

A.L.BEAN & Company

Business Insights

Protecting Your Business Assets.

A Practical Guide to Managing Employee Fraud Risk

Summer 2009

Strategic and Business Planning

Overview

All you need to do is turn on the television or pick up a newspaper and see that businesses are increasingly losing money due to unscrupulous employees, shady customers or vendors. These scams are all examples of fraud and are a growing problem. In this article we highlight employee fraud and discuss how your business can decrease your chances of being a victim.

What is Fraud and How Can It Impact Your Business?

Fraud is simply deceiving someone for a profit. This can happen in several ways. In committing fraud, your business is most likely to be victimized by your employees, customers or vendors. Of course there are other unscrupulous individuals that may try to hack your computer systems and steal your assets. These activities are becoming more common and we will cover these in subsequent articles.

Employee Fraud

Whether your company is large or small your employees have access to important files, account information and valuable assets. Employees can take your products and sell them for lower than you paid for them. That being said, don't lose sight of what can easily escalate to a much larger problem than product theft, **Embezzling Funds!**

Your funds can be embezzled easily by your office staff, if you do not have proper controls. Therefore, with all fraud risk, the key is to implement the proper controls to ensure that your assets will not get stolen. I will highlight one of the most important controls here, segregation of duties. For example, an employee that writes checks to pay the company's bills should not sign the checks as well. The risk here is obvious. Also, an employee that receives customer payments should not perform the bookkeeping. This employee can easily steal a check, alter the check information and deposit it to their account (or a friend's account). If they are doing the bookkeeping, they can tell you they never received payment, and send the customer a late notice.

An employee that is responsible for purchasing inventory should not be the person that receives it from UPS and records the receipt of the inventory. This should be obvious, as they could run their own side business by receiving and selling products without your knowledge. They could tell you that the product was never received. If you ever wondered how inventory that you never saw got stolen, this could be how. I can easily write a book on many other examples.

There are other mitigation techniques to consider as well. Some strategies are the use of passwords to access important files, required key entry of buildings with sensitive information, manager approval of requisitions, multiple signatures on all checks, etc. There are several controls that can be put in place to protect your assets.

CONCLUSION

As humans we want to trust, but in reality things happen and people can't always be trusted. Within the field of fraud there exists a concept entitled "the fraud triangle". It states that people can commit fraud if three things exist: (1) perceived pressure, (2) opportunity, and (3) rationalization. An example of perceived pressure is an employee having a sick loved one that needs resources to pay medical bills. An example of opportunity is the employee feeling that she can get away with the crime without being discovered. An example of rationalization is an employee convincing herself that the crime is justified because of various reasons. A good reason could be that he or she isn't paid well and taking a little extra just evens things with the boss. If these three variables exist, an employee may commit fraud.

This article only highlights a few items to consider when ensuring the safety of your assets. If you would like more information, please contact us at the information below.

If you would like assistance, please contact A.L.BEAN & Company at 214-387-8525 or visit our website at www.albeanco.com.

ABOUT A.L.BEAN & COMPANY

A.L.BEAN & Company is a consulting and accounting firm that specializes in serving small-to-medium sized businesses. We help businesses by offering the following primary services:

- Tax and Accounting Services
- Business Plans
- Strategic Planning
- Budgeting and Financial Planning
- Business Process Improvement
- Project Management