

BUSINESS PRESS

Fiscal trauma can invite fraud; here's how to protect yourself

During a recession, preventing fraud is one key to long-term economic survival. Organizations already coping with layoffs and budget cuts are at risk for additional harm from within — employees who exploit weakened internal controls for their personal benefit.

A downturn in the economy leads to an increase in occupational fraud, an early-2009 Occupational Fraud survey by the Association of Certified Fraud Examiners suggests. People are doing more with less and covering multiple jobs, resulting in diminished effectiveness of internal controls designed to safeguard assets.

According to the association's 2008 Report to the Nation on Occupational Fraud & Abuse, median losses from occupational fraud schemes involving cash receipts and cash disbursements was \$70,000, over a median duration of 17 to 30 months. Organizations can not afford to lose any extra cash, now more than ever.

So, you may ask, how can local businesses avoid being victims of employee embezzlement, the type of fraud most expected to increase? Management should exercise greater oversight of finances and become more involved in critical processes, including control over bank accounts, invested funds and other assets readily convertible into cash.

Based upon my experience as a fraud examiner and forensic accountant, occupa-



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tional fraud schemes generally involve cash disbursements, cash receipts or other assets.

An organization's vulnerability is a direct function of financial pressure, opportunity and the ability to rationalize illegal behavior. In the current recessionary economy, these factors may grow more prevalent.

Since increased financial pressure and rationalization of illegal conduct are beyond most businesses' control, there should be a concerted effort to lessen the opportunity for committing fraud, or to increase the likelihood that the fraudster's actions will be discovered.

Often organizations focus primarily on monitoring new employees, believing that

their longtime employees are honest and trustworthy.

However, based upon my experience, fraudsters are usually long-term trusted employees who have developed relationships with vendors, gained the trust of management and co-workers, and understand the weaknesses in the internal control structure.

Steps managers can take to minimize fraud-risk vulnerabilities include:

- Monitor receipts and disbursements by reviewing bank statements, bank reconciliations and supporting documents.
- Review monthly financial statements and ledgers for unusual trends and transactions.
- Look for red flags that may signal misconduct, such as workers living beyond their means, never taking vacations or resisting sharing of duties.
- Implement indirect measures, such as employee support programs, personnel fraud training and fraud reporting hot lines.

Above all, company managers should strongly consider the benefits of exercising greater oversight over finances and should involve themselves more actively in internal control functions previously delegated to others.

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