

# GARRETY & ASSOCIATES, LLC

## CERTIFIED PUBLIC ACCOUNTANTS

### EMPLOYEE FRAUD WARNING LETTER

JANUARY 2020

Dear Client:

**Many business people underestimate the risk of fraud. According to the world's largest anti-fraud organization, the Association of Certified Fraud Examiners (ACFE), small and mid-sized businesses are the most common victims of organizational fraud. The effects can be more damaging.**

Small businesses with fewer than 100 employees reported 28% of all instances of fraud and suffered greater losses in relation to their size.

The types of fraud you need to be aware of fall into three categories:

- a) Theft
- b) Financial statement fraud
- c) Asset misuse

ACFE states that theft is the most common, including;

- a) Stealing cash
- b) Claiming fake expenses
- c) Taking property



Employees are the main culprits, which can be tough for you to swallow. You often consider your employees as friends or members of an extended family.

How are you managing your business? Many business owners are discovering that their internal controls and processes do not prevent and/or detect errors and/or fraud. Also, their assets are not as well protected as they thought. This is especially true in small business environments where a single employee manages all of the accounting and bookkeeping functions. Often there are no "checks and balances" to verify that transactions are accurate.

When proper, consistent procedures are not in place, employees can learn to manipulate the accounting system to their benefit. Whether they take money from the company or their mistakes are undiscovered, the result can greatly impact your company's management discussions, financial reports and tax filings.

Unfortunately, once your financial records have been altered, discovering problems is extremely difficult. Most standard accounting practices are not designed to uncover internal problems such as embezzlement.

What makes a business vulnerable to fraud? There are many conditions that allow fraud to take hold:

- a) Employees perform multiple functions, allowing them to hide their actions
- b) Staff become too familiar and trusting with each other
- c) The absence of formal procedures means transactions don't get recorded
- d) Staff lack the expertise to recognize fraud

It's vital that small businesses take steps to prevent fraud and/or detect it as soon as possible.

Here are ten important areas to be aware of:

- 1) Don't let one employee perform all of the accounting and bookkeeping functions
- 2) Make sure you know your employees well
- 3) Establish and maintain robust internal controls and processes
- 4) Watch your bank accounts like a hawk!
- 5) Make sure you review high-risk areas often
- 6) Train your employees to prevent fraud
- 7) Protect your business credit card and bank information
- 8) Make sure you know your business partners well (if applicable)
- 9) Check into every case – no matter how small
- 10) Get expert help if things don't "add up"

Therefore, the best way to safeguard your company's assets is to recognize and improve weaknesses in your internal procedures. The following business practices can help you minimize potential internal control problems:

- **Have a whistleblower policy.** According to the widely adopted "COSO Report" on internal controls, the most effective deterrent to fraud is the presence of a whistleblower policy. A common use of such a policy is to encourage the reporting of suspected fraudulent or dishonest use or misuse of company resources or property. For more guidance on this matter, please visit our website at [www.garretycpa.com/fraudinfo](http://www.garretycpa.com/fraudinfo) or respond to this letter and our firm will gladly send you additional resources on whistleblower policies.
- **Related duties should be assigned to different people.** Certain accounting functions are designed to cross-reference each other for accuracy, writing/signing checks, ordering/paying/receiving materials, handling cash/recording cash, etc. These procedures can reveal inconsistencies in your records in a timely manner.
- **Reconcile and scrutinize your bank statements every month.** A bank statement can tell you a lot about your business if you review the information in a timely manner. Examine checks and endorsements; track transactions between accounts; compare payroll checks with employee records, and ask questions.

- **Always ask for proof before you sign a check or authorize a transaction.** When you insist on reviewing original documentation, your employees become more accurate and communicate their needs more clearly. You should also verify the names of your vendors and your employees occasionally. And, remember to cancel supporting materials after signing a check.
- **Lock and protect your valuables.** Keep blank checks and signature stamps secured, and deposit cash and checks daily. It's also important to secure fidelity bonds and insurance for all accounting and key personnel.
- **Know your employees and examine behavior changes.** Always verify employee references before hiring. Many white-collar crimes go unreported and continue to be repeated. Watch for trouble signs: possible substance abuse, change in lifestyle, living beyond means, possessiveness of work.

These internal controls can help you reveal many discrepancies, as well as recognize the excellent efforts of your staff.

If you are interested in more detailed guidance on this matter, please visit our website at [www.garretycpa.com/fraud-information](http://www.garretycpa.com/fraud-information) or just respond to this letter and our firm will gladly send you an additional “fraud reference packet” to help you further understand the risk of fraud and spot common fraud indicators.

Sincerely,



Garrety & Associates CPAs, LLC  
Baton Rouge, LA  
January 2, 2020