

# Preview of Business Class

Les Lake will be presenting the class, "Dealerships Under Siege - Fraud in America 2011" at 11 am on Thursday, January 13, 2011 at the Best Western Burley Inn & Convention Center. It is one of the classes offered in the Member Education - Business Track. Don't miss this opportunity to learn from an expert in fraud prevention. Sign-up on page 5.

## Business Fraud – The Issues

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Managing a business has its own challenges, but throw the risks of fraud and embezzlement into the mix, and another dimension is added to keep what you have already worked hard to achieve. Reducing the level of risk associated with fraud and embezzlement needs to be considered. Business owners may ask themselves, are my employees trustworthy? Do any employees have significant financial pressures? Do employees with financial pressure have access to the assets of the business? What types of thefts are common in this industry? Have adequate internal controls been implemented? Have policies been communicated to the employees and enforced by management? **According to the Association of Certified Fraud Examiners (ACFE), in the ACFE's 2010 Report to the Nations, the median loss from occupational fraud per event for a small business is \$155,000.** Understanding and preventing fraud increases the likelihood they will be in the minority that remains unaffected.

Prevention is the first line of defense to effectively deal with fraud. The most important step is to increase the perception of detection among employees. If employees think they will be caught, they will most likely not steal from the business. The perception of detection is the best, most cost effective message managers can send to employees. It must be clearly communicated and enforced by top management. **A fraud policy outlining what fraud includes and the consequences of committing fraud must also be communicated.** Most importantly, owners and management must walk the talk. Employees watch and follow their actions, so any policies or procedures not followed by owners and top management are not likely to be followed by other employees.

**According to the ACFE, businesses with fewer than 100 employees are often more susceptible to fraud because they are unable to implement as many fraud-preventing internal controls.** This lack of internal controls is often a major contributor to the fraud loss. Employees may recognize the opportunity for theft when internal controls are weak or non-existent. In situations where duties are not properly segregated or review procedures are either not implemented or are not followed, the internal controls in place can be easily subverted creating a risk for employee theft. However, there are fixes for this situation; management needs to review, evaluate, and implement effective internal controls. Taking the time to conduct a fraud assessment will help to evaluate the areas of potential weaknesses in business operations so that current controls can be

changed as needed.

Conducting a review of policies and procedures will help to increase the perception of detection at a business, which results in employees being more alert to possible frauds.

**The 2010 Report to the Nations indicates the majority of frauds in a small business are discovered by tip.**

Implementing an external fraud hotline allows

employees the opportunity to communicate with management without the fear of retaliation.

Hiring the right people is important. Because companies with less than 100 employees are the most vulnerable to fraud, it is important the most qualified and trustworthy employees are hired. **Hiring the right people starts with conducting background checks.**

Just as important as conducting the background check is using the information obtained in the check to place the right employee in the right position. For example, an employee with high amount of debt or an addiction should have limited or no access to cash assets.

**The average fraud is not detected for 18 months.**

When this much time passes between the event's initial occurrence and detection, the impact of how management responds to the fraud can be disappointing to employees "in the know" and decrease company morale. It can even lead to additional frauds being perpetrated by disgruntled employees. The best approach to dealing with these matters is to resolve allegations of fraud by forensically examining the books and records for any wrongdoing, which may include interviewing employees.

**The ACFE estimates 5% of a company's total revenue is lost to fraud each year.** This loss can significantly affect the survival of a business. Many businesses cannot absorb this loss, and end up closing their doors. At a minimum, fraud generates a loss of trust and may lead to unrecoverable monetary losses. The way to deal with this is to document the fraud and calculate the loss amount for potential recovery through insurance proceeds, civil litigation and/or criminal litigation. Addressing the challenge of reducing the risk associated employee fraud or embezzlement is less stressful and costly than addressing the challenges of detecting, investigating, and recovering losses due to fraud.



Les Lake