

Assess Your Risk and Take Steps to Prevent Fraud

By Jere Batten, CPA, CFE

In most cases of fraud, the business owner made it easy for the dishonest employee to steal from them by providing ample opportunity. Don't be guilty of ignoring the potential for fraud and failing to implement safeguards. It costs far less to prevent fraud than to recover stolen assets.

Be objective about the potential for fraud- fraud prevention controls are responsible management practices; they don't mean you distrust your employees. Keep in mind that internal controls protect honest employees.

All types of fraud have three elements in common: opportunity or perception of opportunity, a need for money and the ability to rationalize the crime.

1. *What is the potential for theft?*

Theft is more likely to occur when an employee: has financial need, has the ability to rationalize the theft, and believes the opportunity to steal exists.

Hire qualified people of good character and acknowledge them for their work and integrity.

Have standardized job screening and hiring procedures— check references, interview carefully, consider legally compliant testing.

Determine if the applicant feels like a good, compatible fit with your corporate culture.

Make sure your conduct does not give someone an excuse to be dishonest. Promote fair and ethical dealings with vendors and customers, show honesty in meeting financial reporting obligations.

Have internal controls to eliminate opportunity for fraud and theft.

2. *Do you know your business better than your employees?*

The absentee owner is at a disadvantage, as are those who do not have working knowledge of their accounting and computer systems.

Employees are less likely to manipulate an accounting system if the boss knows the system.

Know your financial position, know your approximate monthly income and expenses.

Know how to use your financial statements to spot trouble.

Jere Batten, CPA, CFE is a Certified Fraud Examiner. The CFE designation is restricted to associate members of the Association of Certified Fraud Examiners who are in good standing and have the proven expertise to detect, prevent, and investigate a wide range of fraudulent conduct.

3. *Do you handle your assets with reasonable care?*

Keep cash on hand to a minimum and safeguard your signature stamp.

Keep supply of blank checks in a locked cabinet, use only pre-numbered checks and keep track of sequence.

Use pre-numbered purchase orders, account for sequence, keep forms in locked cabinet.

Put an identification mark on small, portable, expensive items— tools, computers, and equipment.

4. *Do you practice credit card security?*

All a person needs to steal your credit is your name, social security number and birth date.

Keep receipts and record transactions from receipts.

Reconcile receipts to credit card statement.

5. *Do you regularly review financial reports?*

Good managers review at least five basic financial reports on a monthly basis: bank reconciliation, receivables, payables, balance sheet and income statement. They take the time to look over the information to see if it makes sense. They discuss and obtain an explanation of unusual items, look at back-up documentation and periodically have their CPA review reports.

6. *Are employees' duties sufficiently segregated with appropriate restrictions on access?*

It is not uncommon for businesses to be lax in this area, often because they don't think they are big enough to efficiently segregate duties. This is not true; every business can have important safeguards in place.

Sign checks only when needed, never in advance.

Check supporting documentation before signing checks and purchase orders.

Cancel supporting documentation by recording check number and date on it when the check is signed.

Do not return checks to the preparer once signed.

Keep check signing authority independent of check preparation, invoice approval, cash receipts and accounts payable functions.

7. *Do you handle the mail in a secure fashion?*

Open mail and prepare the list of daily receipts independently of the accounts receivable bookkeeping function.

In very small offices, owners may want to open the bank and credit card statements, and even consider having them mailed to their home.

8. *Do you know the warning signs of suspicious behavior?*

Bill collectors call your business trying to find an employee.

An employee's standard of living increases with no visible means of support.

Employee refuses to go on vacations.

Employee performs bank reconciliations after normal business hours or takes work home.

9. *Do you know what to do if you suspect theft?*

Call your attorney before making accusations. A wrongly suspected individual can sue, and so can one who is rightly suspected.

Call a CPA who is also a Certified Fraud Examiner (CFE).