

## Managing the Business Risk of Fraud

**By Joe Shmait, CPA, CFE**

All organizations are subject to fraud risks. Fraud cases, whether large or small, can lead to significant legal costs, investment losses, damaged reputations and even the downfall of entire organizations. Reactions to recent corporate frauds have led the public and stakeholders to expect organizations to vigilantly address the risk of fraud. Only through diligent and ongoing effort can an organization protect itself against the business risk of fraud.

### **Risk Governance – Setting the Tone**

Every organization should have a fraud risk management program implemented, including written policies, to convey the expectations of top management to the rest of the organization. Senior management needs to create a culture through policies, words and actions where it is clear to the rest of the organization that fraud is not tolerated and that any such behavior is dealt with swiftly and decisively.

### **Components of a Fraud Risk Management Program**

A well-developed fraud risk management program contains the following elements:

**Commitment** – Senior management should communicate their commitment to fraud risk management on an ongoing basis. This includes periodic reviews and updates to the organization's written fraud policy.

**Ongoing Fraud Risk Assessment** – A fraud risk assessment should be performed on a systematic and recurring basis to identify where fraud may occur within an organization. A fraud risk assessment may include

hiring an outside consultant such as a Certified Public Accountant (CPA) or Certified Fraud Examiner (CFE) to perform an evaluation of the risks that are specific to your organization.

**Implementation of Prevention Techniques** – After performing the risk assessment, preventative controls should be established to mitigate the possible impacts on the organization. Prevention is the most proactive fraud-fighting measure an organization can enlist. The design and implementation of control activities to address fraud risks should be a coordinated effort spearheaded by management with an assembled cross section of employees and can include outside consultants such as CPAs or CFEs.

Some examples of fraud **prevention** procedures that organizations of all sizes can implement include:

- Have a receptionist open the mail, log the checks before giving checks to the bookkeeper.
- Scan checks directly to the bank. Most banks offer low cost check scanning capabilities where checks can be scanned at your office and immediately deposited into your bank account.
- Create an approved vendor list to prevent employees from setting up fake vendors.
- Have someone mail the outgoing checks other than the person who prepared the check.

**Fraud Detection** – An organization can never eliminate the risk of fraud entirely. Fraud detection techniques should be established to identify fraud when preventative measures fail. Fraud detection techniques commonly include whistleblower hotlines, process controls and dedicated proactive fraud detection procedures.

*If you would like to hear about Sweeney Conrad's effective and efficient "Internal Control Check-Up" and how this proactive approach can help your organization minimize the risk of fraud, please contact Joe Shmait, at 425-629-1990 or*

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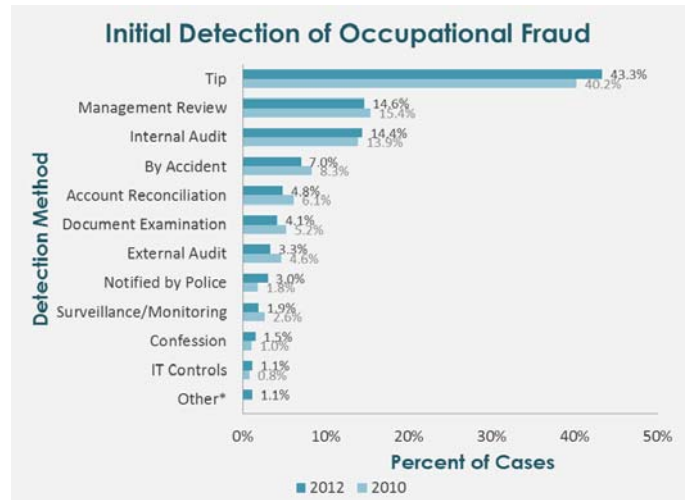
Some examples of fraud **detection** procedures that organizations of all sizes can implement include:

- Have an owner or high level executive open the bank statement each month and review the cancelled checks for unusual payees or unauthorized signers.
- Require detailed receipts be submitted and reviewed for every credit card transaction.
- Utilize your payroll system's change reports to review for unauthorized changes made to rates and new employees.
- Have an owner or high level executive review payroll registers for each pay period for total employee count, unusual amounts of hours worked and proper salary payments. Make sure to look closely at the pay data of the payroll clerk, who may have the knowledge and ability to manipulate their own pay.

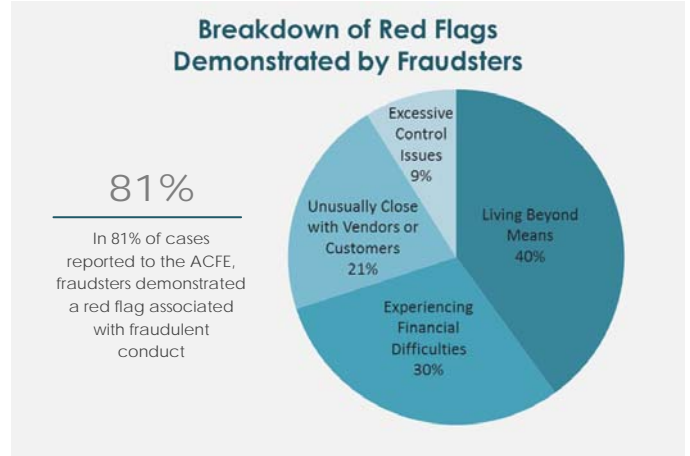
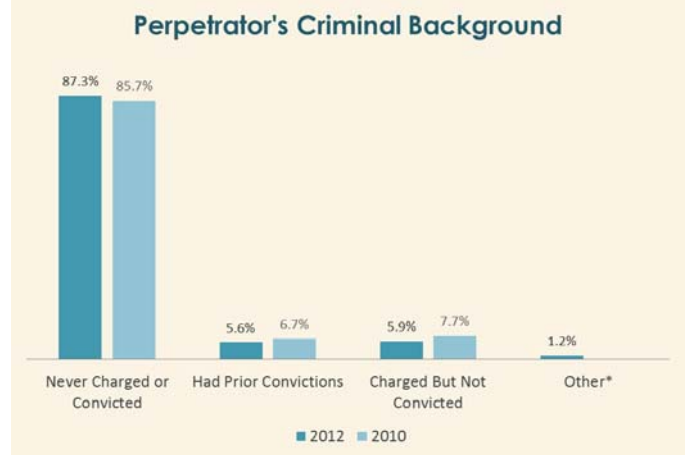
**Fraud Investigation and Corrective Action** – A formal reporting process should be in place for an organization to properly receive, evaluate and investigate any allegations of fraud in a timely manner.

### Looking Forward

A proactive approach to managing fraud risk is one of the best steps organizations can take to mitigate exposure to fraudulent activity. Although complete elimination of fraud risk is most likely unachievable in your organization, you can take positive and constructive steps to reduce exposure and can significantly mitigate your risk of fraud.



**18 months** | The frauds reported to the ACFE lasted a median of 18 months before being detected



\*Other category was not included in prior years' reports