



Minimizing the impact of fraud in your business

Esther Friedberg Karp, MBA

A photograph of two young women with blonde hair, seen from the chest up, engaged in conversation outdoors at night. The woman on the left is in profile, looking towards the right, wearing a dark jacket with a light-colored fur collar. The woman on the right is seen from the back, her hair tied in a ponytail. The background is dark and out of focus, showing some green foliage. The text 'Take a few moments to CONNECT with your neighbour' is overlaid in white on the right side of the image.

**Take a few moments
to CONNECT with
your neighbour**

CPD Process

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- You must stay in the session for the duration of the training
- This session is eligible for **1 hours of CPD**
- CPD certificates are emailed directly to you within 4 weeks of the conference date to the same email address you used to register

About today's speaker



Esther Friedberg Karp
BSc, MBA

Principal, EFK CompuBooks Inc.

**Advanced Certified QuickBooks ProAdvisor,
Desktop and Online**

Certified in the US, Canada, and UK

Member, Intuit Trainer / Writer Network (TWN)

**Insightful Accountant's Top 10 / Top 100
ProAdvisors**

**Top 10 Influencer in the Canadian Bookkeeping
World**

A little more about me

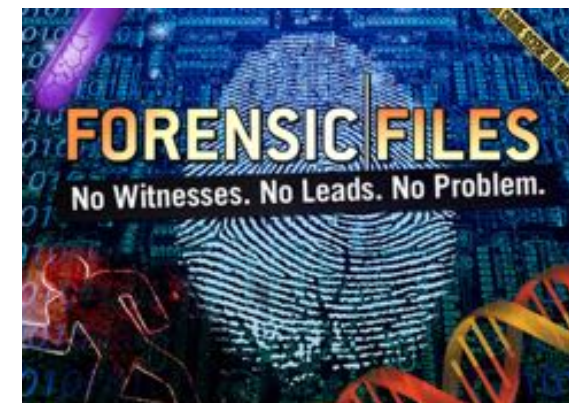
Yes, I like numbers, but I like letters too

- CPB designation this year

I love detective & crime stories, mysteries & whodunnits

I want more letters after my name

I can't stand the sight of REAL blood



.... I joined the ACFE

The Association of Certified Fraud Examiners



Learning Objectives



Understand what occupational fraud is & its cost in Canada

Identify situations in which fraud is possible / likely

Learn how fraudsters “pulled it off”

Understand how to prevent fraud in the future for your clients

Learn how to sell your clients on setting up systems to protect them

Agenda



Definition of occupational fraud

Some things you may not know about fraud

Why does fraud happen

Fraud red flags

Prevent Fraud: Internal Controls

Some real life cases from news & from “The Esther Files”

Sell your clients on setting up systems to prevent fraud

Questions

Definition of Occupational Fraud



Definition of Fraud



“

...wrongful or criminal deception
intended to result in financial or
personal gain”

Definition of Fraud: Oxford Dictionaries

Occupational fraud



- Likely the largest and most prevalent type of fraud that faces organizations
- Fraud committed against an organization by its own:
 - Officers
 - Directors
 - Employees
- An attack from **within** by those entrusted by the organization to protect its own resources or assets
- In other words...



The use of one's occupation for personal enrichment through deliberate misuse or misapplication of the employing organization's resources or assets"

Definition of Occupational Fraud: Association of Certified Fraud Examiners

Some Things You May Not Know About Fraud



Q. How much does occupational fraud cost in Canada?

A. In Canada, in 2011

26% of SMB's:

~ \$3.2 Billion CDN



What effect does fraud of this magnitude have on the economy?

**A. Employee theft has a hand
in 1 in 10 SMB bankruptcies**





Median duration
of a fraud scheme

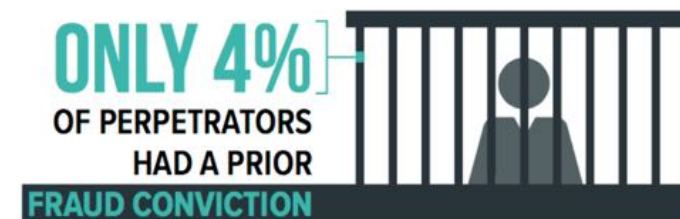


MONTHS

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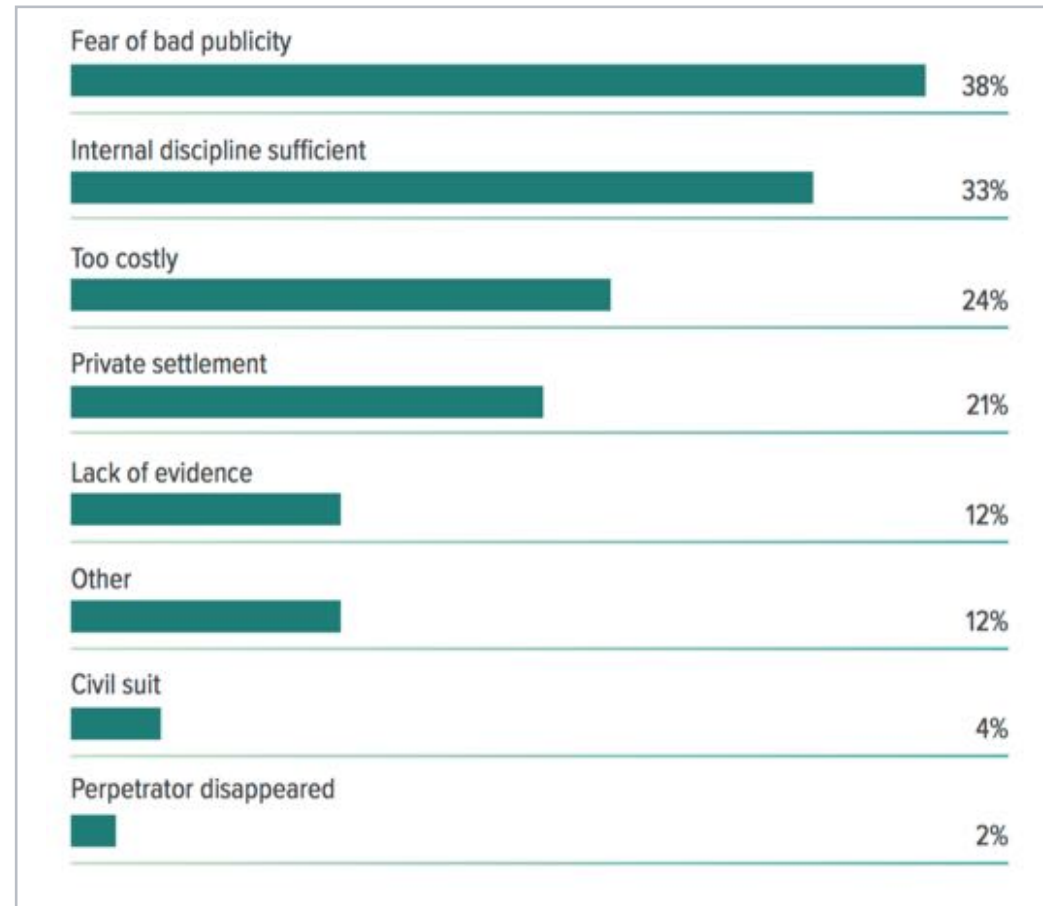
A MAJORITY OF THE VICTIMS **RECOVERED NOTHING**



All figures in USD

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Why do organizations decide *not* to refer cases to law enforcement?



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Q. Gender: Who defrauds more...

Men or Women?



A. Men.

Absolutely.

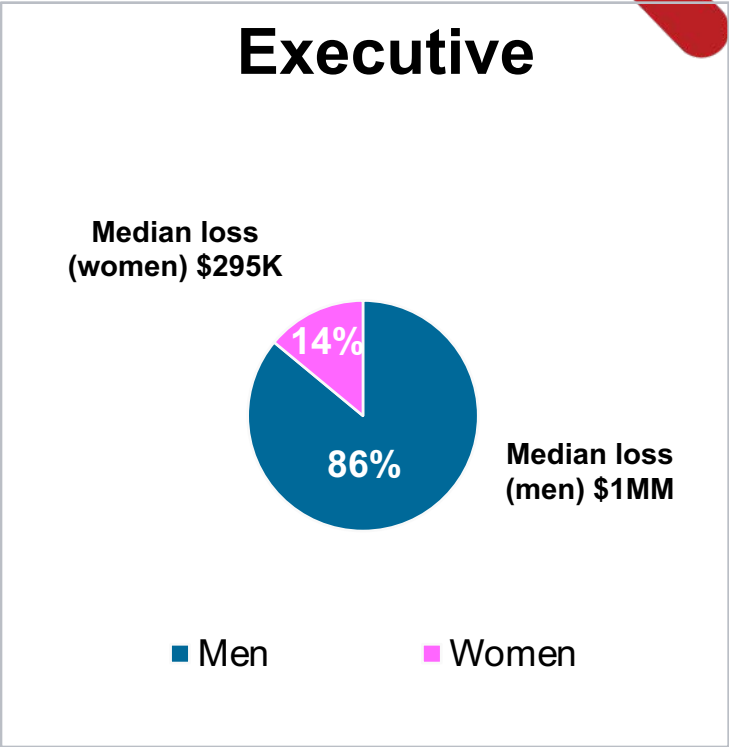
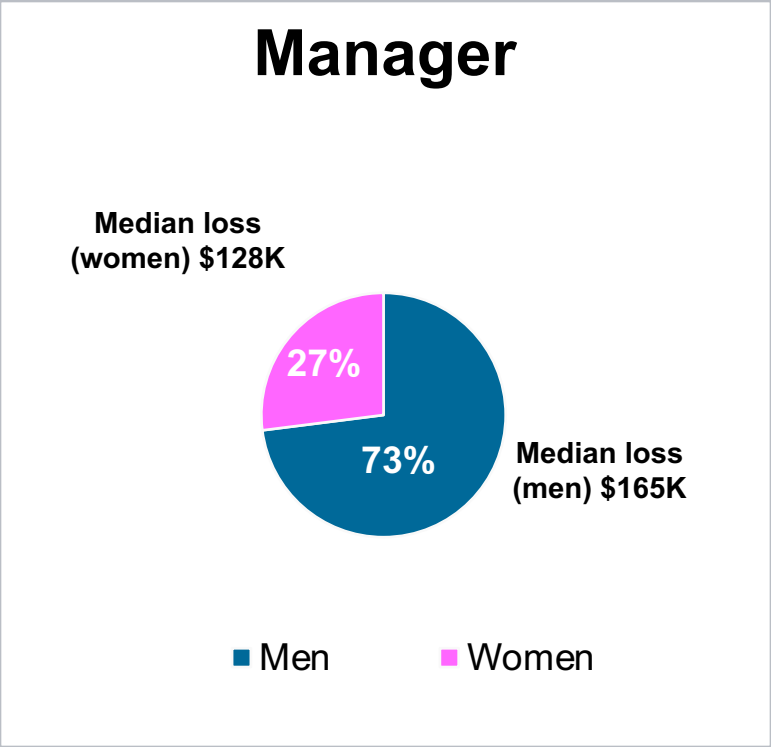
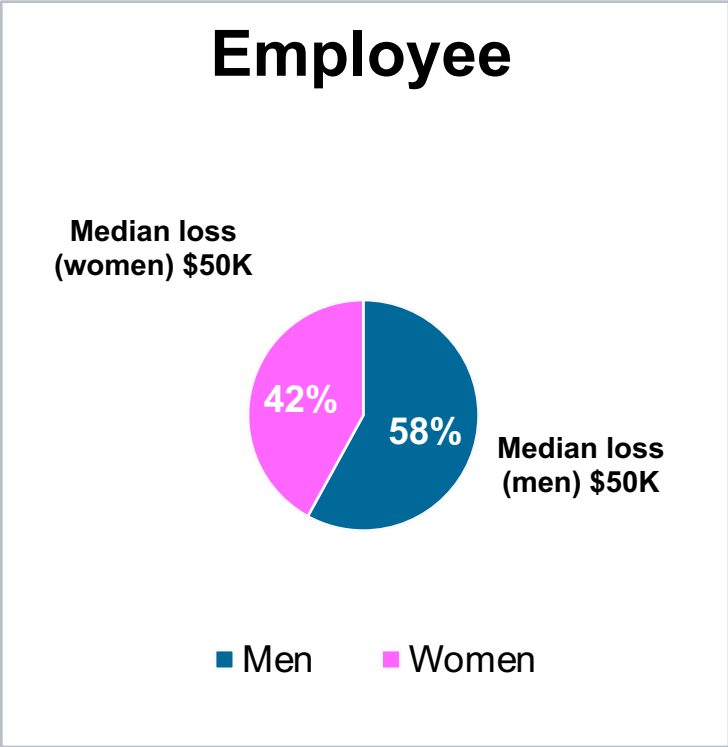




...and if you break it down by level of authority...

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Men have more opportunities and are better at it...



All figures in USD

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Q. Who loses more per fraud scheme?

Larger businesses
(100+ employees)

or

Smaller businesses
(with < 100 employees)

?



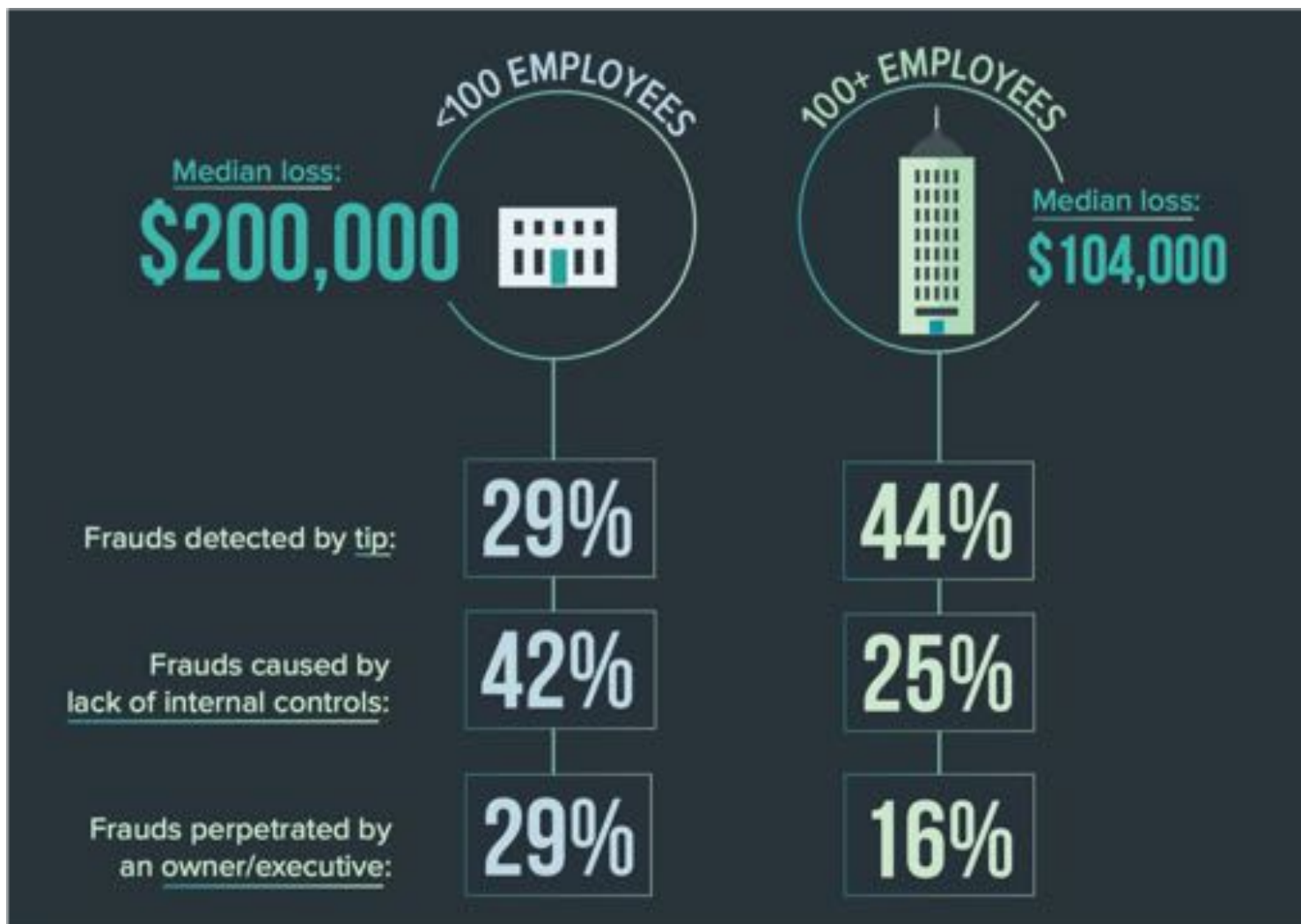
A. Smaller businesses lose **more per scheme**





All figures in USD

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All figures in USD

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Concealing Fraud



Concealing fraud



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One more thing...



Adding insult to injury...



When the government gets angry too...



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Why does fraud happen?



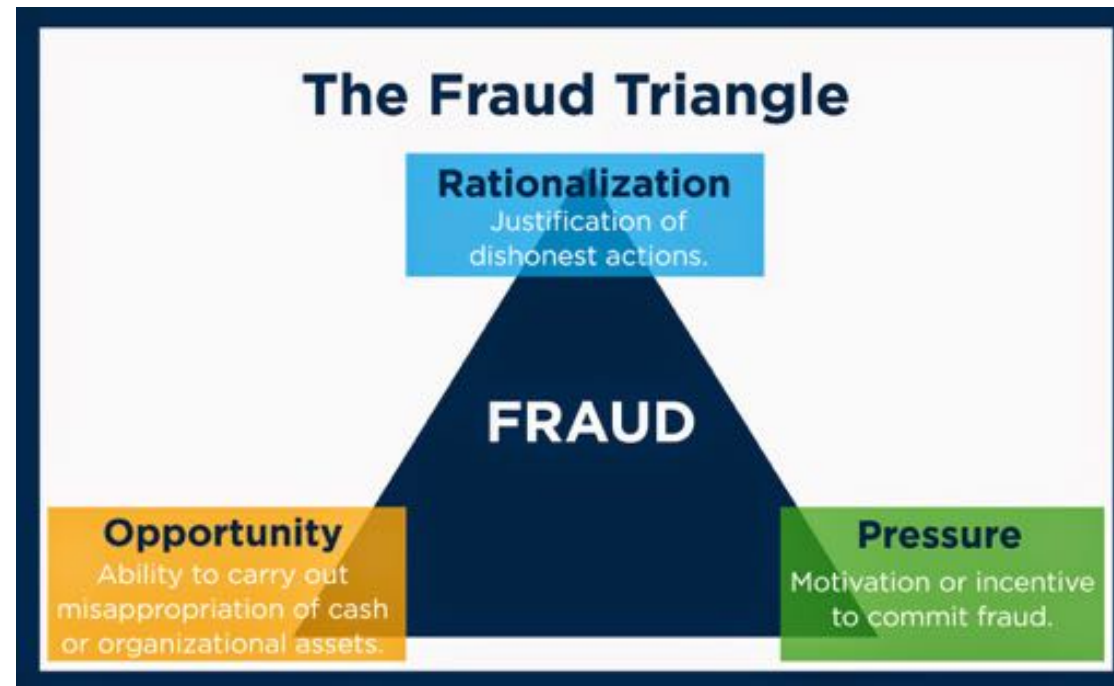
The Fraud Triangle

Why ordinary people to commit fraud



3. **RATIONALIZATION:** Vast majority of fraudsters are first-timers with no criminal past and don't view themselves as crooks; they see themselves as caught in a bad situation. They merely justify this act as acceptable.

2. Perceived **OPPORTUNITY** defines the method by which the crime can be committed (esp. if there are lax internal policies to mitigate/prevent fraud)



1. **PRESSURE:** Initial motivation, e.g. financial problem unable to solve through legitimate means

Source: ACFE

How is occupational fraud caught?



Most occupational fraud initially detected by



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Fraud Red Flags



Fraud red flags – Financial reports



Summary Financials with \$0 account balances

Exchange Gains/Loss accounts – check into them!

Cannot just press a button or two to produce a report

Reports for management are from Excel

Fraud red flags – Employee and the job



Refusal to take vacations, comes in early, leaves late

Control freak

The only employee who knows how to do particular task(s) in accounting software

Not even close to being current on accounting records

Enters payments & deposits & reconciles banks & cc's

Fraud red flags - Suppliers



Bills with vague details

Bills with drastic price/service changes

Supplier names with initials only

Supplier bills with no HST #

or wrong HST #

<https://www.canada.ca/en/revenue-agency/services/e-services/e-services-businesses/confirming-a-gst-hst-account-number/terms-conditions-use.html>

Fraud red flags - Suppliers



Supplier bills that have sequential bill numbers

Suppliers whose mailing addresses are PO boxes

Supplier bills showing different address

Supplier bills showing slightly different name

Fraud red flags – Employee general behaviour



Living beyond their means

Financial difficulties

Unusual close association with vendor or customer

Excessive control issues or unwillingness to share duties

Divorce or family problems / life instability, health problems

Fraud red flags – Employee general behaviour



“Wheeler-dealer” attitude

Irritability, suspiciousness, defensiveness

Addiction problems

Complained about inadequate pay

Opportunities for fraud just waiting to happen



Pre-signed blank cheques

Cheques not locked away

Using cheques

Sharing passwords

Opportunities for fraud just waiting to happen



No background checks

Bank statement & cancelled cheque access (not anymore)

Payroll

Accounting data on one computer / local hard drive

Prevent Fraud: Internal Controls



Prevent fraud: Internal controls



Job rotation / mandatory vacations...procedures manual

Periodic review of vendor additions & changes

- Not by Accounts Payable person

Do not give just one employee sole access to payroll

Better yet, outsource payroll

Alarms, video surveillance

No sharing of passwords (duh)

Prevent fraud: Internal controls



Cheques locked away (& don't pre-sign them – duh)

Dual signature on cheques

Get rid of cheques, keep dual approval

Segregate duties

- e.g. Account reconciliation separate from deposit / withdraw / pay bills / gets statement (old)

Cross training

Prevent fraud: Internal controls



Get owner(s) involved in reporting / watching

Fidelity and Commercial Crime Insurance

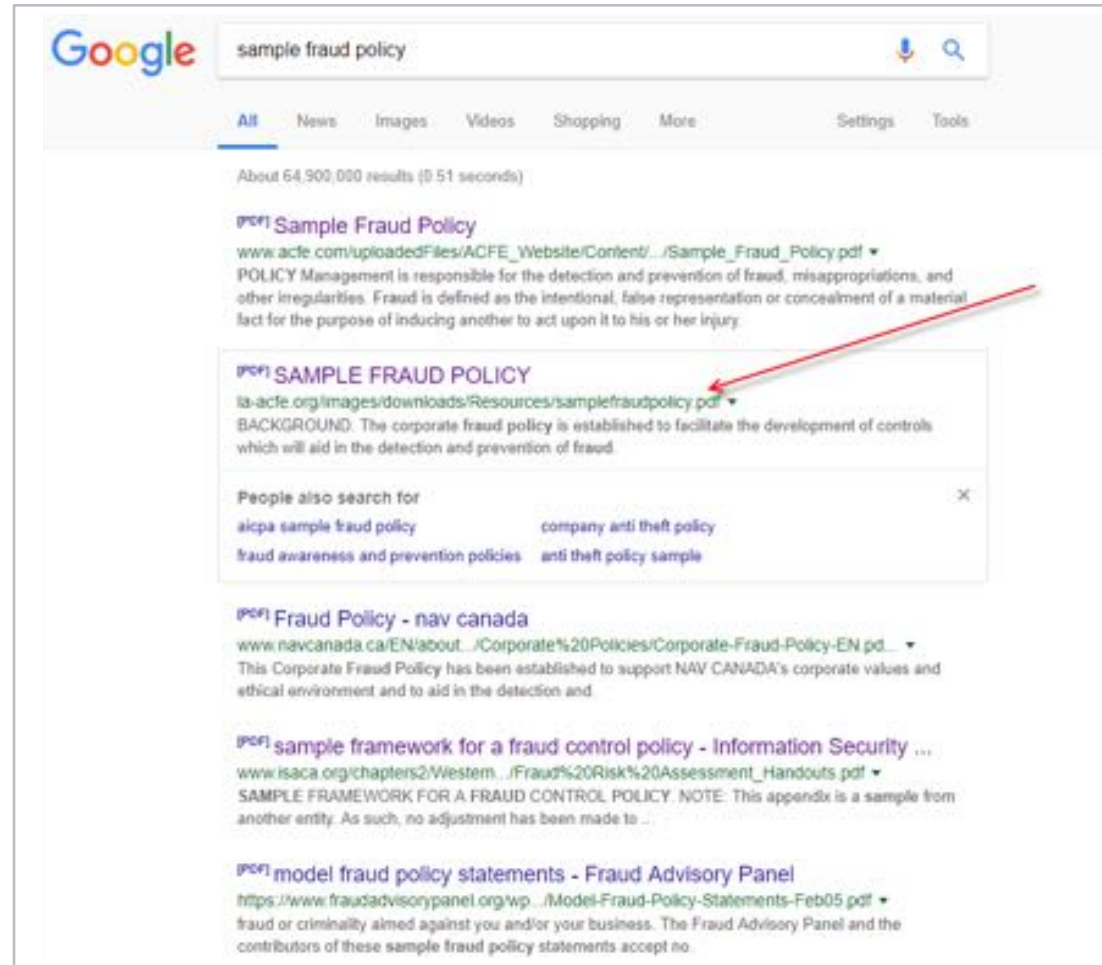
Bond Employees (background checks & screening)

Verification of goods / services received

Fraud training

Code of conduct with fraud policy

Googled “Sample Fraud Policy”



Prevent fraud: Internal controls



Whistleblower provisions / rewards

Independent review of operating & holding company accts

Owner must be involved – this is the big one

Employees must know owner is involved

Call in a professional if you suspect fraud

“

Trust, but verify.”

Ronald Reagan, when preparing for talks with Mikhail Gorbachev in 1986

Occupational Fraud in the News



Maximilian Panzo, CGA

Winnipeg Free Press, July 23, 2018



Worked for Fineline Communications for 25 years

Became CFO and Executive VP

Had sole access to the payroll system

Increased his own paycheques

Created bogus payroll entries

Maximilian Panzo, CGA

Winnipeg Free Press, July 23, 2018



Increased income tax deductions reported to CRA

Credited them to his own payroll account

Expensed them to the company as payroll expenses

Stole \$1,978,289.78 from 2008 to 2015

2015: company was about to be sold

Purchaser wanted payroll records

Maximilian Panzo, CGA

Winnipeg Free Press, July 23, 2018



Removed computers, concealed documents

Police called

Accounting firm conducted forensic audit

Sentenced to six years in prison, stripped of designation

Ordered to pay \$10K in court costs + >\$1MM to Fineline

\$0 repaid, 0 remorse

Aaron Ogier

London Free Press, February 3, 2016



Worked for Service Ontario

Created bogus employment insurance claims

Bought social insurance numbers from people who told police they'd lost their wallets

Used false info, forged medical notes & falsified ROE's

Aaron Ogier

London Free Press, February 3, 2016



Opened separate bank accounts for each claim

Government's loss was \$306,221 over 20 months

Sentenced to 30 months

Will serve 36 more if he doesn't repay within five years

Gregor Gmerek

World Spectator, December 31, 2012



Controller at Prairie Livestock in SASK

Stole \$1.146 MM over three years starting in '09

Wrote cheques to himself, forged signatures

Voided cheques in the accounting system

Replaced cheques with legitimate-looking payments e.g. to farmers for livestock (inventory)

Gregor Gmerek

World Spectator, December 31, 2012



Inventory overstated

Every time he printed out financials, moved \$ from BS to P&L, then moved \$ back

1. Inventory overstated at first
2. COGS overstated when printing out financials
3. Net profit drop compared to previous years
4. Owner knows something is wrong, sees cash flow is bad

Intercepted bank statements w. cheque images

Gregor Gmerek

World Spectator, December 31, 2012



Auditors caught nothing

Finally caught by weird balance in A/P...called RCMP

Sentenced to 6 years in prison

Former employer, Farm Pure Seeds Inc., went into bankruptcy in Sep '09

Profitable before deficiency of \$8.4 MM

Notable Quotes in the Prairie Livestock Case



“

...What can I say?...”

Gregor Gmerek, upon being caught perpetrating fraud at Prairie Livestock

“

...As with any new employees, you trust them implicitly...”

Prairie Livestock owner Kirk Sinclair, after finding out the extent of Gregor Gmerek's crime

Esther Files



Old Client A

Office manager had gambling habit

Forged boss's signature on 478 cheques

Stole total of \$385K from '03 to '06

Many ABM's to deposit cheques, then withdrew cash

Destroyed cancelled cheques

Judgment of \$586K...worth \$0

Employer sued 2 banks...got \$0



Old Client B



Boss was never in the office

Hired “bookkeeper” X who filed bogus GST returns

Boss signed the returns at the bottom

X used money on company credit cards to buy stuff

GST audit!

Boss was on the hook; X was nowhere to be found

Boss hired his stepson Y, who was hooked on Oxycodone...

How did he do it?



Old Client C

Mostly absentee owner, busy office

Controller H, Admin QuickBooks Enterprise user

No signing authority or access to credit cards or online banking

H made deposits, destroyed deposit slips

H never took a vacation

Owner considered H a close friend, was at H's wedding



Old Client C

H made most of the financial entries

H used a lot of general journal entries

H produced all the cheques, owner reviewed & signed them

H did all the bank reconciliations



Old Client C



Surprise: CRA called owner, said HST not filed in ages

Owner kept watchful eye on bank balance, A/R & A/P – online banking

Further discovery: foreign bank accounts not really reconciled

Further discovery: Gain/Loss on Foreign Exchange account full of manual entries

Further discovery: Found one deposit of \$12K from H

Old Client C



The P&L was a total shock...why?

The fact that HST hadn't been filed was a total shock...why?

The fact that they didn't have the funds to pay HST was a shock...why?

How might H have done it???

How to Sell Your Clients on Setting Up Systems



Offer diagnostic services



I have stories...you might too

Show them this deck or find others in the news

Scare the *&%\$^* out of them

Offer 2-3 points to show vulnerability & how it can be remedied

As technology improves, fraud opportunities change

Therefore use improved technology to stay ahead of fraud

Show clients how to stay ahead of fraud



No cheques

Use virtual payment cards

Use A/P approval software

Use fetching software for statements

Find their workflow weak links and show them how they have been misused/abused by fraudsters

Offer up apps to shield against these vulnerable areas

Key Takeaways



Big picture: Key takeaways



Be acutely aware of need for internal controls

- For example, segregation of duties

Monitor & address red flags as soon as they appear

Adapt to changing circumstances

- For example, changing technology
- Fraudsters can use tech; so can we!

Review learning objectives



Understand what occupational fraud is & its cost in Canada

Identify situations in which fraud is possible / likely

Learn how fraudsters “pulled it off”

Understand how to prevent fraud in the future for your clients

Learn how to sell your clients on setting up systems to protect them

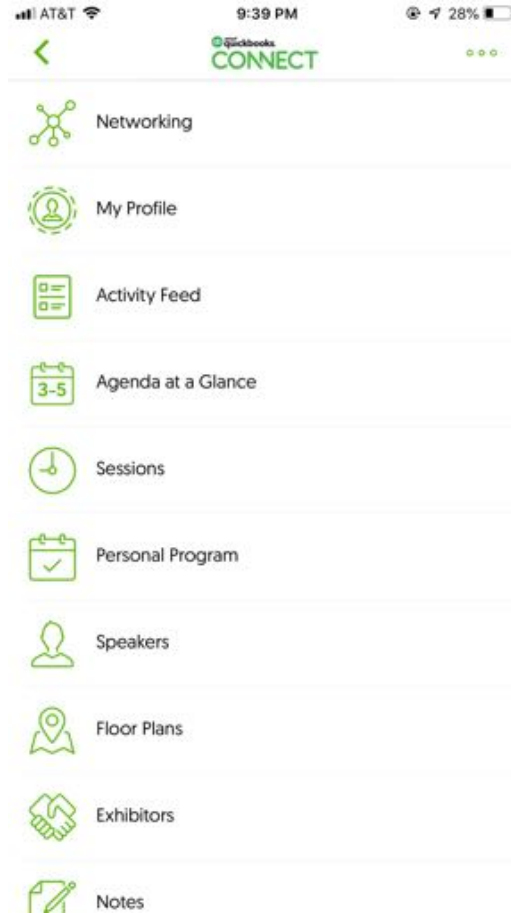
Questions?

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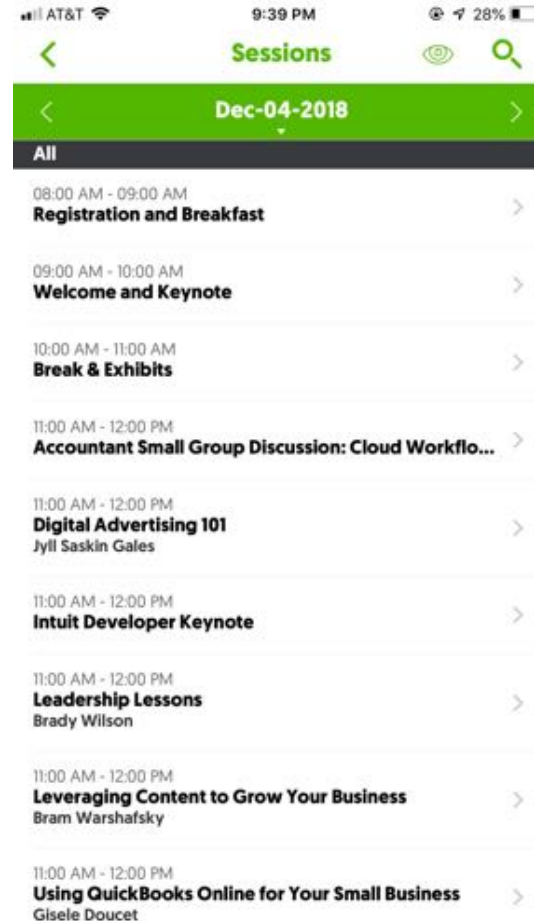


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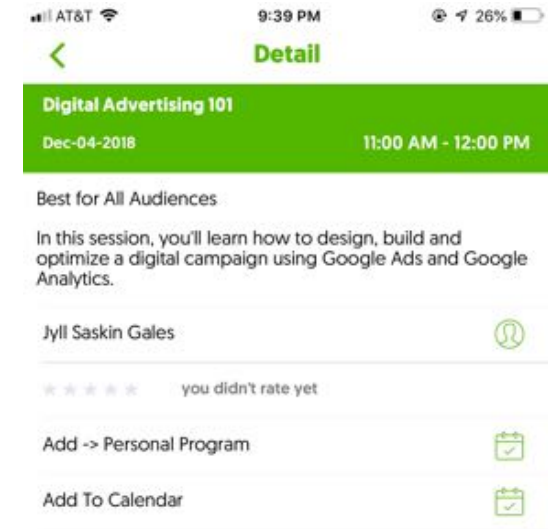
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11:00 am-12:00 pm	Breakout Sessions	
	Digital Advertising 101	+
	Leveraging Content to Grow Your Business	+
	Leadership Lessons	+
	Using QuickBooks Online for Your Small Business	+
	Warrior Approach to Productivity • session repeats	+
	Accountant Small Group Discussion: Cloud Workflows	+
	Intuit Developer Keynote • session repeats	+



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