



Helpful Tips in Preventing Employee Fraud in Your Small Business

Research has shown that small businesses are often more vulnerable to fraud than their larger counterparts because they have fewer employees. Companies with fewer employees tend to have less segregation among duties, fewer internal accounting and auditing controls. Smaller companies develop closer relationships and trust between owners and their employees which can cause them to be less suspicious and thus more susceptible to employee fraud.

Small businesses can protect themselves by making employee fraud prevention a priority. The following guidelines are elemental steps in creating a fraud prevention environment in your small business:

- **Implement an accounting solution as part of your fraud prevention.** Through solutions like Sage Software accounting software, small businesses can mitigate fraud risk through specified user security levels, audit trails as well as through an Internal Accounting Review¹ which identifies common transaction mistakes, departures from GAAP (Generally Accepted Accounting Principles) and Red Flag transactions. User security levels are useful in ensuring that employees only have access to the areas of the business within their specified responsibility and that they have less ability to cover up fraud schemes.
- **Understand your company's specific fraud risks.** Conduct a thorough audit of your company's specific vulnerabilities in order to design and implement internal controls and fraud prevention programs to mitigate this risk.
- **Conduct employee background checks.** Verify educational and employment history, as well as references, to ensure there is no previous history with fraud or other illegal activity. For employees that will manage company assets, it is especially important to conduct credit reports (if authorized by the candidate).
- **Control the bank statements.** Having the owner open the bank statements can help fight check tampering. When dealing with bank statements, owners should look out for missing checks, checks issued out of sequence, unknown payees, checks that appear to have been altered, checks not signed by authorized signatories, or any other unusual items. Owners should also conduct regular bank reconciliations at least once a month. Consider using your bank's online features more often to streamline the process if your company regularly has large numbers of transactions and/or large dollar volumes.
- **Use only approved vendor listings.** This can help with fighting billing schemes and dealing with phony invoices. Management should routinely check the list of approved vendors and look out for unknown vendors, vendors' names that are similar to other known vendors, vendors with no physical address or phone number or vendors that match an employee's address.
- **Centralize payroll check distribution.** By centralizing the payroll program, management can help eliminate "ghost" employees; which include fictitious persons on the payroll, employees retained on the payroll that no longer work for the company, or

¹ Sage Software is not liable or responsible for any fines or penalties that may result from errors in your company accounting records. The Internal Accounting Review is not intended to uncover all questionable transactions.



friends or relatives of an employee.

- **Create a fraud policy.** Design, publish and implement a fraud policy that sets forth what conduct is expected from employees, what actions are prohibited, how fraud can be reported and the punishment for noncompliance.
- **Train your employees in fraud prevention.** Employees serve as the eyes and ears of a company and by ensuring that your staff knows at least some basic fraud prevention techniques, you'll establish a first line of anti-fraud defense.
- **Conduct routine and unannounced checks** on high risk areas of your business, including the financial and inventory departments for vulnerabilities and possible fraudulent activities.
- **Make employees go on vacations.** Employees who may be partaking in fraudulent activity may not take time off because they are afraid someone will catch on. Ensure that all employees take vacations so no one in the organization has control each and every day of the year.

Remember, by nature, fraud is hidden. There are no 100% solutions to avoiding fraud. Research has shown one of the most important deterrents to fraud is “tone at the top.” Management’s stance on ethics has a direct effect on employee behavior. The first goal is to prevent fraud and the second is to catch it as quickly as possible.

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