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MANAGING THE RISK OF FRAUD

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Identity Theft and Fraud Complaints up 19% in 2011

CONSUMERS ARE STILL FALLING FOR WIRE EMAIL SCAMS.

The Federal Trade Commission statistics on complaints in 2011 show that *identity theft/fraud* tops the list for the 12th consecutive year. Overall FTC complaints increased 20% to 1.8 million compared to 2010. 70% of these complaints were fraud related with identity theft, making up 15% of the total.

INCIDENTS IN THE U.S. PROJECTED AT APPROXIMATELY 10 MILLION

The numbers of complaints received annually are much smaller than the annual estimates of identity theft incidents in the U.S., which have been projected at approximately 10 million by the FTC. A study commissioned by the FTC determined that most victims do not report identity theft to authorities.

Identity theft as a whole has not been declining as popular opinion once suggested it would. Identity theft complaints in 2011 totaled 279,156 compared to 86,250 a decade ago.

FRAUD COMPLAINTS

Forty-three percent (43%) of consumers' complaints reported that email was the initial point of contact for the fraud (29% of fraud contact was via phone and 13% through the internet).

Of consumers who were defrauded out of money, 50% complained of wire fraud, 16% credit card fraud, and 13% bank account/debit card fraud.

Consumers should use extreme caution when responding to unsolicited emails and telephone calls. **The safest approach is to respond to neither.** Before responding to any offer, especially those that sound too good to be true, one should thoroughly research the company on the Internet.

Wire scams have become trickier over the past few years with different spins on the Nigerian scam. For example, the stranded traveler scam tricks victims into wiring money to friends or family members who are traveling in Europe and have misplaced their wallets or have been mugged. In reality, your loved ones' email or Facebook accounts have been hacked.

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It's hard to know what's real and what's not. The best guideline is not to wire money in response to an email or phone call until you've confirmed the person's true identity.

IDENTITY THEFT COMPLAINTS

The most common identity theft reported was government documents and benefits fraud (27%), particularly tax or wage-related fraud (24.1%). Second most common was credit card fraud (14%), followed by phone/ utilities fraud (13%), and bank fraud (9%).

Tax and wage fraud primarily consists of a fraudulent tax return filed in the name of the identity theft victim, where the identity thief obtains the tax refund due the victim, or creates a false refund which the victim later has to repay. To do so, the identity thief must have knowledge of the victim's name, Social Insurance Number and some idea of their reported wages. Wage information can be obtained from employers, T-4 forms and tax returns. Taxpayer wage information can be obtained through theft of the information in the workplace, mail theft, and by other means including phishing and other social engineering. It is critical that consumers take appropriate steps to protect their wage information and report tax fraud to the CRA and to file a police report locally.

While some types of identity theft are on the rise, like tax and wage fraud, other types of identity theft are stabilizing or declining such as credit card fraud (up a half percent), phone and utility fraud (down 2%), bank fraud (down 10%), and employment fraud (down 19%) compared to 2010.

These statistics should remind us that fraud and identity theft are crimes of opportunity. While financial institutions have taken step to curb credit card and bank related identity theft, new opportunities for the thieves have arisen because of more people filing online tax returns and a general lack of awareness by consumers of tax and wage related identity theft.

The creative criminal mind will invent new ways of committing the crime as situations change and as steps are taken to curb certain types of identity theft such as credit card and bank fraud.

Sixty-eight percent of consumers that reported fraud said they made a payment. They also reported that the fraudulent payments were made primarily by wire transfers (50%), credit card (16%) and bank account debit (13%).

The 50-59 age group reported the most (23%) of all types of fraud (excluding ID Theft) whereas the 20-29 year old age group reported the most identity theft, also 23%. It appears that identity theft affects younger age groups whereas other fraud affects the older age groups. The under 50 group composed 70% of all the identity theft complaints filed whereas the 40 and above age group composed 65% of all of the other fraud complaints.

MANAGING THE RISK OF FRAUD has been prepared for the general information of our clients, staff and other interested parties. The enclosed comments are of a general nature and are not intended to cover all aspects of the subject matter. Prior to implementing any planning based upon information in this publication, the specific facts pertaining to any particular situation should be carefully considered. We will be pleased to assist in this regard and to provide further details pertaining to the matters discussed herein.

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ABOUT LEVI & SINCLAIR

LEVI & SINCLAIR is a firm of chartered professional accountants that traces its origin in Montreal to 1970. We pride ourselves on being more than just an accounting firm. We offer an effective blend of personalized service, experience and technological leadership, coupled with a steadfast commitment to consistently deliver excellence.

Our Chartered Professional Accountants and Business Consultants provide advisory services on a broad range of issues to both our individual and corporate clients. The members of our firm possess unique talents, expertise and experience, giving our clients access to a knowledge base of considerable breadth and depth. Together with our support personnel, we share a commitment to developing practical solutions for the business challenges of today, and to devising strategies for tomorrow.

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- **Electronic Discovery and Data Recovery**
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