

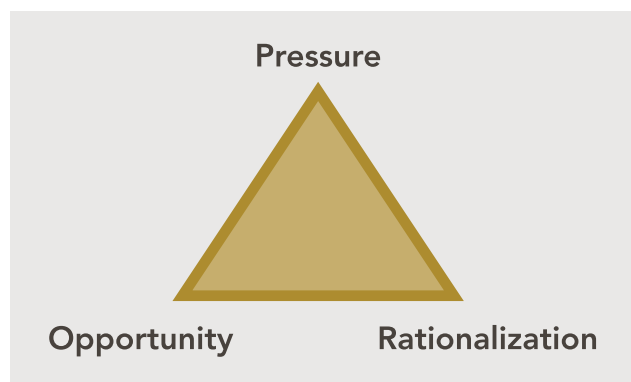
# Protecting Your Business: Fraud From Within

By Cassandra Elgersma, Manager of Forensic Accounting, SDK CPAs

As a small business owner, it's prudent to assess the possibility of internal fraud and consider it in your approach to protecting your business. Recent statistics indicate that a disproportionate number of fraud cases occur in small businesses with fewer than 100 employees<sup>1</sup>. But when those small businesses are victims of fraud, they lose the same median amount as all the other large businesses – corporate banks, fortune 500 companies, and international companies<sup>2</sup>. That's why it's all the more critical that a small business be prepared, and work to stop things before they start.

## Fraud's Three Ingredients

In the world of fraud, practitioners frequently refer to the 3 ingredients necessary for fraud to occur: **pressure**, **rationalization**, and **opportunity**. The first two are typically beyond the control of an organization.



**Pressure** often occurs when an employee finds themselves in financial straits. For example, a hidden gambling addiction, an unexpected health issue, a spouse job loss, or poor spending habits.

**Rationalization** is that mental hoop that employees, who typically view themselves as "good" people, talk themselves through why it's acceptable to take this money to justify their actions. For instance, "I'll pay it back," "I'm getting the raise I deserve," or "they'll never miss it."

Both pressure and rationalization are outside the realm of a business owner to control or even perceive. But the third ingredient, **opportunity**, is where a fraud protection strategy can truly help.

## Key Strategies to Fight Fraud

Often in a small business, too few controls are in place, creating an environment where more opportunities to commit fraud become available. Fortunately, by enacting some key strategies, your business can close those gaps and protect your company.

- **Divide and Conquer.** The foundation to strong business controls is the segregation of duties. A single employee should never have access to both the physical assets and the recording of the assets. One employee opens the mail and makes a list of the checks received for the deposit. A different employee uses that list to record the receipts and update the accounting records.

For entities where the number of employees limits the ability to separate these duties, at least have the bank statement mailed directly to someone knowledgeable who is not an active part of the accounting staff—perhaps the owner—to be reviewed for any oddities.

<sup>1</sup> Association of Certified Fraud Examiners 2016 Report to the Nations on Occupational Fraud and Abuse.

<sup>2</sup> Ibid.

- **Have HR Join the Fight.** Utilize good human resources practices to avoid falling victim to someone with ongoing pressures and a history of rationalizing. Sadly, many companies determine they are a victim of internal fraud, identify the employee responsible, and then simply fire the individual and move on. They are desperate to avoid the embarrassment and additional pain of civil or criminal proceedings which often have little financial gain. Within months or weeks, the fraudster is hired into a similar position at another company, and the cycle continues.

There are ways to build preventative measures into your company culture, and it starts with your HR team. Have them perform background checks before hiring. Develop or outsource annual anti-fraud training to equip your employees and set the tone for integrity. Use exit interviews to ensure that employees have an opportunity to voice any observations or concerns about practices or issues among their departments and coworkers without fear of reprisal.

- **Give Your People a Voice.** Contrary to popular perception, most fraud is not caught by audits or reconciliation procedures. It's caught by observant employees. Whistleblowers sound the alarm on fraud more than twice as much as any other method or tool.

Pay for access to a whistleblower hotline that provides tip information directly to your board, and post the contact information in visible places around the company. You may not notice that your warehouse manager is suddenly driving a new vehicle that they can't afford, but their lunch buddy in the break room does.

No one wants to believe their employees might intentionally harm their business and steal for financial gain. The reality is many fraudsters have no intention of doing something dishonest until an unexpected pressure hits. A business that is serious about stopping fraud will prevent opportunities for fraud,

protect their employees from poor choices and avoid a financial loss they simply can't afford.

### About SDK CPAs

The forensic accounting team at SDK is one of five departments designed to work integrally for our clients while adding specific expertise for any needs that arise. Whether needing tax, accounting services, audit or employee benefit plans, SDK is large enough to provide multiple services, but small enough to know our clients well.

SDK's forensic accountants have developed a unique forensic accounting and valuation practice dedicated to meeting specific client needs. We combine training as Certified Public Accountants (CPAs), Certified Fraud Examiners (CFEs) and Accredited Business Valuators (ABVs) with everyday business experience to identify the critical issues and bring our clients the solutions they need. Our dedicated team has the depth, experience and technological tools to handle everything, from the small matters to the massive cases that make the news. Specific services in our forensic accounting department include: financial investigations, business valuations, alternative dispute resolution, contract compliance examinations, litigation consulting and expert testimony, and insurance investigations.

### About the Author



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Cassandra Elgersma is a manager of forensic accounting with SDK. She has over ten years of experience in audit, tax, accounting and consulting. Ms. Elgersma also assists in the preparation of prospective financial statements, business valuations, and fraud investigations. She frequently works with legal counsel to provide economic damage calculations and assist with forensic investigations.