

Barnes Wendling CPAs Inc.

# Financial woes fostering workplace fraud

By Timothy D. Mayles

In the wake of lives rife with credit-sponsored amenities beyond their financial scope, many Americans are facing the worst economic hardships of their times. With mounting financial woes and duress, given the avenue, many otherwise honest, principled individuals will resort to stealing from their employer to bridge the shortfall.

Pressure to continue living beyond one's means is the genesis of most employee theft. Whether the result or a combination of a financial loss or a vice, including addiction, those who have amassed large personal debts feel very real, unparalleled pressure to steal. Even an organization's oldest, most trusted employees are not immune to lapsed moral judgment under the economic strain. And, in fact, most often these individuals who have been given the greatest latitude can be the best candidates for fraud in any economic circumstances.

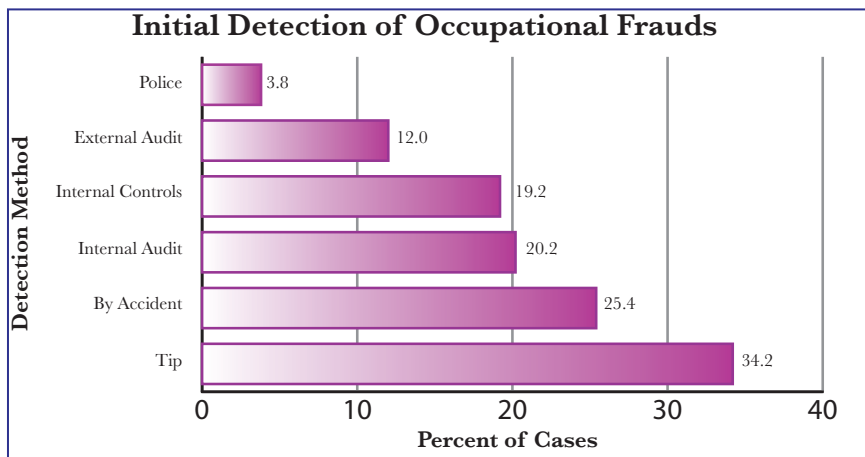
In a 2008-2009 Integrity Survey conducted by KPMG LLP, findings showed "the prevalence of misconduct remains high. Nearly three out of four employees (74 percent) report that they have personally observed or have firsthand knowledge of wrongdoing within their organization within the previous 12 months.

"The nature of observed misconduct remains serious. Nearly half of the employees (46 percent) reported that what they observed could cause 'a significant loss of public trust if discovered.'"

Regardless of the escalating pressures to thief, the employee must first believe a reasonable opportunity to steal without detection exists. A number of variables can provide an employee with the opportunity, but the primary culprit is weak or lacking internal controls in the company's accounting processes. Chances are, if you are reading this, you are the individual concerned about the prospect and in a position to thwart it.

Tempted employees' prospects of fraud are hindered only by their imagination and the looseness present in your processes. The schemes range from and include: padded hours and bogus mileage, fictitious employees, unauthorized pay rates or bonuses, paying personal bills or expenses on credit cards, securing false refunds, selling inventory surreptitiously, and writing unauthorized checks.

In 2007, an Association of Certified Fraud Examiners study of American workplace theft indicated that nearly 75 percent of employee theft was a result of personal financial distress. More-



*How is fraud first discovered? The above chart is part of the 2006 Association of Certified Fraud Examiners Report to the Nation.*

over, employee fraud was more than \$100,000 in 60 percent of cases and almost 20 percent resulted from a divorce or other family crisis. In unprecedented financial straits, personal problems escalate and further create a fraud-prone work environment.

Under any circumstances, warning signs could include:

- ◆ divorce or family problems
- ◆ changes in personality or habits, including increased drinking, drugs or gambling
- ◆ changes in lifestyle, including expensive showy acquisitions, e.g. car, home or boat
- ◆ unusually close relationship with a vendor
- ◆ missing or incomplete financial documentation, e.g. bank reconciliations not performed
- ◆ working excessive hours without taking time off and being largely protective of their work
- ◆ complaints from customers about their accounts

By instituting good internal controls, you remove or minimize the potential for theft. It is exponentially cheaper to institute checks and balances over cash receipts, accounts receivable, payroll and cash disbursement functions than to absorb theft.

It is very simple to accomplish and even the

smallest business can institute controls.

It can be as rudimentary as the owner requiring and reviewing detailed support for every check, signing all checks, and receiving the bank statement personally, directly from the bank.

How you respond to discovered fraud is just as important. Prosecution to the fullest extent is the obvious and correct response. However, it may not be so easy to follow through when it's your employee. Many employers' resolve is weakened by the thief's story of despair; however, without legal consequences you simply relegate the individual's next employer to your same fate. The squeamish, empathetic employer also sends a clear message to the rest of the organization that stealing is tolerated and that no threat of embarrassment or public humiliation exists.

To have your business evaluated for internal controls or if you already have concerns about theft, engage a certified fraud examiner. In addition, it is key to establish a "tone from the top" leadership style. Through visible actions as simple as paying for personal postage and phone calls and turning in receipts for petty cash, these simple actions will demonstrate and communicate a zero-tolerance for fraud. And in any event, meet with a trained forensic accountant to deter or eliminate fraud before it erodes your business in these of all dire economic times.

To see how your organization rates in the area of fraud prevention, request a copy of the Association of Certified Fraud Examiners Fraud Prevention Check-Up Booklet by sending an e-mail to [tdm@barneswendling.com](mailto:tdm@barneswendling.com).



**Timothy D. Mayles, CPA, CFE, is the director-in-charge of the Sandusky office of Barnes Wendling CPAs. He is a CPA and an experienced certified fraud examiner with a strong history of expert-witness testimony. Tim may be contacted at 419.626.3627 or 800.369.6375 or [tdm@barneswendling.com](mailto:tdm@barneswendling.com).**