

10 STEPS TO DETER WORKPLACE FRAUD

JULY 14, 2010

Every year US businesses lose billions of dollars to fraud. The immediate impact is often devastating, but workplace fraud can continue to damage a company long after the incident is discovered. Indirect costs such as lost profits, interrupted cash flow, unforeseen expenses for consultants and/or equipment to prevent future theft and potential loss of customer confidence can add up to far more than the initial theft.

TRIGGERS FOR FRAUD

1. *Pressure*: an employee is facing financial hardship such as foreclosure or large medical bills.
2. *Opportunity*: lack of management oversight, few or ineffective internal controls.
3. *Rationalization*: the employee experiences resentful or vengeful feelings towards the company or owners and rationalizes their behavior with such thoughts as "The owners make too much and I'm underpaid."

10 STEPS TO DETER FRAUD

1. Control the mail. If an employee must pick up the mail, he or she will have no responsibilities to record deposits, accounts receivable or revenues.
2. Control the bank statements: statements must be delivered to owner unopened. Be on the lookout for missing checks, unknown payees and checks missing out of sequence.
3. Control accounts receivable. Only the owner should deem an account as uncollectible and review aging reports.
4. Control accounts payable. Only the owner should approve a new vendor. Watch for different vendors with same address or the address of an employee.
5. Limit authorized check signers. If needed, have two signatures on check (assuming owner is unavailable). Never sign a blank check.

6. Perform thorough background checks on employees.
7. Require uninterrupted vacations for all employees. Why? This will require cross-training of employees to allow for rotation of duties making it much more difficult for an employee to conceal their activities.
8. Create clear job descriptions with specific responsibilities, and communicate what is expected to your employees. If everyone knows exactly what their job description is, it will make it easier to spot when someone is engaging in activities outside their normal duties.
9. Take strong action against any employee who commits fraud.
10. Obtain reasonable fidelity bond coverage.

ONE FINAL NOTE

If you do suspect that an employee is committing fraud, do not try to investigate on your own. In addition to taking time away from running the business, owners can sometimes do more harm than good in altering evidence or tipping off the employee that something is going on. If you suspect fraud is occurring, or simply want to mitigate your risk, contact your HB&K CPA right away. Our experienced team will conduct specialized training with owners and in-house accounting staff to help identify risk factors and put industry-specific controls in place. If fraud has indeed occurred, our forensic accountants will conduct a thorough investigation to help determine the extent of the theft.



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