

Fraud Prevention Tip of the Month from



GET WHAT YOU PAY FOR!!

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Do you know if all the payments made by your business are to legitimate vendors? This month's fraud tip will give you tools to help you find out.

DON'T PAY FICTITIOUS VENDORS!

One of the more common types of billing scheme is the fictitious vendor scheme. In this type of fraud, invoices (typically for services - not goods) are paid to a vendor that does not actually exist.

HOW MABEL'S EMPLOYER BOUGHT HER A BOAT

Mabel worked in the accounts payable department at Model T Enterprises, a manufacturer of scale model cars, planes, boats, etc. She was diligent in the performance of her duties and was a trusted long time employee. In fact, Mabel was known as one of the most efficient employees in the department!

One spring morning over breakfast, Mabel's husband Fred remarked that he had always wanted a sailboat, and Mabel thought she knew just how she could get him one!



Since she had access to Model T's Vendor Master File to enable her to set up new vendors in Model T's system, that afternoon after her routine work was complete, Mabel added a new vendor. The fictitious vendor was called "Marine Dreams," purportedly a web optimization marketing service. Marine Dream's address was a PO Box that Mabel had purchased the previous afternoon. That evening, Mabel tested her creative skills by designing a simple invoice form for Marine Dreams. Over the next few months, Mabel slipped "approved" invoices from Marine Dreams into Model T's accounts payable runs. When the checks payable to Marine Dreams arrived at her PO box, Mabel deposited them in a bank account she had set up for her dba. Soon she had "saved" enough to surprise her Fred with a brand new sailboat, which they promptly christened "Fools' Bounty".

Model T Enterprises obviously didn't have nearly the oversight or controls that should be mandatory for one of the most important functions in their business - cash disbursements. Are YOU providing your employees with hidden "employee benefits"?

HOW GREAT IS YOUR RISK AND WHAT CAN YOU DO TO PROTECT YOUR BUSINESS?

Following are a few controls you can implement immediately to protect your business from fictitious vendor fraud:

- Conduct surprise audits - and let employees know this is your policy!

Periodically perform the following analyses:

- Compare addresses in vendor file to employee addresses.
- Look for multiple vendors with the same address.
- Review vendor list for addresses that are P.O. Boxes and mail drops (D&B provides a service that will compare your list of vendor addresses to its list of mail drop locations. Physical inspection is also an option, if practicable).
- Look for telephone area codes that don't match the payment address.
- Look for invoices that have not been folded!! Invoices from legitimate vendors are usually folded to be mailed.
- Payments to a certain vendor that have dramatically increased over time with no reasonable explanation (fraudsters often start small and increase the amounts they steal as they gain confidence).



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.

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