

Fraud Prevention Tip of the Month from



ARE YOU HELPING YOUR EMPLOYEES STEAL FROM YOU?

July 2010

FRAUD REQUIRES OPPORTUNITY

In order for fraud to occur, three elements that make up the "Fraud Triangle" must be present. First, the fraudster must have an opportunity to commit fraud. Second, there must be some sort of financial need or pressure to produce certain results. Finally, the fraudster must be able to rationalize his or her behavior. By eliminating or greatly reducing opportunity, employers can prevent many frauds from occurring.

DON'T LET "DO IT ALL DORIS" WORK FOR YOU!

Although it may seem efficient for one person to handle many routine tasks, the lack of segregation of duties provides the opportunity necessary for fraud to occur. Take, for example, Do It All Doris, (Dorry, for short) the accounting clerk at Quality Widgets. Dorry started out as a receptionist, but management soon recognized that she was capable of much more challenging work. She was moved to the accounting department and because of her efficiency, took on more and more responsibilities over the years. By the time Dorry's embezzlement was discovered, she had stolen over \$1 million from Quality Widgets!

Unfortunately, management actually gave Dorry the opportunity to commit fraud by making her responsible for many duties that should be segregated. Dorry wrote checks to pay the company's vendors, and it was easiest, therefore, to keep the blank check stock at her workstation. Eventually, in the interest of efficiency, Dorry was given control of the check signing machine. After the invoices to be paid were approved by her supervisor, Dorry wrote the checks, signed them, and mailed them. While this may seem far-fetched, it is a common scenario in many smaller businesses.*

When Dorry's mother became unable to care for herself, Dorry had no idea how she would pay for a caregiver. Remember the financial need element of the Fraud Triangle? After using up most of her savings, she began to think about the owner of the company and the big house he lived in, the lavish parties he threw for his friends, and the expensive vacations he took. Dorry then was able to Rationalize (the third and final element of the Fraud Triangle) using company funds to care for her poor, elderly mother, because she thought the owner didn't need the money, and he'd never miss it! In addition, she absolutely planned to pay back the money over time. Unfortunately, she didn't have the chance, since her supervisor took a fraud awareness course and when he began to implement proper segregation of duties in the accounting department, Dorry's secret was revealed.



SIMPLE STEPS TO REDUCE OR ELIMINATE OPPORTUNITY



Had Dorry's employer insisted on proper segregation of duties, her fraud would not have been possible. Because Dorry wrote and signed checks to vendors, it was easy for her to cut checks to herself or her mother's caregiver directly at any time. Checks should always be reviewed after signing and mailed by someone other than the person who writes the checks. While it's true that Quality Widgets was a small company with manual processes, the same logic applies in companies with sophisticated systems. Who has access to what information? Who can change it? Are changes tracked? Those are some of the questions to ask. Thinking about opportunity and how to eliminate it is one of the easiest, most inexpensive ways to reduce fraud losses.

*Just a word to the wise about family members. Many business owners overlook segregation of duties issues with family members, saying things like "My niece would NEVER steal from me!" Sadly, that is not the case, and it's devastating to the business owner when betrayed by his/her own flesh and blood. Don't give ANYONE opportunity to commit fraud in your company!

For more information on fraud prevention and detection, please call Lori Payne at (805) 527-1499.

About Payne Financial Forensics

Payne Financial Forensics is a financial consulting firm, specializing in Forensic Accounting; Fraud Investigations; Litigation Support, including Bankruptcy and Insolvency related litigation; and Expert Testimony.

With a middle market focus, our professionals have broad experience in financial consulting and are credentialed as Certified Public Accountants, Certified Fraud Examiners, Certified in Financial Forensics, and Certified Insolvency and Restructuring Advisors. Payne Financial Forensics provides personalized service by senior professionals with big firm experience and expertise at a reasonable cost.

Lori L. Payne, CPA/CFF, CFE, CIRA
Payne Financial Forensics
(805) 527-1499
www.PayneFF.com