

Danger Ahead! Heed Seven Fraud Signs Businesses must remain on high alert

Workplace fraud is a legitimate threat around the country. Recent estimates of the cost of employee theft and fraud to U.S. businesses range from \$20 billion to \$50 billion a year. No business, regardless of size or nature, appears immune.

Sound advice: Do not sit around waiting for fraud to endanger your small business. By identifying the areas where fraud may occur and taking steps to thwart it, you may be able to avoid the common pitfalls that plague other employers. Be on the lookout for these warning signs that should set off alarms.

1. No division of payroll duties: The person in your organization who authorizes actions like invoicing should not be the one responsible for completing those payments. Those duties should be segregated and assigned to different employees. Also, a third party should maintain custody of cash accounts. In all cases, rely only on employees you trust.
2. Inadequate recordkeeping: To expose fraud and, equally important, to be able to prove it, you must keep detailed records. For example, if proper accounting procedures are not put in place to cover cash disbursements, it will be difficult to detect instances of abuse.
3. Unusual cash transactions: Any significant differences between cash expectations and actual receipts should be quickly investigated. Do not wait for further evidence if a pattern seems to be emerging. Frequently, an employee will try to embezzle funds by writing checks to himself or herself and signing the employer's name on the checks.
4. Lack of physical safeguards: Start with simple precautions such as sticking identification tags on computers or locking down expensive equipment so it cannot be moved easily. Always make sure that safes and other valuables, such as data and records, are secure. Lock office doors after hours, and limit access to sensitive areas whenever possible.
5. Suspicious documents: Be wary of invoices, purchase orders, checks, expense reports, time cards, etc., that do not pass the "smell test." In some companies, the fraudsters may even arrange for fictional employees to be paid salaries. Make sure that payment procedures are carefully followed.
6. Unreasonably high costs: It is not unusual for rising prices to occur due to inflation or other factors, but any increases should stay in line with industry standards. A classic example of fraud involves a kickback from a vendor or supplier.
7. Phony travel reimbursements: This is another area that is often ripe for abuse. It is easy for an employee to falsify these records if no one is paying close attention. Make sure that receipts coincide with all aspects of travel expense reports.

Reminder: It usually takes more than one person to stop fraud in its tracks. Bring other supervisory personnel into the loop. The entire management team must remain vigilant in these efforts. Above all, do not ignore the warning signs discussed above.