

Is your agency protected from fraud?

Employee fraud costs American businesses billions of dollars each year. Fraud can dramatically reduce a company's profits and, in extreme cases, force a company into bankruptcy.

It is impossible to completely eliminate fraud from occurring, but nonprofits can take some inexpensive steps to help reduce the risk of fraud.

■ **Segregate duties:** Incompatible duties that should be performed by different employees. For example, the person who opens the mail and accumulates checks received should not have access to the accounting system.

When opening the mail, the employee should immediately stamp the endorsement part of the check with the company's "for deposit only" stamp and keep a log of daily cash receipts.

If the checks are then given to the accountant for deposit, a comparison of the deposit slip and the receipts log can be made.

■ **Executive Directors should become more involved in the accounting function.** Many frauds are committed by employees who are responsible for preparing checks for the company. Often, the organization's accountant or bookkeeper is also the check signer or has access to a check signature stamp.

Each year, we hear of instances of employees writing checks to themselves or paying their personal expenses with agency funds. Executive Directors should, whenever possible, sign all checks issued by the company.

After signature, the checks should be given to an employee independent of the Accounting Department for mailing. This step helps prevent changing of the payee on the check since the person mailing the check does not have access to the accounting records to cover his or her tracks.

Executive Directors also can have the monthly bank statement and canceled checks mailed directly them. The Executive Director should open the statement and review all canceled checks noting the payee, endorsement on the check and dollar amounts.

This eliminates an employee's ability to destroy a canceled check that was issued for non-company purposes and allows management to question unusual items.

■ **Watch for fraud symptoms.** Many people committing fraud change their lifestyles. Be alert to employees who appear to be living beyond their means.

Watch for expensive homes, costly vehicles and luxury vacations. Employee theft also is perpetrated to cover losses incurred by employees who have gambling or drug addictions. Management needs to be alert to these symptoms in employees.

Another symptom of fraud is an unusually high number of missing source documents, such as invoices or photocopied source documents. Managers should investigate reasons for missing or non-original documents and question why a source document may have been altered.

Other fraud symptoms include late payment charges, particularly when the agency is always timely, and an unusual number of debit or credit memos.

■ **Require employees to take annual vacations and review hiring procedures.** Employee fraud is generally perpetrated by an individual who is able to cover up missing assets. Requiring employees to take annual vacations and having other employees perform their duties may uncover fraud.

When hiring, agencies should perform background checks on employees who will have access to accounting data. Federal, state and local governments can provide information on criminal convictions and publicly available databases can provide information on background and employment history.

Contact previous employers for references and investigate any gaps in work history.

While there are no guaranteed methods to prevent employee fraud and theft, Executive Directors and Boards should review their company operations to determine if additional controls or procedures should be implemented.

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