

Is your company vulnerable to fraud?

Most business owners I know are laser-focused on the strategic direction and growth opportunities of the companies they own and operate.

Only a small percentage understand and appreciate the value that a well-conceived system of internal accounting controls can bring to their company.

The unfortunate truth is many of these owners have learned the value of controls only after their companies have been the victim of employee fraud.

When it comes to employee fraud, the cliché, "an ounce of prevention is worth a pound of cure," has never been more true.



**EXPERT
OPINION**

**Kevin
Walker**

The Association of Certified Fraud Examiners estimates businesses and organizations suffer about \$652 billion in annual losses from all forms of occupational fraud in the United States.

On a micro level, most employee frauds and embezzlements occur over a long period of time and frequently result in significant losses to a company. Moreover, if the scheme is uncovered, the employee's ability to pay back funds is frequently limited.

So how do you go about designing and implementing an effective system of accounting controls at your company? Rule No. 1 is to remember that trust

scores no points in a control system. The largest frauds are frequently committed by the most trusted employee. With enough outside financial pressure and internal opportunity, even the most honest and loyal employees can be converted to embezzlers.

**Many
business
owners have
learned the
value of
controls only
after their
companies
have been
the victim of
employee
fraud.**

Imagine an extreme example where a company stores stacks of \$100 bills in its conference room. How long would it be before even the most trusted employee would be tempted to "borrow" one of those stacks to take care of a personal need?

The fundamental premise of fraud prevention involves a concept that accountants call segregation of duties. Laymen might use the term checks and balances.

In the simplest sense, a segregation of duties prevents the same individual from having access to the company's assets (cash, checkbook, inventory) and the financial records that account for those assets (bank statements, accounts-receivable regis-

ter, general ledger).

Think of the classic treasurer and controller functions where the treasurer oversees a company's cash receipts and disbursements functions, and the controller documents transactions.

Properly designed systems that incorporate this segregation-of-duties concept can effectively prevent and detect the most common forms of employee fraud, including revenue diversion, fictitious disbursements, payroll scams and inventory theft.

Such a system can also provide the added benefit of preventing and detecting everyday unintentional errors such as duplicate payment of invoices.

Another growing area of employee fraud involves the theft and diversion of confidential company information including customer, vendor and employee lists, proprietary formulas, product-design information, trade secrets and strategic plans.

In the wrong hands, the loss of a company's intangible and intellectual assets can be much more harmful than a simple embezzlement of cash.

When was the last time you looked at your company's controls for information-based assets?

While there is no "one size fits all" approach to internal accounting controls, a few practical

please see FRAUD, page 13

PARALEGAL TECHNOLOGY

Paralegal Technology
CPCPC

Career Opportunities

The paralegal profession is among the fastest growing professions in the United States.

Attorneys are constantly in search of good paralegals.

Paralegal education is also valuable for individuals who wish to pursue other professions in which a legal background is beneficial.

Learn more at www.cpcpc.edu/paralegal

**Raising
the
Bar**

Get there

COLLEGE

FRAUD

from page 4

considerations would always include the following:

- Use of a bank lockbox for customer remittances.
 - Perform an independent monthly review of bank statements and payroll registers with special attention to new or unusual items, as well as wire-transfer transactions.
 - If signature stamps are used for check processing, make certain access is tightly controlled.
 - It's generally much easier for an employee to process a fictitious invoice for phony services than for product purchases. Pay special attention to the vendor-approval process for services.
 - Unapproved overtime and bonuses and fictitious employees are the most common forms of payroll fraud. Simple controls can protect your company from such losses.
 - Adopt comprehensive preemployment screening for all new hires whose duties may provide access to company assets. This should include criminal background and multiple reference checks, and, subject to the applicant's consent, an individual credit report.
- Serial embezzlers are numerous, and often are not prosecuted for fraud due to employers' reluctance to make their crimes public.
- Adopt strict employee-ethics policies and enforce consequences for noncompliance.
 - Consider retaining an employee-fraud hotline service so your company's honest employees have a safe and confidential forum to report suspicious matters.
 - Review employee expense reports closely. Require documentation for all significant items.
 - Obtain employee fidelity-bonding coverage to protect the company in the event of verifiable fraud.

One rationalization I often hear from small-business owners is even if they wanted to establish a strong control system, they do not have enough employees in the accounting function to allow for a proper segregation of duties.

While this may be true in a textbook sense, there are often practical and easily adopted mitigating controls that can significantly strengthen the system.

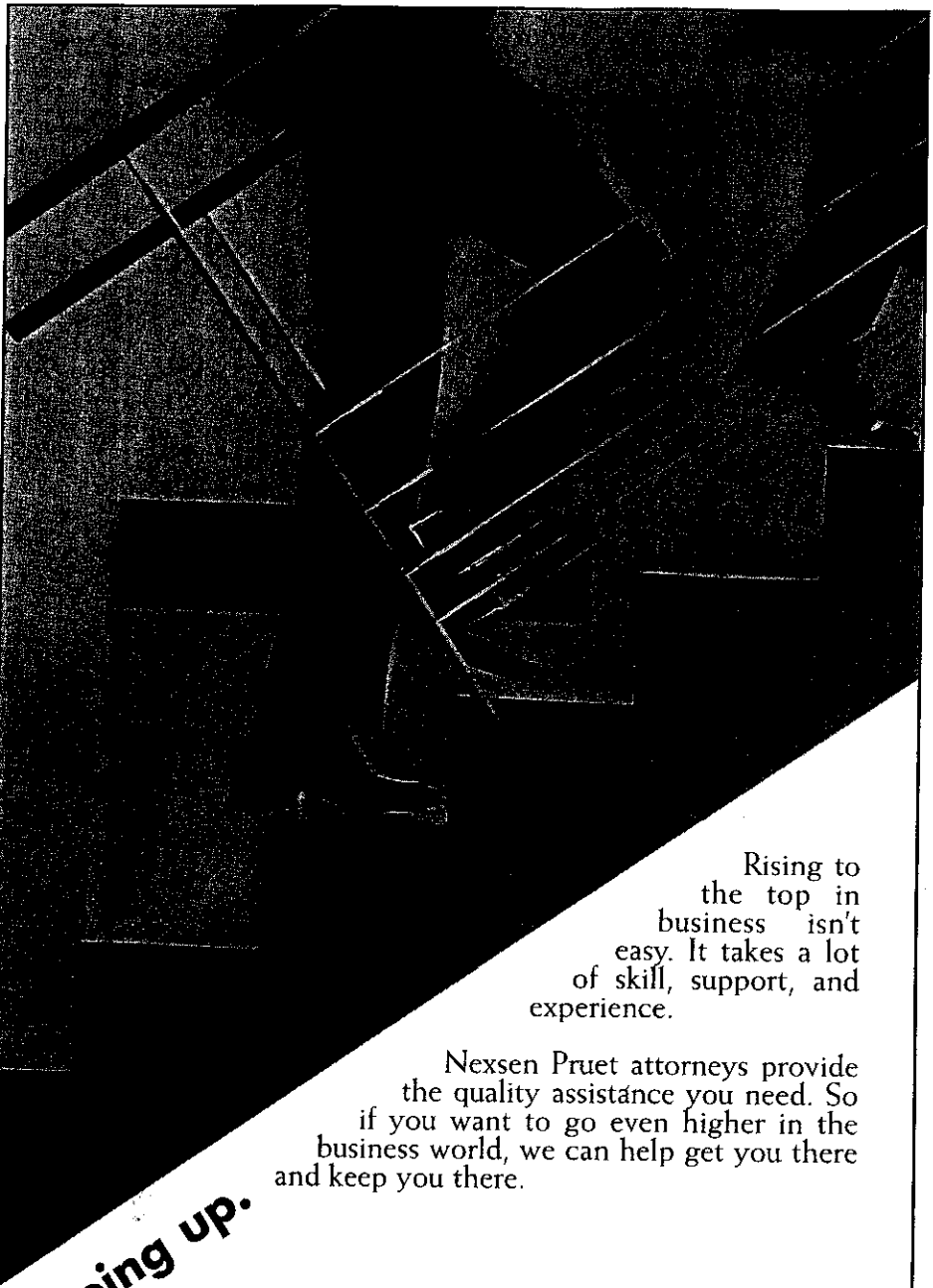
If you're unsure what steps to take, I would suggest brainstorming with your outside accountant.

It's also a good idea to review your control system at least once a year to see if it's still effective.

When it comes to your company's system of internal accounting controls, the cost of benign neglect is often significant and hidden.

Don't let your company be the victim of a silent partner.

Kevin Walker is a founding partner of Greer & Walker, a Charlotte-based accounting and business advisory firm. He can be reached at (704) 377-0239 or kwalker@gwlp.com.



Rising to the top in business isn't easy. It takes a lot of skill, support, and experience.

Nexsen Pruet attorneys provide the quality assistance you need. So if you want to go even higher in the business world, we can help get you there and keep you there.

Going up.

NEXSEN | PRUET
ADAMS KLEEMEIER
The Carolinas Law Firm

201 SOUTH TRYON STREET • SUITE 1200 • CHARLOTTE, NC 28202 • 704.339.0304 • NEXSENPRUET.COM

CHARLESTON | CHARLOTTE | COLUMBIA | GREENSBORO | GREENVILLE | HILTON HEAD | MYRTLE BEACH