



PROFESSIONAL FRIENDSHIP

Accountants guide clients beyond the numbers by helping them navigate business and life. **Page 12**

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Integrity, examination, education are keys to curb fraud

By **DAVID MARAKOVITS**

Special for Lehigh Valley Business

If you're an owner or manager, likely you have at least a mild curiosity about fraud and how it may have a direct effect on your business or organization.

Recognizing and acting on fraud risks in businesses and organizations is the best defense against fraud.



Marakovits

Statistics from the Association of Certified Fraud Examiners' 2016 Report to the Nations on Occupational

Fraud and Abuse reflect the importance and true scope of the problem.

A prime statistic to show the magnitude is that the typical loss from fraud is 5 percent of an organization's revenues.

Admittedly those results are skewed because not every business or organization is a victim of fraud every year. But based on that being an average of those who were victims of fraud and those who were not, often the losses to fraud can exceed 5 percent of annual revenues.

And then there is the median loss by businesses and organizations. The median loss for a private company is \$180,000. The median loss for a not-for-profit organization is \$100,000.

For many businesses and organizations, those losses may not be 5 percent of revenues, but they are significant and may represent the difference between a year that is profitable and one that loses money.

After understanding the breadth of what could be a big problem, here is how to attack it. These tips consider three elements seen in every fraud - pressure, opportunity and rationalization.

1. Project integrity and strong morals to those working in our businesses or organizations.

This is called setting the tone at the top. An organization with strong perceived integrity throughout the organization is infectious.

2. Take an interest in the lives of your employees and the potential financial pressures they face.

Often an illness, addiction or personal crisis will give rise to pressures on employees to commit an act of fraud. Even good people can make bad choices.

3. Similarly, be aware that things change over time and that a trusted employee for years and years now may have different pressures.

4. Examine the approval and review systems over financial transactions.

Often a single person controls the financ-



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Take an interest in the lives of your employees and the potential financial pressures they face.

es, and this can lead to the opportunity to commit fraud.

5. Educate yourself on some of the financial details of your organization and ask questions when something seems wrong.

Often our intuition or inner voice is telling us that something is not right. Listen to that voice and act on it. Get more information and don't settle for explanations without some clear evidence.

It is through the understanding of the characteristics of fraud that we can best help to prevent fraud in our own businesses and organizations.

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Small-business basic safeguards to deter internal fraud



PHOTO/LUNAMARINA

Consider requiring two signatures on checks for amounts above a set figure, with one signature being the owner's.

By **ROSEMARY LAMAESTRA**

Special for Lehigh Valley Business

Occupational fraud can include the theft of cash, theft of product, fraudulent disbursements (including billing, payroll and expense reimbursement schemes), check tampering and register disbursements, inventory misuse and larceny.

To minimize the risk of fraud by employees, a company must establish internal controls. For small businesses, this can be particularly difficult since they may lack the resources to implement controls.



Lamaestra

The No. 1 control often missing in the small-business arena is segregation of duties.

Segregation is especially important so that the person who receives the checks does not also deposit the checks or reconcile the bank statement. The lack of this control provides an easy opportunity for employees to commit crimes.

Also particularly vulnerable are company credit cards. Owners should review monthly statements and corresponding invoices and disbursements. Statistics show this is an area hit extremely hard by unethical employees.

Placing too much trust in one or two employees can leave the business open

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