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Balance *sheet*

How to Prevent Fraud in Your Business

By Brian J. Sampsel

Employee fraud is a significant problem faced by companies of all types, sizes, locations, and industries. While we would all like to believe our employees are loyal and working for the benefit of the company, there are still many reasons why your employees may commit fraud.

So why do people commit fraud? The easy answer is that they do it out of greed, but there is much more to it than that. Three different factors can make an employee consider fraud which are pressure, rationalization, and opportunity. Once those factors fall into place, the idea of fraud becomes more of a possibility.

Fraud comes in many forms and can be broken down into three categories: asset misappropriation, corruption, and financial statement fraud. It is crucial to a company, large or small, to have a fraud prevention plan in place. The fraud cases that were studied revealed that the fraudulent activities lasted an average of 18 months before being detected. Imagine the type of loss your company could suffer with an employee committing fraud for a year and a half. Here are five areas of emphasis that will help you minimize fraud occurrences.



- 1. Know Your Employees** – It is important for management to be involved with their employees and take time to get to know them. Often, an attitude change can clue you into a risk. This can also reveal internal issues that need to be addressed. For example, if an employee feels a lack of appreciation from the business owner or anger at their boss, this could lead him or her to commit fraud as a way of revenge.
- 2. Make Employees Aware/Set Up Reporting System** – Everyone within the company should be aware of the fraud risk policy including types of fraud and the consequences associated with them. Those who are planning to commit fraud will know that management is watching and will be deterred by this.
- 3. Implement Internal Controls** – Internal controls are the plans and/or programs implemented to safeguard your company's assets, ensure the integrity of its accounting records, and deter and detect fraud and theft. Segregation of duties is an important component of internal control that can reduce the risk of fraud from occurring.
- 4. Monitor Vacation Balances** – The employees who have not missed a day of work in years might impress you, however, it could be a sign that these employees have something to hide and are worried that someone will detect their fraud if they were out of the office for some time. It is also a good idea to rotate employees to various jobs within a company.
- 5. Live the Corporate Culture** – A positive work environment can prevent employee fraud and theft. There should be a clear organizational structure, written policies, procedures, and fair employment practices. An open-door policy can also provide a great fraud prevention system as it gives employees open lines of communication with management.

Those who are willing to commit fraud do not discriminate. It can happen in large or small companies across various industries and geographic locations. Having the proper plans in place can significantly reduce fraudulent activities from occurring or cut losses if a fraud already occurred. Making the company policy known to employees is one of the best ways to deter fraudulent behavior. Following through with the policy is of the most importance. The cost of trying to prevent fraud is less expensive to a business than the cost of the fraud that is committed.

If you would like to discuss fraud prevention items, please contact our office.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision.
You cannot rely upon this information for avoiding tax penalties.