Applied to the estimated 2006 United States Gross Domestic Product, this figure would translate to \$652 billion in fraud losses. The median loss is \$159,000 but can be up to \$190,000 for small businesses. Fraud schemes can be very difficult to detect with the average length being 18 months.

There are three different types of Occupational Fraud and Abuse:

- Asset Misappropriations (in over 90% of all cases),
- Corruption
- Fraudulent Statements.

**Who is at risk?** All organizations, especially small businesses.

**Who could it be?** The typical characteristics of the perpetrator are a male, with no previous felony record, although the fraudster could be anyone in the organization. The higher the position or seniority in the company, the more harm the individual can inflict. This person is trusted and has the opportunity, with access to organizational resources and is able to override controls in order to conceal the fraud.

Only 70.6% of the victimized organizations have reported the case to law enforcement authorities. The main reason for declining to prosecute is their fear of bad publicity. More often than not, they recover nothing or a minimal percentage of what had actually been stolen.

Data from 2006 ACFE Report to The Nation on Occupational Fraud & Abuse

Category	Description	Examples	% of cases	Median Loss
<b>Asset Misappropriations</b>	Any scheme that involves the theft or misuse of an organization's assets.	<ul style="list-style-type: none"> <li>▪ Fraudulent invoicing</li> <li>▪ Payroll fraud</li> <li>▪ Skimming revenues</li> <li>▪ Stealing inventory, information</li> </ul>	91.50%	\$150,000
<b>Corruption</b>	Any scheme in which a person uses his or her influence in a business transaction to obtain an unauthorized benefit contrary to that person's duty to his or her employer.	<ul style="list-style-type: none"> <li>▪ Accepting or paying a bribe</li> <li>▪ Engaging in a business transaction where there is an undisclosed conflict of interest</li> </ul>	30.80%	\$538,000
<b>Fraudulent Statements</b>	Falsification of an organization's financial statements to make it appear more or less profitable.	<ul style="list-style-type: none"> <li>▪ Booking fictitious sales.</li> <li>▪ Recording expenses in the wrong period</li> </ul>	10.60%	\$2,000,000

**VINEYARD GROUP, LLC**



*Cultivating Value...Seedling to Harvest*

# Fraud Prevention Through Deterrence

Burglar alarm companies have reported for decades that 80% of the businesses and homes that have alarms installed do so *after* they have been burglarized. Similarly, business owners and managers tend to believe that one of their employees would ever steal from them, until one day they discover that their most trusted employee has stolen from the business they have worked so hard to develop and grow.

Fraud detection efforts often begin when fraud is suspected or discovered. These efforts are frequently expensive and time consuming. The odds of quantifying the exact stolen amounts are slim. For small businesses, only 20 percent recover the full amount of the original loss, and 40 percent recover nothing at all.

## Real Life Example

A bookkeeper for a small business owner filled out a change of address form for the owner's credit card without the owner's knowledge, diverting all future correspondence about the card to her home. Then she and her husband racked up nearly \$70,000 worth of charges - from a vacation at a rental cottage in North Georgia to meals at the Hard Rock Café - on the card. The bookkeeper paid the bill with money from the company's line of credit, doctoring QuickBooks entries to cover her tracks. When contacted, the owner said, "I felt outraged and betrayed. I was scared to death because I didn't know how else she'd used my identity fraudulently."

To get his finances and his business back on track, the owner had to hire two lawyers and a fraud examiner, pay thousands in late fees to his vendors, cancel his health insurance, mortgage his house and, of course, re-examine the way he manages his business.

## The Solution

Fortunately, there are qualified experts to help detect and reduce your exposure to Fraud.:

- Certified Fraud Deterrence Analyst (CFD) - Has undergone rigorous training sponsored by the National Association of Certified Valuation Analysts (NACVA) and the Fraud Deterrence Institute (FDI)
- Certified Fraud Examiner (CFE) - Represents the highest standards held by the ACFE and possess expertise in all aspects of the anti-fraud profession

The focus of a Fraud training program is to become familiar with common Fraud schemes. It is also to develop, for any entity, a comprehensive program and plan to protect the organization from Fraud. This is done in collaboration with management; it is up to the management to foster an ethical environment and monitor their system to know when Fraud might be committed.

A fraud deterrence engagement is a comprehensive plan for deterrence through the evaluation and tightening of internal controls and the development of a healthy control environment. This method is proactive in nature. It is conducted before events are suspected and involves monitoring for compliance and updating for changes in all aspects of internal control, personnel and asset management.

Typical Occupational Fraud Schemes	Description
<b>Skimming</b>	Cash is stolen from a business before it is entered into the books. Ex.: An employee accepting payment from a customer without recording the transaction.
<b>Larceny</b>	Cash is stolen after it has entered the company books. Ex.: An employee steals checks or cash, after receipt, but before they can be deposited in the bank.
<b>Billing or expense reimbursement</b>	A person within the organization may submit an invoice for goods or services not provided or for personal usage.
<b>Check tampering</b>	Involves stealing an employers' funds by forging, altering or stealing a check originally issued to another payee.
<b>Payroll</b>	Involves a person causing his employer to issue an improper payment by making a false claim for compensation Ex.: Overtime for unworked hours, adding ghost employees to the payroll)

The **Vineyard Group, LLC** has a CFDA and two CFE's on its staff to help you. As advisors, we encourage you to be more aggressive in protecting your company's assets. No one thinks it will happen in his or her business, but it can happen to you.

**We can help you assess your risks and reduce your exposure.**

## Management Advisory Services

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## Fraud Deterrence and Investigation

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## Ownership Transition Services

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