



DETECTING AND PREVENTING WORKPLACE FRAUD



William McNamara, CPA
Director of Construction Services Group
Cowan, Guteski & Co., P.A.

Across the nation, the incidence of embezzlement is on the rise. Fraud in the workplace is not a new, or surprising, concept. It happens on a regular basis, and as we know, at all levels. To eliminate fraudulent behavior in the workplace, or at least reduce the damage it causes, business owners have no alternative but to disseminate in a clear, concise manner, the message that fraud is intolerable and that any employee guilty of committing an act of fraud will be subject to immediate dismissal and prosecution.

The starting point is a corporate philosophy promoting a fraud-free workplace which begins with internal controls and a fraud prevention policy. Business owners should incorporate these policies into a written Code of Ethics and communicate it through training to all employees.

For a fraud awareness program to be successful it must include prevention and detection policies and procedures. Management must determine the opportunities available for employees to commit fraud and the minimum amount that would constitute a tolerable risk if an employee were to commit such an act. An assessment should be made of the catastrophic opportunity level at which two or more employees acting together could commit a fraudulent act that would jeopardize the company's stability.

Prevention and detection policies must be written and should prohibit or restrict outside employment, conflicts of interest, accepting gratuities, gifts or entertainment from vendors or contractors; compromising or bribing officials, disclosing company trade secrets, stealing company property, falsifying or destroying company records, loaning building access ID cards or badges, disclosing computer log-in codes or allowing unauthorized individuals to access your computer system.

While these prohibitions or restrictions appear evident, other procedures do not. For example hiring policies should include a background check confirming the applicant's identity, disclosing convictions, as well as confirming past employment and educational achievements.

WHY DO PEOPLE EMBEZZLE?

There are both financial and psychological reasons why people embezzle. Some of the most common reasons are:

- To support personal finances

- Feeling of lack of appreciation from the business owner
- Anger at their boss, project manager or a co-worker
- Jealousy of a business owner's earning capacity
- Greed
- The sheer challenge

Many people assume that individuals embezzle simply because they need the money. The reasons, as listed above, are far more complex. Pay attention to employees who complain constantly about financial problems. It may seem minor, but could be indicative of a more significant issue. We strongly recommend that business owners do not discuss their personal finances in front of their staff. This can cause jealousy of the business owner's earning capacity. It is also a poor idea to allow staff to do personal banking or investing for business owners.

AREAS AT RISK

Embezzlement can strike a construction company in a number of different areas. There are multiple transaction cycles that are vulnerable to an employee who is intent on embezzling. These include:

- Cash receipts
- Cash disbursements
- Accounting adjustments

Businesses can experience embezzlement from the cash receipts cycle as follows:

- Straight forgery using contractual adjustments to bury the embezzlement;
- Stealing cash by never recording receipts into the company's accounting system;
- Opening a separate bank account and depositing the checks.

Businesses are vulnerable to embezzlement from the cash disbursements cycle by:

- Employees creating fake companies and having the business pay the bills;
- Employees including personal utility, phone or credit card bills with office bills.

Duties such as handling receipts and bank reconciliations should be segregated, while sensitive duties, such as signing checks over a specified dollar amount, should require the approval of two responsible employees. If anyone has signing authority for checks other than the owner business owners, they should be bonded.

Businesses must have cash controls in place in order to minimize the risk of embezzlement. Reviewing cash receipts and disbursements, as well as balancing the company's operating accounts

on a daily basis is not an option, it is a requirement. Business owners and office managers should also be familiar with the vendors that the business uses most frequently.

Fraudulent insurance claim forms can be used to embezzle from businesses as well. Office managers and business owners should review claims to ensure that they are valid.

In general, we recommend that business owners hire an independent consultant to periodically check to ensure that cash controls are being followed. If appropriate, internal controls should include an internal audit by an independent certified public accountant. In addition, job functions should be rotated periodically among staff members. One of the biggest deterrents to a potential embezzler is the knowledge that someone will be reviewing their work.

As one of the leading accounting and consulting firms for the construction industry, Cowan, Guteski & Co., P.A. understands the importance of their role in validating your internal controls and establishing fraud prevention policies. Contact Bill McNamara, CPA - Director of the Construction Services Group at 732-349-6880 extension 116 or bmcnamara@cowanguteski.com for more information.

About Cowan, Guteski & Company, P.A.

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