



Do You Know Who is “Borrowing” From Your Business?

By Colin D. Combs, CPA, Certified Fraud Examiner
Partner Whittemore, Downen & Ricciardelli, LLP

Have you noticed the increased frequency of stories pertaining to fraudulent activity on your local news broadcast and in your newspaper? Did you know that in many cases the employees considered to be most trusted within the organization perpetrate the fraud? It seems only natural to allow these “trusted employees” to take care of the financial records. In many cases they are good people that fell on hard times and had the capability to “borrow” funds from your organization to help bail them out. So what turns these seemingly good people into embezzlers?

In 1953 a student by the name of Donald Cressey, was working on his doctorate in criminology and decided to focus his dissertation on what leads people to become embezzlers. He arranged to study and interview two hundred incarcerated inmates. Cressey’s final hypothesis centered around “trust violators,” which can be summarized as follows:

- The person is in a trusted position
- The person is able to justify in their mind their violation of trust
- The person has a non shareable financial problem

Cressey’s hypothesis has become known as the “Fraud Triangle.” In essence, the three sides of the triangle are opportunity, rationalization, and pressure. The one side of the triangle that can be controlled by your organization is opportunity. By having strong internal controls, an organization can reduce opportunity. To help assess your opportunity risk, ask yourself the following questions about your business:

- Do I receive and open the bank statements every month?

- Do I review daily receipts and deposits every day?
- Do I look at all of the financial records daily, weekly, and monthly?
- Are employees required to take at least a one-week vacation while having other employees perform their duties during their absence?

If you answered no to any of these questions, you need to start implementing these procedures today. Answering no to one or more of these questions does not mean that you have a problem. It simply means you are providing an opportunity for an employee to “borrow” money from you.

Though not necessarily as easy to control, the next area of focus should be careful observation of employees. Have there been obvious displays of any of the classic red flags of fraud?

- Addictive behavior
- Gambling problems
- Medical problems
- Need to keep up with the “Joneses”

These items in themselves do not mean you have an employee that is perpetrating fraud, but they are red flags you should pay close attention to.

This leads to what arguably may be the most important thing you can do to help reduce the risk of fraud—PAY ATTENTION. All of the internal controls in the world will not make a difference if you do not pay attention to what is going on in your business and with your employees. You need to make sure that all employees are aware that you oversee the financial records. If employees think you are not paying attention, you open the door for opportunity. Personally

monitoring your company’s financial records is one of the best ways to prevent fraud.

An example of the positive effects of monitoring can be found in the placement of cameras on school busses. Studies have proven that if you place a camera on a bus and let the children know they are being monitored, the children’s behavior will change. Once there is a sense of being watched, behavior is altered. Some school districts use just one camera, rotating it throughout their buses, using a red blinking light in the absence of the camera to give the appearance of being monitored whether they are or are not. This has been called the “perception of detection,” and is what is needed in your business to help make up for any potential weaknesses in the present internal controls. It is important to trust employees and managers you have charged to handle your financial matters, but having a standard of “trust but verify” allows everyone to understand your policies and helps prevent perceived opportunity.

Normally, organizations seek help from local authorities after the employee has already “borrowed” the funds. If the fraud is a matter of cash being skimmed, it is often impossible to prove the exact amount. Typically, the records are intentionally poor or the information to trace back to the original transaction is not there. Don’t let this happen to you. Be in control of your business at all levels and enjoy the benefits of a fraud free environment.

The details in this article are meant to provide both awareness and a good start to taking control of your business finances. Now that you are aware, a complete risk assessment of your business is crucial to make certain you have controls in place for all risk factors. It is important to continually monitor your business to identify where your weaknesses might be. If you feel there may be weaknesses, work to correct them. Along with the basics, a certified fraud examiner can help you develop a detailed plan to keep your finances and business safe. Remember, it is always easier to prevent an employee from “borrowing” from your business than it is to recover funds after the fact.



© Craig Murphy



**Whittemore,
Downen & Ricciardelli, LLP**
Certified Public Accountants & Consultants

WDR...TRUE WISDOM
At WDR we are your trusted financial resource for success. Expert insight coupled with personalized professional service, is the strength we use to maximize success for every client.

www.wdr CPA.com

57 Phila Street, Saratoga Springs, NY 12866
Phone (518) 584-0770

333 Aviation Rd., Bldg. B, Queensbury, NY 12804
Phone: (518) 792-0918