

Safeguarding Your Business from Employee Fraud

By Roger Buchhorn, CPA

Employee fraud is one of the most common crimes committed against businesses today. Yet surprisingly, many owners take few precautions because they do not believe it is an issue in their organization. Unfortunately, avoiding the situation is the single most contributing factor that allows, and even encourages, employee theft. An owner must understand and accept the possibility of fraud within the business in order to prevent it.

You may not be able to influence an employee's motive or rationalization, but you can be more aware of personal hardships, suspicious patterns, and questionable behavior. In addition, there are several tactics for closing in on the opportunity for theft. Here are some guidelines:

1. Reacquaint yourself with your business, questioning where the possibilities for theft could occur. Understanding the flow of your business will help you develop an awareness of how opportunities arise.
2. Structure a series of steps, or internal controls, that will not allow these opportunities to be available. (i.e. require employees to sign out equipment, keep a

close eye on petty cash, spot check phone bills and other invoices, etc.)

3. Add a few simple control measures in select departments (i.e. purchasing, selling, collection, data gathering, check preparation, signing, distribution, and reconciling of accounts) to substantially reduce exposure to employee theft.
4. Once internal controls are established, be sure to follow-up regularly to verify that the steps are being implemented.
5. Above all, set an example for ethical behavior. Employees need to be aware of the company's ethics policy and understand that management is serious about enforcing a zero tolerance Employee Fraud Plan.

A properly executed plan and well communicated emphasis on deterring fraud will positively impact those employees who care about the business; they will become your best defense against theft. If you need assistance with preventing employee theft or establishing effective internal controls, email me at roger.buchhorn@padgett-cpa.com.

Three components that contribute to an employee committing fraud:

MOTIVE—This can include revenge for a lost pay increase, the loss of a spouse's income, or other personal issue.

OPPORTUNITY—This is usually brought about by weak internal controls or a low level of employee supervision.

RATIONALIZATION—This is how the employee justifies committing the fraudulent act.

According to the Association of Certified Fraud Examiners, businesses employing fewer than 100 persons are the most vulnerable to fraud and abuse by employees because:

- There is generally a closer relationship between the owner or managers and their employees, resulting in a higher degree of trust that facilitates the fraud of the dishonest employee.
- The financial controls within smaller businesses are generally more casual or even nonexistent.