



WB FINANCIAL GROUP

FRAUD IN SMALL AND MID-SIZE BUSINESSES



Learning Objectives

“DOVERIFYAI, NO PROVERIFYAI – TRUST, BUT VERIFY”

FRAUD

- What is it?
- Loss Statistics
- Who does it?
- Does it happen here?
- Behavioral Red Flags
- Fraud Triangle
- How is it detected and controlled?

Fraud – What is it?

- Theft – taking something through force or stealth
- Fraud – taking something through deception
- Criminal or civil?
 - Fraud is a criminal act
 - Victims can raise civil action to recover assets
- Types of fraud
 - Financial statement misstatement
 - Use of occupation for personal enrichment
 - Deliberate misuse or misapplication of employer's resources

Fraud – Loss Statistics

- Frequency and median loss by organization type:
 - Private companies – 38% and \$180,000
 - Public companies – 29% and \$178,000
 - Governments – 19% and \$109,000
 - Nonprofit – 10% and \$100,000
 - Other – 5% and \$92,000

- Size of median loss for small entities < 100 employees
 - 2008 - \$200,000
 - 2010 - \$155,000
 - 2012 - \$147,000
 - 2014 - \$154,000
 - 2016 - \$150,000

Source: 2016 report to the Nations on Occupational Fraud and Abuse.

Fraud – Loss Statistics

Median Duration of Fraud Schemes Before Detection & Resulting Loss

Type	How	Duration	Loss
Financial statement fraud		24 months	\$975,000
Check tampering	intercepting, forging, or altering a check drawn on one of the entity's bank account	24 months	\$158,000
Billing	invoicing fictitious goods or services, inflated invoices, personal purchases, etc	24 months	\$100,000
Payroll	Fictitious or inflated payroll	24 months	\$90,000
Expense reimbursements	claiming fictitious or inflated expenses	24 months	\$40,000
Skimming or cash on hand	cash is stolen before recorded in records	15-20 months	\$90,000
Non cash	stealing inventory, misusing confidential customer financial information	15 months	\$70,000

Source: 2016 report to the Nations on Occupational Fraud and Abuse.

Fraud – More Statistics

Reporting

- Only 59% of cases are referred to law enforcement
- Only 23% of cases result in a civil action
- 58% of victims do not recover any losses
- Only 12% of victims make a full recovery

Smaller Entities vs Larger Entities

- Undergo external audit - 56% vs. 91%
- Provide fraud training - 23% vs. 63%
- Require management certification of financial statement - 43% vs. 84%
- Formal Code of Conduct - 54% vs. 91%
- Smaller entities are more likely to discover instances of fraud by **accident** compared to larger entities

Fraud – Who does it?

Percentage of fraud and median loss by level of authority:

- Owner/executive -- 19% of cases at \$703,000 median loss
- Manager -- 37% of cases at \$173,000 median loss
- Employee -- 41% of cases \$65,000 median loss

Length of employment % of cases and median loss:

- > 10 years 23% and \$250,000
- 6-10 years 27% and \$210,000
- 1-5 years 42% and \$100,000
- < 1 year 8% and \$49,000

Source: 2016 report to the Nations on Occupational Fraud and Abuse.

Fraud – Who does it?

- 69% Male
- 70% 31-50 years of age
- 87% were first-time offenders with clean employment histories and no red flags in their background
- > 50% launch fraud after at least 6 years tenure
- Only 7% perpetrate fraud in the first year with entity
- Collusion - helps employees evade independent checks and other anti-fraud controls and the average loss increase

Source: 2016 report to the Nations on Occupational Fraud and Abuse.

Fraud – Does it happen here?



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Home > Local > Former college president denies \$535,000 fraud

Local

Former college president denies \$535,000 fraud

By James Whittaker - February 9, 2015



The former president of the University College of the Cayman Islands has denied stealing more than \$500,000 from his former employer.

He formally entered not guilty pleas in the Grand Court on Friday to a string of dishonesty offenses relating to his time as head of the institution between 2006 and 2008.

He is accused of falsely claiming to have a doctorate to get the position as president of UCCI.

Fraud – Does it happen here?



Home > Local > 'Perennial fraudster' loses appeal

Local

'Perennial fraudster' loses appeal

By **Carol Winker** - May 14, 2014



Former Rotary Club president _____, whom the Court of Appeal described as “a perennial fraudster,” lost his appeal to overturn his sentence of seven-and-a half years for the theft of US\$846,260 from law firm Solomon Harris.

The Cayman Islands Court of Appeal said the case involved “substantial sums of money and a severe breach of trust by a perennial fraudster.”

Fraud – Does it happen here?



- Advertisement -

The former financial controller for The Security Centre Ltd. was sentenced to four years, two months and 12 days in prison on Friday for stealing more than \$420,000 from her employer.

She pleaded guilty to one charge of theft and was given a 30 percent reduction from the total sentence of six years' imprisonment.

Justice Charles Quin said there was significant planning in the crime and that she harmed innocent third parties by concealing her acts for three years.



MORE NEWS FROM THIS WEEK



A killer net in Cayman waters? Not today, Bobo

April 22, 2018



Duo charged in dog cruelty case receive new court date

Fraud – Does it happen here?



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Local

Tennis pro arrested in fraud probe

By **James Whittaker** - January 24, 2018



The long-serving manager of the Cayman Islands Tennis Club has been arrested on suspicion of embezzling funds.

, also head professional at the South Sound club, was arrested Friday on suspicion of fraud, theft and obtaining property by deception in connection with money alleged to be missing from the club's accounts.

He has not been charged at this point and is currently on police bail.

Fraud – Behavioral Red Flags

Red Flags for Fraud Cases

- Living beyond means
- Facing financial difficulties
- Unusually close vendor or customer relationship
- Excessive control issues

Red Flags of Dishonest In a Fraud Interview

- Changes in speech patterns or body language
- Frequently uses terms “Honestly..,” or “I swear...”
- Less likely to strongly deny an accusation, gives vague answers
- Shifts attention from the issue by intimidating the interviewer’s competence, experience, diligence, etc.
- Attempts to sidestep questions and change topic

Source: 2016 report to the Nations on Occupational Fraud and Abuse.

The Fraud Triangle

Medical bills, expensive
tastes or addictions

PRESSURE



RATIONALIZATION

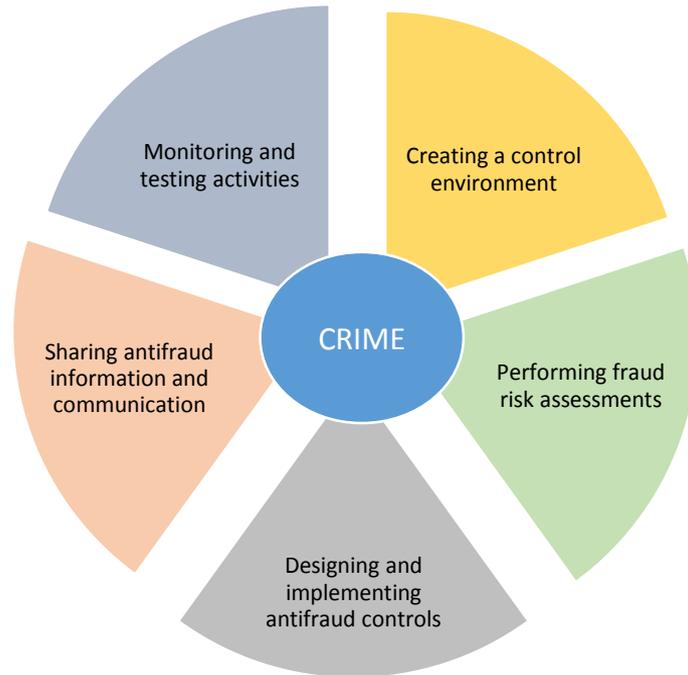
'Everyone does it'
'I'm just borrowing it'

OPPORTUNITY

No or weak controls

Fraud - How is it detected and controlled?

- Tip – 52% from employees of victim organization
- By accident
- Management review
- Internal audit
- Account reconciliation
- External audit
- IT controls



Fraud - How is it detected and controlled?

Proactive anti-fraud controls result in earlier detection and lower losses

Biggest Fraud Deterrent = Fear of Getting Caught

- Segregation of duties and dual controls
- Management review, testing of controls
- Having a Fraud Policy and training, raising the awareness
- Management certification of financial statements and proactive data monitoring or analysis
- Surprise audits, or stock counts

Reduce both the cost and duration of fraud by 50%

Our Team



Paul Muspratt – CA, TEP

Paul is a member of the WB Financial Group in Cayman. Paul jointly manages the firm's Financial Advisory business in the Cayman Islands, and has over twenty years of professional accounting and management experience with a focus on financial services and hospitality.

Before joining WB Financial, Paul had a variety of experiences from large, multinational fund administrators, to establishing and managing bank and trust businesses. Paul's responsibilities have similarly extended from financial accounting, directing operations, through to compliance and risk management.

Before Cayman, Paul worked for Ernst & Young in their UK financial services practice and before that with Arthur Andersen; he trained as a Chartered Accountant with PwC in Scotland.

Paul has a BA (hons) from Exeter University, is a Chartered Accountant, and member of the Institute of Chartered Accountants Scotland, the Society of Trust and Estate Practitioners and the Cayman Islands Institute of Professional Accountants.



Steven Sokohl - CPA

Steven is a member of the WB Financial Group in Cayman. Steven jointly manages the firm's Financial Advisory business in the Cayman Islands, and has over twenty five years of professional accounting and management experience with a focus on financial services.

Before joining WB Financial, Steven had a variety of experiences from large multi-national banks to privately held family office structures. Steven's main responsibilities have focused on the financial and management accounting and regulatory aspects of these businesses.

Before Cayman, Steven worked for Arthur Andersen and Ernst & Young in their US audit and tax practices with an emphasis on financial service clients. Subsequently, Steven worked primarily within the financial services sector in major money centre jurisdictions (New York, Paris, Hong Kong and the Cayman Islands).

Steven has a BS (hons) from American University, is a Certified Public Accountant, and a member of the Cayman Islands Institute of Professional Accountants.



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Suggested Oversight Table

- Daily -- Cash, check, and credit card deposits
- Daily -- Key financial statistic and trend “snapshots”
- Weekly -- Collections, billings, and write-offs
- Pay Period -- Payroll register
- Monthly -- Face F/S, including cash flow information and budget
- Monthly -- Reconciliations of cash, A/R, A/P, and other key accounts
- Monthly -- Support for significant and unusual journal entries

Additional Fraud Prevention Measures

- Reconcile P.O. file with A/P file and/or Receiving file
- Identify disbursements authorized outside normal working hours
- Look for invoices with rounded amounts
- Look for sequentially-numbered vendor invoices
- Invoices just below dual-authorization limits
- Search for vendors with rapid increase in invoice volume
- Identify vendors who are paid faster than others
- Search for duplicate vendors

Management Oversight Critical

- Biggest Fraud Deterrent = Fear of Getting Caught
- Be alert for significant or unusual transactions and events:
 - E.g., unusual reconciling items, unexpected increase in volume, increase in transaction amounts, change in timing of activity, unsupported transactions, duplicate payments or invoices, etc.

Additional Fraud Prevention Recommendations by AICPA Fraud Task Force

- Emphasize importance of testing controls and closing loopholes
- Closely scrutinize monthly financial statements and reports
- Prohibit policies that pressure staff to meet unrealistic goals
- Require dual-authorization for significant transactions
- Be alert for particularly close relationships between employees, customers, or vendors that could result in collusion