



What is Your Fraud Risk?

4 Tips to Reduce Your Company's Risk for Embezzlement

By Gabbi Huffman

Poor internal controls provide employees the opportunity to steal at the expense of your business. How much are you willing to lose as a result of an embezzlement? What will your insurance cover? These are some basic considerations as you evaluate your business' fraud risk.

Minimize the risk of falling victim to fraud by first understanding why employees and executives steal:

1. **Opportunity** – Picture this. You're walking down the street and come across a \$50 bill on the sidewalk. You look around and see the person who must have dropped it. What do you do?
2. **Rationalization** – A rare person may rush up to the likely owner to return the \$50. However, and more likely, someone will rationalize the owner does not even know they lost the bill and the finder is now \$50 richer.
3. **Pressure** – If you're on the fence and unsure of where your moral compass would guide you, let's add financial hardship to the equation. What if you had an overwhelming amount of debt, hospital bills, pending divorce or foreclosure on your home? Any of these life pressures can entice a good person to steal.

Ask yourself, are you putting your employees in the position to take your "\$50" while you aren't looking? If the answer is yes, below are a few tips to mitigate your risk of occupational fraud:

1. **Segregation of duties** – Ideally, you should have more than one employee involved in any processes involving cash receipts, disbursements, accounts receivable, accounts payable, inventory, payroll, invoicing and vendor setup. When there are more people involved in these processes, the harder it is to steal. However, for many small businesses, this is not practical. Instead, you are likely to have one person to complete overlapping tasks, and that increases the probability of fraud. Most embezzlers do not like accomplices and usually commit their criminal act alone.
2. **Management oversight** – Build a team of leaders within your organization so you have more than one person involved in the approval and review processes listed above. If you and your management team have a strong presence within the organization, employees are less likely to steal in fear of being caught.
3. **Tone at the top** – You and your management team set the anti-fraud tone for the organization. If your employees enjoy working for you, are honest, value the work they are doing and value you, they are less likely to steal should they ever have the opportunity or pressure to do so.

4. **Active fraud policy** – Let your employees know that fraud is unacceptable. Have a document that defines fraud and the resulting consequences of stealing. Review this document annually with your employees and keep a signed copy for your records.

Fraud insurance

Sometimes even the best fraud policies can be breached. Therefore, don't wait until you are a victim (it's too late) to consider purchasing fraud insurance. Insurance policies can reimburse you for your loss and pay the forensic and legal costs associated with the forensic investigation.

Take a moment out of your busy schedule to reflect and consider any weaknesses your organization may have that could provide an employee the opportunity to steal.

If you have any questions about your current internal controls, wish to have them evaluated or are unsure how to implement anti-fraud strategies, please call Gabbi Huffman at 440-449-6800 or email Gabbi Huffman email Gabbi.