

CANDON TODD & SEABOLT<sub>LLC</sub>

## Tips Surface Most Occupational Fraud

### *Are fraud hotlines effective?*

Tips from employees are the most common method of fraud detection, says the Association of Certified Fraud Examiners' 2010 Report to the Nations on Occupational Fraud and Abuse. Slightly more than 40% of fraud detections have been linked to tips from fraud hotlines. Of these, employees supplied about half. Hotlines that allow anonymous reporting are more effective "because employees often fear making reports due to threats of retaliation from superiors or negative reactions from their peers". Effective as fraud tips have been, they may not have achieved their potential since, according to the ACFE, "so many organizations fail to implement fraud reporting systems." Effective tips usually have been reported through a hotline. According to the ACFE study, "organizations that had fraud hotlines suffered much smaller fraud losses than organizations without hotlines." And, organizations with fraud hotlines "tended to detect frauds seven months earlier than their counterparts." If you or your clients want to set up an anonymous fraud hotline, call us.

## Using Past Economic Performance to Predict the Future

### *How many years of past performance is enough?*

Unfortunately, there's no pat answer to this question. It depends. We often find it wise to consider one complete business or economic cycle. How many years that represents will depend on the type and nature of the business. Let's take a look at an example that is based on one of our recent cases. The plaintiff owned a business that was impacted to a certain degree by the real estate market. Plaintiff claimed that he operated his business by himself. In 2007, plaintiff received an injury and brought a lawsuit making an economic loss claim for the cost of hiring additional help at his business. Prior to his injury, plaintiff routinely hired people to help him in his business. According to plaintiff's tax returns, his reported costs for hired help for the years 2002 through 2007 were as follows:

2002	\$20,000
2003	Data was not available
2004	\$ 5,000
2005	\$ 1,000
2006	\$ 3,000
2007	\$21,000 (year of injury)

Plaintiff's economist considered past years of 2004 - 2006 (while excluding 2002 and 2003), calculating an average of \$3,000, and subtracting that figure from the 2007 post-injury amount of \$21,000 to arrive at \$18,000 of damages in 2007. We, on the other hand, noted no reason to exclude the earlier years. Considering all prior years (2002 - 2007), we determined an average of \$5,800 and subtracted that figure from the \$21,000 to arrive at a 2007 damage estimate of \$15,200. The difference may be relatively small in 2007 (\$2,800), but if plaintiff had a long work life expectancy, the difference would add up rapidly.

### About CTS's People

*Duane Seabolt, JD, MBA, CPA/CFF/ABV, CFE*, is the firm's Director of Forensic Services. Recently, Duane provided forensic services in a partnership dispute relating to a prominent business in Honolulu. Also, Duane testified at two arbitrations. One hearing involved a real estate broker on a neighbor island who made a claim of lost profits from real estate commissions after being injured. The other hearing involved a restaurant owner who made a claim of lost profits claiming that his injury prevented him from being actively involved with his restaurant.

*Kimo Todd, JD, CPA/ABV/CFF, CVA*, is the firm's Director of Business Valuation Services. Recently, Kimo provided expert testimony in Hawaii State Court regarding the business valuation of a financial services company. Additionally, Kimo recently appraised several food industry businesses for estate/gift tax and merger/acquisition purposes.

Who We Are: CTS is an independent consulting firm, dedicated to providing the highest quality of independent, objective and confidential services. We have provided forensic accounting and business valuation services to clients in Hawaii and elsewhere for over 15 years. Our professionals have extraordinary backgrounds and a wealth of experience. We specialize in:

Business Valuation	Forensic Accounting	Litigation Support
Lost Profits & Earnings	Corporate Recovery Services	Fraud Investigations
Intangible Asset Valuations	Business Acquisitions	Profit Improvement

Our Clients: Our clients are located throughout Hawaii and include many of Hawaii's largest businesses and law firms. We have also consulted with clients located in the U.S. Mainland, Japan, China, and Taiwan.

Talk to us: We hope this has been informative. If you would like a friend or colleague to get a copy, just let us know. If something in this newsletter caught your interest or you have a question, call us at (808) 533-1270 or email us from our website: [www.candontoddseabolt.com](http://www.candontoddseabolt.com).



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