

TIPS *from* LauberCFOs

How to Minimize The Risk of Fraud In a Small Business

Did you ever suspect your business might be susceptible to internal fraud? You're not alone. And with good reason. Misappropriation of financial resources through bookkeeping maneuvers is the topic of this issue of *Tips from the CFO*.

The regulations of the Sarbanes-Oxley Act have helped protect publicly held companies from fraud and embezzlement. Larger privately held companies generally have checks and balances in place to provide financial oversight.

But there is commonly little oversight in smaller businesses, where one person is often entrusted with too much control over the books. That bad situation is compounded in companies that use accountants who never really review the books. Unfortunately, thousands of smaller businesses operate that way.

Fraud can occur when there is simply too much control of the books by one individual, and too little oversight by company executives and ownership.

It's like leaving a 5-year-old with a cookie jar. Guess what could happen?

According to Joseph T. Wells, founder and CEO of the Association of Certified Fraud Examiners, employees misappropriate company resources in one of three

ways: skimming, larceny and fraudulent disbursements.¹

- Skimming, Wells says, is when cash is taken prior to being noted in the accounting system.
- Larceny, on the other hand, involves schemes that remove cash after it has been recorded in the accounting system.
- Fraudulent disbursements involve such actions as check tampering, billing schemes and reimbursement schemes, he notes.

Business owners often will say they are too pressed with other matters to look at the books, and that they "trust" the individual in charge. You can be "busy" and still have controls in place, particularly by engaging an outside accountant for a review. Regarding "trust," every single case of business fraud has involved someone who was trusted.

Think about it: It's only the people you trust who are capable of committing fraud, because you have given them access and control. If you think your business is safe because you trust the person in charge of your books, you are not safe.

¹ Joseph T. Wells, [Enemies Within – Asset Misappropriation Comes in Many Forms](#), Association of Certified Fraud Examiners, copyright December 2001

This is not to indict the many bookkeepers that act with honesty and integrity. It is a reminder of human nature – that a percentage of those whom you trust will fall to the temptations presented by your company's financial resources.

A few simple steps can help prevent fraud, or at least catch it before it too severely harms your company:

- One of the simplest things an owner can do is review the canceled checks returned with your bank statements or review the detail online if the hard copy is not returned. You don't have to do this all the time; a periodic review of the books will catch certain types of fraud if it is occurring.
- The owner should sign all checks or at a minimum have someone other than the bookkeeper sign checks.
- Have your bookkeeper present the supporting invoices & other documentation with the checks to be signed.
- Ask to personally see all voided checks.
- Ask to see the detail for any expense categories that seem out of line in your financial statements.
- Review detail aging of accounts receivable being alert for unusual payment patterns. Investigate old items when newer items are being paid.
- Be cautious about using company credit cards. Instead have employees submit expenses for reimbursement.
- Be concerned, ask questions, it is your money.

If you're not sure what to watch for, ask a CPA, or give us a call at 414-273-8060 or, outside of Milwaukee, at 800-358-8060. You can also send me an e-mail at John.Lauber@LauberCFOs.com. One of our LauberCFOs would be happy to confidentially discuss techniques and processes your company should have in place to prevent fraud and other financial misappropriation.

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