

Apply direct pressure; you're bleeding internally

Ask the right questions to prevent fraud at your business. **By Timothy D. Mayles**

In a recent study performed by the Association of Certified Fraud Examiners, it is estimated that 5 percent of annual revenue is lost to occupational fraud. Occupational fraud is a person using company assets for his or her own unauthorized personal gain. Applied to the Gross National Product, it is estimated that losses due to fraud will surpass \$652 billion.

The most common victims of occupational fraud are privately owned companies, making up approximately 37 percent of the wounded, with an average loss of more than \$200,000. Businesses with fewer than 100 employees make up 36 percent of the victims, with average losses of \$190,000.

The majority of cases involve asset misappropriation — the theft of your company's assets, including:

- Skimming or stealing cash receipts before they are recorded on your company's books
- Cash larceny or stealing cash after it is recorded on your company's books
- Fraudulent disbursement schemes, including fictitious vendor conspiracies and check tampering;
- Noncash theft of assets (inventory, fixed assets, information).

The reason fraud is most common within small, privately owned businesses is that typically there are few checks and balances and separations of duties. What is most problematic is that typically fraud is not detected by an internal or external audit; more than 50 percent of the time, the abuse is discovered by a tip or an accident. Apply direct pressure: reviewing or implementing a fraud prevention strategy is essential to revealing and preventing further internal bleeding.

This includes the following:

- Acknowledging and identifying risks
- Evaluating and prioritizing risks
- Deciding how to control risks



- Implementing a risk management strategy
- Monitoring and evaluating results and revising the plan continually.

It is critically important to recognize and respond to the fact that the single largest fraud deterrent is one's belief he or she will be caught, exposed and punished. There are highly cost-effective measures any size business can adopt to thwart theft due to weakness in internal controls. You can institute checks and balances with minimal effort and at a cost considerably less than the potential fraud that may already be occurring.

If someone is stealing cash, most often it will show up on the bank statement. The smartest thing to do is have the bank statement mailed directly to your home. Look at it, examine the checks and then give it to your bookkeeper to perform the bank reconciliation. Afterward, review the bank reconciliation and ask pointed questions. Making it evident that you are vigilant about preventing and detecting theft is an effective deterrent to those who may be skimming or might be tempted to try.

It doesn't matter how many people are in your accounting or bookkeeping department; if you ask yourself the following seven things when you sign checks, it can greatly reduce the risk of fraudulent disbursement.

1. Do I have first-hand knowledge that this vendor exists? Is the name on your approved list of vendors? If you have never heard of the vendor, ask questions, look it up in the phone book or on the Internet.
2. Do I know that the vendor actually provided the goods and services? Is proper support included with the check amounts being paid? Do the shipment addresses seem logical?
3. Does the quantity on the invoice make sense? Do items shipped agree with packing slips or purchase orders? When you only sell 1,000 of this product in a year, does it make sense that you would be purchasing 500 in one month?
4. Do I know the prices charged are the correct prices? Does the price agree with an approved purchase order?
5. Does the price per item seem reasonable? Are you paying above market for materials?
6. How do I know the math is correct? Is there evidence that the items on the invoice were verified and recalculated?
7. Was the invoice already paid? Is the date on the invoice reasonable compared to the date it is being paid?

To see how your organization rates in this area, request a copy of the Association of Certified Fraud Examiners 12-page "Fraud Prevention Checkup" by sending an e-mail to tdm@barneswendling.com.



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