

## Fraud-"Employee of the Year"

Fraud occurs because people believe they will not be caught. Is your business at risk? Your "best" employee may be your worst enemy. The person who is there before everyone else and leaves late or works on Saturday may be the person who is tapping your Company's resources. You have internal controls but are short handed; therefore, an employee who volunteers to take on "additional responsibilities" is actually circumventing your controls and possibly, lining their pockets.

Based on a study by the Association of Certified Fraud Examiners, the average company loses **6%** of its total annual revenue to fraud and abuse committed by its own employees. Fraud may be for personal gain or a combination of situational pressures and opportunity.

Situational pressures include:

- Sudden decreases in revenue or market share
- Unrealistic budget pressures
- Financial pressures resulting from bonus plans that depend on performance
- Unresolved disagreement with superiors.
- Feeling of being mistreated,

Opportunities for the existence of fraud:

- The absence of or improper oversights by the board of directors or audit committee.
- Weak or non-existent internal controls
- Lack of external audit
- Unusual or complex transactions
- Financial estimates that require significant subjective judgment by management.
- Staff levels and capabilities of staff.
- Management takes a hands-off approach.
- Trust without verification.

Based on law enforcement reports, most of the people arrested are the bookkeeper or accounting staff because the owner has given them "**total control**" of the checkbook. Staffing issues (few employees, capabilities, etc.) should not be an "open door" policy for fraud. If you have one person depositing the funds, then you must make sure the deposit was actually made by having someone else reconcile the bank statement and cancelled checks.

Bookkeepers are not the only high risk individuals. Based on the current economy, the forced salary cuts or lower annual raises, disgruntled employees (staff, associates, and executives) feel that they have been mistreated, leading to easily rationalizing theft. These employees may have arrived at the company with high expectations, however, they now feel that they have been treated unfairly, coerced, or robbed of their authority.

## Fraud-"Employee of the Year" Cont.

### *Warning signs may include:*

#### EMPLOYEE:

- Attitude-anger, paranoia, defensiveness, etc.
- Increased or decreased absences from work (i.e. sick time, vacation time, etc.).
- Luxuries-auto, trip, jewelry, house, etc.
- Change in hours-either significantly longer or shorter.
- Errors or irregularities "explained" away.

#### TRANSACTIONS:

- Unusual patterns in cancelled checks (i.e. dual endorsements, voids, "cash" as the vendor, etc.).
- Bounced Company checks to vendors or overdue notices from vendors including the government.
- Unfamiliar vendors.
- Unexplained increase in purchases of supplies, computers, etc.

**The moral of the story is TRUST, HOWEVER VERIFY!** Set up and follow a system of internal controls. Randomly check transactions without advance notification to the bookkeeper or accounting staff. Make sure more than one person is present when cash is counted or handled. Use an outside accountant to review or audit the transactions and employ a fraud auditor if you are suspicious of wrongful activity. Provide a positive work environment.

Unfortunately, it only takes **one** person to destroy what you, the business owner, have worked so long to create.

If you would like to discuss "potential fraud" further, do not hesitate to contact our team of experts.

Sincerely,

Terry L. Yoho, CPA, MA, BVAL, Certified Fraud Examiner