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EMPLOYEE FRAUD IS GROWING CONCERN FOR BUSINESS OWNERS

If you're not concerned about the possibility of fraud in your business, you should be.

That was the sobering admonition of Chrissie Powers, who conducted a morning workshop for Whalen & Company clients in October.

Powers is co-owner of P.D. Eye Forensics, LLC, a forensic accounting firm located in Columbus, and a CPA who is a certified fraud examiner.

According to Powers, fraudulent activity is becoming more widespread, and fraudsters are taking more risks and developing sophisticated schemes to defraud the organization where they work. "Business owners need to ensure that proper fraud prevention procedures are in place," she emphasized. "You can't stop it, but you can slow it down and make it harder for fraudsters."

Fraud examiners estimate that 5 percent of an organization's revenues are lost to fraud, and small businesses are among the hardest hit. Most incidents cover 24 months before detected.

Small businesses often don't have enough employees to put segregation activities in place or have sufficient internal controls. "Just because you have an audit doesn't mean that you're protected," she said. "If it is immaterial to a financial statement, an auditor is not likely to catch it. An auditor's job is not to find fraud."

Asset misappropriation, involving payroll fraud, fraudulent invoicing or billing, or skimming revenues, is the most frequent fraud method. About one-third of the occurrences are due to corruption, where an individual uses his or her influence to obtain a benefit or kick back. Fraudulent statements are the least frequent, but generally result in more loss to a company.

Research shows that 66 percent of employees will steal if they see others do so without consequence; 21 percent of employees are honest and will never steal from employer, and 13 percent of employees will steal regardless.

Powers says the key elements of fraud are opportunity, rationalization and financial pressure. "Give enough financial pressure, someone in your organization is going to commit fraud," she warned. "The pressure of financial strain is so strong that they don't think here are other options."

Men generally commit fraud for immoral purposes, such as women, gambling or drugs. On the other hand, women act out of concern for a sick family member or family need. "Desperate people do desperate things," she said.

Powers indicated that persons who commit fraud often do it initially because they are in a pinch. "They do it once, and it becomes a thrill, a high," she said.

If you believe fraud has been committed, Powers recommends not confronting the suspect initially or calling the police. "You don't want to give the employee time to destroy evidence, and the police don't have enough time to investigate," she explained.

She advises business owners to contact their lawyer, accountant and insurance agent. Generally, this will lead to a competent investigator.

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