THOR
INSURANCE FINANCIAL

Fraud and Embezzlement – When Loyalty Bites

White collar crime can have serious financial consequences, even threatening a private company's survival. These frauds can go on for years, and when discovered the ultimate impact can be enormous.

It is the loyal, long term, conscientious and trusted employee whose dishonesty can put you out of business. The programmer who never takes a vacation and is never sick. The long term employee who is "just like family."

These schemes involve every possible angle, taking advantage of any potential weakness in your company's financial controls. From fictitious employees, dummy accounts payable, non-existent suppliers to outright theft of money, securities and property.

Eight in ten incidents of crime are carried out by employees of the company.

Unfortunately, fraud and embezzlement in the workplace are on the rise, occurring in even the best work environments.

The average organization loses 5% of its total annual revenues to fraud and abuse committed by its employees. Private businesses are the most vulnerable. The medium loss for private companies was $210,000.

Report to the Nations on Occupational Fraud & Abuse, Association of Certified Fraud Examiners

Fidelity/Crime Insurance protects organizations from loss of money, securities or inventory resulting from crime. Common insurance claims allege employee dishonesty, embezzlement, forgery, robbery, safe burglary, computer fraud, wire transfer fraud, counterfeiting, and other criminal acts.

Thor Insurance & Financial

#435, 450 Ordze Road
Sherwood Park, AB T8B 0C5

Darren Gerber, B.Comm, FCIP, CRM

Branch Manager LinkedIn
825 218 1545 **Darren@ThorINS.ca**

How Do You Protect Your Company?

- Develop a list of approved suppliers
- Conduct regular reviews of suppliers to ensure they exist
- Implement appropriate internal controls over purchasing, inventory receiving, etc.
- Confirm goods are received before payment is authorized.
- Segregate duties to prevent one person from handling a transaction from beginning to end.
- Unannounced 'spot' audits.
- Buy adequate Fidelity Insurance to backstop your own safeguards. Robust risk control measures to protect yourself directly reduce Fidelity Insurance premiums.

What are Adequate Limits?

As a rule of thumb, we recommend limits of 10%-20% of revenues. Insurance companies see this exposure to risk as one of the most under-insured areas of a client's insurance program.

In light of the higher dollar volumes handled by commercial entities and the increased complexity of their operations, it is recommended that clients carry a minimum limit of $500,000 to $1,000,000.

Real Canadian Claims Examples

$47,000 – A job foreman was given a company credit card to handle miscellaneous purchases at the satellite office. He made some miscellaneous purchases, but they were actually for fixtures at his personal residence.

$244,000 - An employee altered company deposit slips after the owner of the company approved them. The employee would prepare two deposit slips, with one putting funds into the company's account and the other putting funds into the employee's bank account. The embezzlement continued uninterrupted for three years because the employee handled both bookkeeping and deposit activities for the company. As a result of this sizeable loss, the employer was forced to lay off several valued employees.

$1,900,000 - A payroll clerk at a remote facility of an auto parts manufacturer had access to payroll cheques and vacation cheques. Over an eight-year period, the clerk issued duplicate vacation cheques when vacation pay was legitimately requested by employees. The clerk converted the proceeds from the duplicate cheques for her own use.

$167,000 - Four employees defrauded their employer through a phony billing scheme. The employees, including a supervisor, established fictitious vendors and submitted bills for work performed by other genuine vendors. The employees converted the bill payments for their own use.

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