



## S T R A T E G I E S

### Management & Performance

## The Three Main Sources of Fraud & How to Prevent Them

BY **BRIAN GREGORY**

**F**rom paying wages on represented overtime hours to overstating financial statements, there is a wide variety of fraudulent activity that can occur within a company. This activity can devastate a company's reputation or finances, especially if it occurs over a long period of time. According to the participating companies in the ACFE's 2016 Report to the Nations, total losses exceeded \$6.3 billion, with an average loss per case of \$2.7 million.

A majority of fraudulent activity will fall within one of three categories: asset misappropriation, corruption schemes or financial statement fraud. Understanding these risk areas and implementing the appropriate controls can save your company from hassle and expense.

### Asset Misappropriation

Asset misappropriation occurs when employees or vendors who manage an organization's assets, such as payroll or intellectual property, steal.

Most commonly, employees conduct cash misappropriation schemes. For example, an employee submits false receipts to overstate their expenses and receive larger reimbursements. Even if your organization has a limited number of employees to provide oversight, it is important that no single employee has too much authorization power. Divide duties among multiple employees, such as having one in charge of replenishing supplies and another who reviews the petty cash receipts or credit card expenses. Monitor employees for changes in behavior and look for those who appear to be living beyond their means. If you notice unexplained changes in habits, double check expenses to make sure there is nothing out of the ordinary.

### Corruption Schemes


Corruption schemes tend to occur because of personal relationships and leave little or no paper trail. This type of fraud includes bribery, conflicts of interest or kickbacks related to your company's business

transactions. If one or more of your employees is accepting inappropriate gifts from your vendors or certain contractors do not have business addresses or telephone directory listings, your company may be the victim of a corruption scheme. Incorporating a Conflict of Interest Policy and requiring employees to sign off on it annually will create awareness throughout your organization. Review all invoice documentation submitted by your vendors before sending them any form of payment. Consider including clauses in your vendor contracts that allow you the right to audit their financial statements to provide further protection.

### Financial Statement Fraud

Financial statement fraud creates a false impression of your company's financial strength through the misrepresentation or omission of data. Most commonly it involves manipulating revenue figures, but it can also include delaying the recognition of expenses, overstating inventory or disclosing improper information to the public. Victims of financial statement fraud often face severe consequences, including bankruptcy, financial penalties and even delisting by national stock exchanges. Comparing your financial strength against competitors can help detect this type of fraud. If your company is consistently growing while others in your industry have fallen behind, there is a possibility that your financial strength has been overstated. An unexpected accumulation of fixed assets could indicate that your company has failed to recognize expenses. Instituting corporate governance and internal controls will help prevent financial statement fraud from going unnoticed.

### Protect Your Organization

Every business opens itself up to fraud when it fails to implement the proper controls. Hiring a third-party Certified Fraud Examiner (CFE) or a CPA who is Certified in Financial Forensics (CFF) can help you better understand forensic analysis best practices and establish antifraud policies to ultimately protect your revenues. 



**BRIAN GREGORY**  
CBIZ Risk & Advisory Services  
Denver, CO  
720.200.7033 • [bgregory@cbiz.com](mailto:bgregory@cbiz.com)

**Our business is growing yours**