



**CAIN ELLSWORTH
& COMPANY, LLP**

Beyond the Numbers...



Preventing and Addressing Fraud in Your Business



Fraud is a significant problem across businesses of all sizes. The Association of Certified Fraud Examiners estimates that businesses lose 5% of revenue each year to fraud by employees and officers. In this document, we'll cover steps to help prevent and address fraud in your business.

Preventing Fraud

A key to preventing fraud is having well-defined internal controls and procedures. Here are the six internal controls you should consider for your business.

Divide Responsibilities Between Employees

Never let one employee handle accounting or payroll processes from beginning to end. For example, the person who pays the bills should not also be the person who reconciles the bank account. The person who prepares the checks should not be the same person who signs the checks. Separation of responsibilities not only curbs opportunities for fraud but is a great way to catch mistakes and hold employees accountable. Additionally, having a third-party accounting or payroll firm perform certain tasks can help further diversify responsibilities.

Require Cross-Training

Ensure that multiple employees know how to perform all the duties and responsibilities of a single position. This method is key for fraud prevention. It's never a good idea to place all the responsibility and knowledge of your accounting or payroll processes with one employee.

Mandate Vacation Time

Insist that all employees take an occasional vacation or personal leave. If an employee refuses to leave their work to someone else for a few days, they may be attempting to hide fraudulent activity or negligence. When an employee does take time off work, make sure someone else picks up their responsibilities while they're gone. This helps work run smoothly and also provides an opportunity to catch errors or suspicious activity.



Conduct Periodic Third-Party Reviews or Audits

Have our firm conduct periodic financial reviews or audits. Our experts have worked with a variety of companies and have the experience and knowledge to identify vulnerable processes and actual fraud. We suggest performing audits at least annually, but quarterly or monthly is better.

Clearly Outline Job Processes

Each job process should be clearly outlined and reviewed for clarity. For example, an accounts payable clerk is responsible for processing vendor payments. But, how often should this occur? What are the steps required to approve invoices? Who is responsible for approving payment of invoices? These are all questions that should be answered within the outlined job processes.

Educate Employees

Your employees are your best line of defense for detecting internal fraud if they know what to do. Make sure you have a clear code of conduct that all employees read and understand thoroughly. You can also provide fraud training to help employees know the most common types of fraud and ways to spot suspicious activity. Finally, you can offer an anonymous tip process, including a reward system for reporting fraudulent activity. Tips account for 40% of fraud detection, and over half of those tips come directly from employees.



What If You Suspect Business Fraud?

So what should you do if you suspect fraud in your business? Consider the following.

Think It Through

Upon discovering fraud, your first inclination might be to confront the bad actors and stop the bleeding. However, you should refrain from impulsively confronting them or others within the organization unless the situation simply requires an immediate response. Instead, take time to gather evidence and analyze the data before anyone has a chance to cover their tracks and destroy evidence.

You may need to backup online and physical files and other important data. This is important for evidence gathering and helps to ensure that nobody can destroy corporate property after being confronted. With this in mind, you should consult with your IT manager to secure data and cut off the individual's access to all systems at the appropriate time.

Once you have gathered the appropriate evidence and taken steps to protect the business, a formal investigation can be initiated. From there, you can involve authorities, if necessary.

Record Events

From the time you suspect fraud, you'll want to record events as they happen so that details don't become muddled or fuzzy in the future, especially if you need to relay information to authorities. Recording events and evidence you gather will be critical if you terminate one or more employees, pursue legal remedies and perhaps file a claim with your insurance company.

Get Professional Help

No matter the type of fraud you suspect, it's best to seek help from a professional. First, you may want to consult with your CPA to discuss the nature of the fraud, how to stop the bleeding, and how to gather evidence. Second, you may also want to contact your attorney to help guide you through the process of confronting the individuals and taking appropriate action. You may also need both your CPA and attorney to assist in taking legal action against the individual to recover losses.



Prosecute Fraud Whenever It Occurs

From the time you suspect fraud, you'll want to record events as they happen so that details don't become muddled or fuzzy in the future, especially if you need to relay information to authorities. Recording events and evidence you gather will be critical if you terminate one or more employees, pursue legal remedies and perhaps file a claim with your insurance company.

Check With Your Insurance Company

If you have Employee Theft Coverage, also known as Employee Dishonesty Coverage, some or all of your losses may be covered. Employee Theft Coverage is one of the most common types of insurance under commercial crime policies. While this type of insurance covers you if an employee commits fraud, it generally does not if a business owner or partner commits the fraud.



Final Thoughts

We hope this helps you consider your internal controls and provides you with steps to take if you suspect fraud. Contact our office to discuss preventing and addressing fraud in your company.



About Cain Ellsworth.

Cain Ellsworth is not all things to all people. Instead, we specialize in serving small to medium businesses in banking, manufacturing, property and casualty insurance, plus a variety of other industries. And we dedicate significant resources to assure that we are well-informed in each of them.



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