



Prevent Employee Fraud and Embezzlement

According to recent national news reports, the average American currently carries about nine credit cards with a total balance approaching \$10,000.

Consider this scenario. Unbeknownst to you, a bookkeeper you hired seven years ago has fallen behind on her credit card payments. She likes to visit casinos and is now spending more and more of her free time gambling. Her debt is building and she increasingly sees gambling as a way out of her financial situation. Following another run of “bad luck” this month, her monthly expenses far exceed her ability to make the payments.

So she turns to you—just not directly. Since she handles your payroll, she devises a scheme using fictitious part-time and temporary employees. She “pays” them an amount lower than the magic number you’ve selected to require two signatures, then cashes the checks or deposits them into a bank account. When she starts to defraud you, she fully intends to pay the money back. But, with her debt spiraling out of control, the amount stolen continues to increase.

The Association of Certified Fraud Examiners (ACFE) has developed a **fraud triangle**—the three essential elements common in fraud schemes. They are **opportunity, financial pressure, and rationalization**. All three are clearly present in the case above.

What is the difference between fraud and embezzlement?

Fraud is defined as the use of deception for unlawful gain or unjust advantage. Embezzlement is the act of an employee or agent stealing or using the employer’s money or other property for his/her own purposes.

Fraud experts say that small businesses are the most vulnerable to internal theft from employees. The typical scheme occurs at companies with fewer than 100 employees. According to ACFE’s “2006 Report to the Nation on Occupational Fraud & Abuse,” the average amount stolen is \$159,000, but the median loss for small businesses is actually higher at \$190,000. This crime, when spread over a number of years, can force a small company into bankruptcy.

Some additional fraud facts from the ACFE study:

- Men commit three-fourths of fraud cases nationally and the typical perpetrator is a college-educated white male.
- Average fraud scheme lasts 18 months before it is detected.
- Most fraud is detected as a result of complaints from other employees, not through audits.
- Most common fraud cases in small businesses involves employees writing fraudulent checks, skimming revenues, and processing fraudulent invoices.

It’s Our Business to Protect Yours®



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Ten Fraud Prevention Strategies

1. Separate your accounting functions. Assign deposit and account reconciliation functions to different people.
2. Require two signatures on checks over a predetermined amount - say, \$500.
3. Never sign a blank check.
4. Consolidate your bank accounts so that your bookkeeping accurately reflects your company's true financial position.
5. Eliminate petty cash.
6. Implement a purchase order system.
7. Review expenses and supporting vouchers carefully.
8. Have an outside auditor review your books annually.
9. Do background checks and speak to references before you hire prospective employees.
10. Prosecute suspected embezzlers and employees who commit fraud.

Establishing and enforcing sound business accounting practices can be your best defense against employee fraud and embezzlement. By taking the opportunity out of the fraud triangle, you can prevent this growing crime from striking your business. ◇

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