

A FORENSIC ACCOUNTANT CAN HELP PROTECT YOU FROM EMPLOYEE DISHONESTY



By outlining a clear picture of a company's operations and infrastructure, a forensic accountant can help to identify certain risks or pressures.

Business owners and executives commonly focus on external threats to retain net revenue. However, many of them severely underestimate the potential risk of threats stemming internally. One in particular, occupational fraud committed by dishonest employees, is a type of criminal activity that can come in many different forms.

The three major categories of this type of fraud include asset misappropriation, corruption, and financial statement fraud. Without the proper controls in place, employee fraud can slip under the radar for years and take a devastating financial toll on business operations and earnings. In fact, workplace theft is estimated to cost U.S. businesses \$50 billion every year.

So, just who are these internal white-collar criminals, and what drives them to rip off the company that they work for? Oftentimes, these individuals are dedicated and seemingly trustworthy members of a company's team. In the 1950s, famed criminologist Donald Cressey proposed the Fraud Triangle model to explain why people commit fraud. The three pressures identified are motivation, rationalization, and opportunity.

Think of this concept as similar to the three natural elements (fuel, heat, and oxygen) needed to ignite a fire and the catastrophic damage that can ensue. Out of the three elements, opportunity is the component that business owners and their managers have the most control over.

Providing the opportunity to commit fraud is the most significant factor contributing to this crime.

Simply put, the most effective way to reduce employee fraud is to set up and maintain an internal control system that is properly-suited to cover the specifics of your business. How can business owners successfully achieve this? A forensic accountant is one of the best-suited professional advisors to engage in order to identify and reduce opportunities to commit fraud, which can lead to more sustainable long-term success for the company overall.

The information provided in this article is for informational purposes only and is not intended to substitute for obtaining tax, accounting, or financial advice from a professional accountant.

© Neumeister & Associates 2019 All Rights Reserved.



E info@neumeistercpa.com

P 818-478-3052

W www.neumeistercpa.com

Headquarters
3900 W. Alameda Avenue
Suite 1200
Burbank, CA 91505

811 W. 7th Street
12th Floor
Los Angeles, CA 90017

515 N. State Street
14th Floor
Chicago, IL 60654

A FORENSIC CPA CAN HELP PROTECT YOU FROM EMPLOYEE DISHONESTY

Fraud Pressures and Why It Happens

Fraud is highly likely to occur within a business if one or more of the following pressures occur:

Motivation

Financial needs stemming from addictions, greed, being accustomed to a higher cost of living, revenge for job dissatisfaction, poor investments, or just someone who sees an opportunity or challenge to outsmart the system

Rationalization

Justifying unethical behavior could include reasons such as:
"They don't pay me what I'm worth"
"I'm only taking what I deserve"
"Management is dishonest, so I can be dishonest, too"
"The company can afford to write it off"

Opportunity

This is where a company can try to control the possibility of fraud, by not allowing the failures of poor screening of job candidates, insufficient oversight on financial duties, or substandard policies and procedures.

By outlining a clear picture of a company's operations and infrastructure, a forensic accountant can help to identify certain risks or pressures, creating a more financially secure entity going forward.

Checks and Balances for Effective Controls

In general, business owners and managers are busy focusing on daily activities and traditional operations to stay afloat and keep their doors open. Being strapped for time and bandwidth, privately-held and smaller businesses are often more susceptible to employee fraud because the employees are tasked with wearing multiple hats, with minimal checks and balances from upper-level management. This can lead to weak or absent internal controls and leave a company more vulnerable to employee fraud. Without being able to add hours to a 24-hr day, a practical and proactive strategy to tackle this issue is to coordinate with a forensic accounting firm to identify areas of the business that may present opportunities to commit fraud and seal up those gaps with effective controls.

Regular checks and assessments of processes and procedures should be carried out to ensure there is not any misuse or abuse of company operations in the following areas:

- Inventory items or assets that are most likely to be removed or sold
- Handling of large amounts of money
- Complex financial operations
- Ambitious earnings expected from investors or creditors
- Expense reports

The ACFE (Association of Certified Fraud Examiners) recommends carrying out internal and external audits on a routine basis, which could involve background and reference checks on staff and potential staff early on in the recruitment stage. In addition, business owners must keep an eye on team members that exhibit red flags of potential fraudulent behavior, such as living beyond their normal means, known financial difficulties, or an unwillingness to share duties.

In Summary

Occupational fraud is a widespread problem. It should be taken seriously and treated with the correct proactive methods to ensure a company is running smoothly and maximizing net earnings for all stakeholders involved. If you are suspicious that your business is being victimized by employee fraud or are interested in a review of your current internal controls system, we invite you to connect with our team today. Although fraud may have already been committed, it is never too late to start the conversation for making improvements to your current system going forward.

References

- Berkman, Olivia. (2018, May 22). The 3 major types of occupational fraud and how to prevent them. *Financial Executives International*. Retrieved from <https://www.financialexecutives.org/FEI-Daily/May-2018/The-3-Major-Types-of-Occupational-Fraud-and-How-to.aspx>
- Coenen, Tracy. The fraud triangle and what you can do about it. *All Business*. Retrieved from <https://www.allbusiness.com/the-fraud-triangle-and-what-you-can-do-about-it-4968017-1.html>
- Pofeldt, Elaine. (2017, September 12). This crime in the workplace is costing US businesses \$50 billion a year. *CNBC*. Retrieved from <https://www.cnn.com/2017/09/12/workplace-crime-costs-us-businesses-50-billion-a-year.html>
- Reidy, Mari. (2004, March 17). Avoiding the fraud triangle. *Smart Business*. Retrieved from <http://www.sbnonline.com/article/avoiding-the-fraud-triangle-minimizing-the-risks-of-employee-fraud/>

The information provided in this article is for informational purposes only and is not intended to substitute for obtaining tax, accounting, or financial advice from a professional accountant.

© Neumeister & Associates 2019 All Rights Reserved.

Workplace theft is estimated to cost U.S. businesses \$50 billion every year.



E info@neumeistercpa.com

P 818-478-3052

W www.neumeistercpa.com



Jeff Neumeister, Owner / CEO

CPA CPA/ABV/CITP/CFE, CFE,
CMA/CSCA, CM&AA, PCI, MA, MBA, MS