Are You At Risk for Embezzlement?
Embezzlement

- The fraudulent conversion of the property of another by a person who has lawful possession of the property.
- Fraudulent conversion simply means the person wilfully and without claim of right or mistake converted the property to his or her own use.
Statistics

• The median loss caused by fraud cases in a study was $140,000. More than one-fifth of these cases caused losses of at least $1 million.

• Frauds reported lasted a median of 18 months before being detected.

• Fraud is more likely to be detected by a tip than by any other method.
EFFECTIVE CONTROL PROCEDURES

- Incentive/Pressure
- Opportunity
- Rationalization
Incentive/Pressure

- Excessive spending to keep appearance of wealth
- Other outside business financial strains
- Illicit romantic relationships
- Alcohol, drug or gambling abuse problems
- Need to hit predetermined financial results
Opportunity

• Lack of internal controls

• Sufficient access to assets and information that allows an employee to believe that fraud can be committed and successfully concealed
Rationalization

• “Borrowing” money temporarily
• Justification (“I was being underpaid and took what was mine”)
• Depersonalizing the victim (“I wasn’t stealing from the boss, just the company”)
• We will make it up next quarter
Fraud Facts

• Small organizations are disproportionately victimized by occupational fraud because they typically lack anti-fraud controls
• Anti-fraud controls help reduce the cost and duration of fraud schemes
• High level perpetrators cause the greatest damage to their organizations
• Fraud perpetrators often display warning signs
Who Commits Fraud?

- New employees
- Longstanding employees
- Managers
- Owners
- Executives
Who Commits Fraud?

• Previously convicted criminals
• Previously charged individuals, but not convicted
• People no previously charged or convicted
• In other-words-just about every type of person
Detection Of Fraud

- Whistle Blower
- Internal Audit
- By accident
- External Audit
- Notified by police

Most frauds overlap at least two accounting periods
The Scary Statistics

• Survey by LogRythem of 1,000 employers
  • 80% do not believe any of their workers would view or steal confidential information
  • 75% admitted to not having any enforceable systems in place
  • 1/3 of those employers believe that they do not need systems in place
  • 2/3 do no change passwords to stop ex-employees being able to access sites or documents
  • 27% could not identify the biggest threats to their data
  • 14% did not even know whether employees have stolen data
Survey by LogRythem 2000 employees

- 23% admitted to having accessed or taken confidential data from their workplace
  - 1 in 10 do it regularly
- Most accessed confidential data
  - 38% colleagues salaries
  - 23% details of colleagues bonuses
- 94% of those who have accessed confidential information have never been caught.
The Scary Statistics

• Report findings
  • Nearly 63% of all embezzlers are women
  • Dollar amount of cases with male embezzlers is nearly double the cases with female embezzlers
  • Average age when embezzlement starts
    • 42
Signs Of Fraud

- Company generating same amount of revenues but is suddenly making less profit
- Hard to locate reports for specific days
- Employees taking too many days off
- Conversations get hushed when you enter a room
- Inventory counts getting harder to tally
Signs Of Fraud

- Life style does not make sense
- Frequent and significant transactions that are difficult to audit
- Undue emphasis on earnings projections
- Too lean of an accounting department
- Decentralized organization without adequate monitoring
Control Measures

• Surprise audits
• Companies tend to over-rely on external audits
• Employee education
• Reduce the rationalization of fraud
• Reduce situational pressures that encourage financial statement fraud
Control Measures

• Set clear standards
• Check employee references
• Secure your organization
• Safeguard payroll
• Control who reviews sensitive documents
• Perform independent reviews
• Surprise inspections
• Additional audits
Control Measures

• Require backup documentation
• Never pre-sign checks
• Segregation of duties
• Fixed asset inventories
• Audits and board level oversight
• Encourage whistleblowers
• Automated controls
Control Measures

- Implement hotlines to receive tips from both internal and external sources
- Reporting mechanisms should allow anonymity and confidentiality, encourage employees to report suspicious activity without fear of reprisal
Immediate “Good Prevention Practices”

• **Owner:**
  - Sign all checks, including payroll.
  - Require that employees that work in ‘high risk’ areas take vacation.
  - Insist that good audit trails be created for all transactions.
  - Know record retention recommendations.
  - Limited access to accounting records and personal information.
• Example Cases
  • Maverick.pdf
  • Stealing Toner.pdf
  • Payroll checks non workers.pdf
  • Payroll Fraud.pdf
• Bank Fraud Trucking Companies.pdf
• Pilot.pdf
• top 10 embezzlement cases in us history.pdf
• Rita Crundwell
Thank You for Joining Me!

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