

## Fraud Prevention Tip of the Month from



# DON'T IGNORE THE NEW RED FERRARI IN THE PARKING LOT

June 2010

### FRAUD LOSSES APPROACH \$1 TRILLION!

According to the Association of Certified Fraud Examiners 2008 Report to the Nation on Occupational Fraud & Abuse, U.S. organizations lose 7% of their annual revenues to fraud, which translates to approximately \$994 billion in fraud losses annually! More disturbing still is that fraud schemes frequently go on for years before they are detected. While prevention of fraud is always preferred, it's also important to be aware of two simple red flags that may indicate your company is already a fraud victim. Let's take a look at a common scenario:

### THE ELEPHANT IN THE ROOM

Janet, the accounts payable clerk at a large manufacturing company was a woman of modest means, a hard worker, and was well liked by everyone. Therefore, several of her coworkers noticed and commented when Janet began wearing new designer clothes and carrying an expensive handbag. Janet explained that her grandmother recently passed away and left her a sizeable inheritance. She went on to say that although she missed her dear granny, she was happy to finally be free from financial worry. Since Janet was such a solid employee and friend, her explanation went unchallenged. A few months later, she replaced her old clunker with a brand new BMW. She also began making substantial home improvements, and eventually sold her home and moved to a much larger house.

Five years later, Janet was involved in a serious accident and was in the hospital for several weeks. During that time, it was discovered that Janet had been embezzling from the company for over five years; and a subsequent investigation determined that she had stolen over \$7 million!

### THE MOST COMMON BEHAVIORAL RED FLAGS

Fraud perpetrators often exhibit behaviors that can serve as indicators of possible illegal behavior. The most commonly cited behavioral red flags were perpetrators living beyond their apparent means (39%) or experiencing financial difficulties at the time of the frauds (34%). While many innocent individuals may exhibit these traits as well, it is important that companies are aware and on the lookout for this type of behavior, and when this behavior is observed, the companies should investigate further - especially when it involves individuals with job responsibilities in accounting or finance.



Providing fraud awareness training to all employees and providing a mechanism for employees to anonymously report potential fraud risks are two easy and inexpensive ways companies can increase the likelihood that behavioral red flags will be reported to management in a timely manner so investigations can begin and fraud losses minimized. With appropriate fraud prevention controls in place, the source of payment for the brand new red Ferrari in the parking lot is less likely to be misappropriated company funds!

*Source for statistics: 2008 Report to the Nation on Occupational Fraud & Abuse - Association of Certified Fraud Examiners.*

For more information on fraud prevention and detection, please call Lori Payne at (805) 527-1499.

### About Payne Financial Forensics

Payne Financial Forensics is a financial consulting firm, specializing in Forensic Accounting; Fraud Investigations; Litigation Support, including Bankruptcy and Insolvency related litigation; and Expert Testimony.

With a middle market focus, our professionals have broad experience in financial consulting and are credentialed as Certified Public Accountants, Certified Fraud Examiners, Certified in Financial Forensics, and Certified Insolvency and Restructuring Advisors. Payne Financial Forensics provides personalized service by senior professionals with big firm experience and expertise at a reasonable cost.

### Happy Anniversary

Payne Financial Forensics is pleased to have celebrated its First Anniversary on June 9, 2010. We extend a sincere thank you to the clients who made our first year a great success, and look forward to many more years of providing exceptional service and value.

### Congratulations

Payne Financial Forensics is proud to announce that Elizabeth Lam, a Senior Associate at the firm, received her Certified Fraud Examiner credential in May, 2010. Congratulations Liz!

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