

IS YOUR COMPANY VULNERABLE TO FRAUD?

Many small business owners trust their employees and never dream they'd steal from them. Yet, respondents to the ACFE's 2014 Global Fraud Survey estimated that an average business loses nearly 5% of its annual revenues to fraud. The same ACFE report indicated that a mere 5% of identified perpetrators had a fraud-related offense on record prior to the activity studied in the 2014 report. This means that at the average business, \$5 of every \$100 in sales are being stolen by employees with no prior criminal history. Shocking as this may be, there are ways to help reduce fraud risk.

Before addressing ways to reduce your fraud risk, let's discuss what leads to fraudulent activity. In general, there are three factors that need to be in alignment for someone to be motivated to commit fraud:

- Perceived pressures – perceived financial difficulties, dissatisfaction in the workplace, gambling or other addiction problems.
- Perceived opportunities – weaknesses in your internal control procedures.
- Rationalization – unique to the individual and can include reasoning such as “I was only borrowing it” or “I deserved it.”

There are many types of fraud that can occur within a business. Here are a few of the most common transgressions committed by fraud perpetrators:

- Personal purchases – a type of billing scheme where an employee uses false or altered documentation to obtain illegitimate disbursements from the business under the pretense of actual business expenses.
- Unrecorded sales – when an employee sells products or services to your customer, doesn't record the sale and then pockets the cash received.
- Ghost employees – an ‘employee’ on the business's payroll who doesn't actually work for the business. The ‘employee’ could be completely fictional or could be based on a real person, such as a former employee left in the payroll system.

What are some best practices for a business to reduce its risk of fraud? Be observant of your employees and your business's processes and controls. Living beyond one's means, an unwillingness to share duties, refusal to take vacations, and addiction problems are just a few of the common behavioral red flags exhibited by perpetrators. All this being said, don't forget that just because someone struggles with one of these red flags, it doesn't mean they can, or would, commit fraud.

Knowing the design of your business' internal controls gives you a better understanding of the risk areas and how to divide duties amongst employees. For example, if you have a single bookkeeper that performs all of the business's accounting functions, do not include them as an authorized signor on any of the bank accounts. This would present the opportunity for someone to easily alter the accounting records and withdraw funds without authorization.

The best way to fight fraud is through prevention by taking away the opportunities for it to happen in the first place. Solid internal controls are the basis of a good fraud prevention and detection strategy. If you don't have internal controls in place, or haven't reviewed your controls and processes for quite some time, you may be at risk for being a victim of fraud. There are a number of ways we can help you assess your individual situation. We can perform specific tasks, such as visiting your tasting room to provide you with feedback about security and controls, or we can assist you with preparing detailed documentation of your existing internal controls and processes, identify possible weaknesses, and work with you to design changes. As mentioned, there are multiple ways that we can help you to reduce your exposure to the very real threat of employee fraud. If you'd like to learn more, please give us a call.