

A fraud prevention mini-clinic

Develop a comprehensive program to prevent fraud in your business. **By Timothy Mayles**

Even focusing on short-term loss, the cost of initiating a proper fraud prevention program will, in most cases, be far less than the cost of the would-be fraud. In a study by the Association of Certified Fraud Examiners, fraud was found to average as high as 6 percent of revenue. In fact, if described as an industry, fraud would clearly be identified as one of the growth areas of our economy.

Imagine that, as a small business owner, you have been noticing your profits slowly diminishing for years. Your competent bookkeeper is always able to explain: "Shipping costs are driving up cost of sales." "Insurance costs have skyrocketed lately." "And you know how gasoline prices have been soaring." You don't suspect anything; after all, your bookkeeper has been a dear and trusted employee for more than 30 years.

One Saturday alone at the office, you notice some cancelled checks in your bookkeeper's desk. When you later question her, she puts your mind at ease: "I'm a little behind on my filing." It seems logical. In fact, she always has a good explanation for these little "irregularities."

Wisely, you begin to suspect something is amiss. An internal fraud audit reveals your bookkeeper has been perpetrating a fictitious vendor scheme for nearly 20 years. The loss is more than \$200,000, and the likelihood of recovering the funds is dim; your bookkeeper is not bonded.

How do you prevent this from happening to your business?

There are three key components to developing a comprehensive fraud program:

- Aggressive prevention
- Early detection
- Effective handling

The best way to block the bleed of your organization's revenue is aggressive prevention. Arguably, the most important element of a fraud prevention initiative is creating an anti-fraud environment.

One simple factor is the "tone at the top." It's time for a culture change if your leadership doesn't take fraud seriously and react to it quickly and decisively. Employees steeped in an environment lax on fraudulent



behaviors are far more likely to dabble in theft and are likely to find, in the absence of a fraud prevention program, their unscrupulous efforts rewarded and likely repeated.

Savvy leaders display unwavering personal examples of honest and ethical behavior. This can be communicated through simple, consistent demonstrations: paying for personal postage, reimbursing the company for non-business phone calls, providing receipts for every petty cash reimbursement, etc. Moreover, and perhaps most important to fraud prevention, is a swift response to discovered fraud, including the fullest prosecution possible by law.

Concurrently, supervisors and managers must be formally trained to identify fraud indicators and to react judiciously when suspicions arise. Those entrusted with leadership positions need to be held accountable for personally monitoring for the frauds that they alone are in a position to detect. The responsible head or the senior financial officer determines your organization's "acceptable" level of fraud risk.

Finally, adopting a formal fraud policy sends a distinct message to employees at all levels, that management will not tolerate fraud or any other inappropriate behaviors. An effective policy must clearly define man-

agement's responsibilities to prevent and detect fraud, employees' responsibilities if they suspect fraud and how to respond. Insist every employee sign off on a statement that indicates they understand and agree to comply with the letter and the spirit of the policy. Establish an anonymous means through which employees who may fear reprisal can report their knowledge or suspicion of thievery.

As one who initiates and oversees your organization's fraud firewall, it is powerful and essential to understand the No. 1 deterrent to fraud is an individual's belief he or she will be caught.

To see how your organization rates in this area, request a copy of the Association of Certified Fraud Examiners 12-page "Fraud Prevention Checkup" by sending an e-mail to tdm@barneswendling.com.



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