You say you are blessed with reliable, honest employees—but let’s face facts. Occupational theft in the business world occurs on a regular basis at companies just like yours. Let’s look at how theft occurs, and simple steps you can take to help prevent it from happening at your company.

**How Theft and Fraud Occur:**
A successful theft occurs when the thief controls all elements of the act. For example, let’s assume a bank teller is the only employee of your bank. This teller has no reporting requirements to the shareholders, government authorities or customers like you. The teller is not required to send you a statement, and you never think to ask where your deposit money is actually going. There is thus no control mechanism to prevent this teller from depositing your checks into his personal account. In other words, the teller has total control over the deposit process, and the theft is unlikely to be caught unless either someone else understands the procedure or total control is taken away from the teller.

This same scenario applies to your printing company. If you allow your bookkeeper to have total control of cash distributions, cash receipts, banking, general ledger reporting, billing, payables and even purchasing without oversight, you have established a perfect situation for a potential occupational theft.

There are three major categories of occupational theft/fraud:

- **Asset misappropriations.** This is the most common of the fraud categories, involving the theft or misuse of assets. Stealing cash, payroll fraud, or inventory theft are all considered asset misappropriation. Details of asset misappropriations are described in further detail below.

- **Corruption.** Acts involving the use of one’s influence in a business transaction to specifically benefit one’s self or another favored person fall into this category of theft. Kickbacks are the mostly common type of corruption.

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Preparation of fraudulent financial statements. A business owner who misrepresents his sales or receivables at a falsely high level in order to convince the bank to continue or increase his existing loan is committing this type of fraud. The bank would not have entered into the renewed or increased loan had the real receivables or sales been provided. The Enron collapse is an example of this type of fraud, where the financial statements were based on fictitious information.

For purposes of this article, we will restrict our attention to the asset misappropriations category of theft/fraud.

Asset Misappropriation
According to a study done by the Association of Certified Fraud Examiners, 87% of asset misappropriations involve cash misappropriation. It is no surprise that a disproportionate percentage of these frauds are committed in small businesses where there is a tendency to have fewer oversight procedures and greater individual trust. Experts have identified three categories under which cash misappropriations fall:

- **Fraudulent disbursements.** Here the fraud usually involves the disbursement of funds initiated by the thief through trickery or device. Forging checks or generating false invoices for the company to pay are common fraudulent disbursements.

- **Skimming.** Skimming occurs when cash is stolen from a company before the cash is recorded on the company's books and records.

- **Cash larceny.** Cash larceny in its most general terms involves cash being stolen from a company after it has been recorded on the company's books and records.

Fraudulent Disbursements, the first of the three categories on cash misappropriations, has the highest chance of occurring, so we will focus on this type of fraud. This theft activity can be broken into five categories.

- **Billing fraud.** Over half of fraudulent disbursements fall into this category. Billing fraud usually occurs when a thief causes the company to disburse cash to another organization for fictitious goods or services. The thief may set up a phony company, submit fake invoices, approve the invoices, and even sign the checks without the usual proper segregation of duties. The more control one individual has over such
transactions, the easier it is to accomplish the theft. Some bolder thieves even have the owner sign the check paying for the phony invoice.

- **Payroll Fraud.** The payroll clerk or person in control of payroll generates this type of fraud. This person manipulates payroll hours or pay rates to provide additional compensation above the proper payroll to himself, a phantom employee or an accomplice. The recurring nature of payroll, its automation, its complexity, and its overrides of normal control functions all provide multiple opportunities for such fraud to occur. Many automated payrolls are paid without the owner's signature appearing on the checks. The payroll company has been authorized to perform this service, and it is assumed that the company has internally verified the accuracy of hours and pay transferred to the payroll service. If the payroll clerk is the only employee involved in this internal pre-payroll verification process, it's easy to see how the fraud may occur.

- **Check tampering.** This type of fraud requires a steady hand. The theft occurs with the disbursement of funds to someone other than the intended party through altering, forging or stealing the check. For example, the bookkeeper may prepare a check for purchases from a paper vendor using erasable ink. Once the owner signs the check, the bookkeeper changes the payee to his own name and cashes the check. After the check clears the bank and is returned to the company, the bookkeeper/thief changes the payee's name back again to the paper vendor. Again, it is a case of sole control and easy access that contribute to this potential theft situation.

- **Expense reimbursement.** This fraud occurs when an employee submits a claim for reimbursement of expenses that are inflated or fictitious. Some employees have been known to alter hotel bills or submit requests for reimbursement with fake bills for products or services that were never received.

- **Cash Register.** As its name implies, this fraud occurs right at the cash register, most often by the employee collecting the cash. A customer pays in cash, but the cash disappears from the cash register before the cash receipts are counted and deposited for the day. The more control an individual employee has at the cash register, or the fewer controls there are over the cash register receipts, the easier the fraud is to perpetrate.

**Preventing and Detecting Occupational Fraud**

Even the best of employees is vulnerable to mistakes that may cause misinformation or losses. Other
employees may act upon opportunities to commit fraud in the workplace. Internal controls are thus necessary to safeguard your business from both employee oversights and fraudulent acts.

Internal controls are policy and procedures, checks and balances that enable a company to reasonably achieve these three objectives:

- Protect assets, especially cash
- Allow for the efficient processing of transactions
- Ensure the generation of reliable financial statements

How do you determine an appropriate level of internal controls for your company? The answer to this question depends upon the size and complexity of your business, as well as the asset values you are trying to protect and track for financial reporting purposes.

In a small business where control is limited by the lack of employees, the owner's objective is simple: Avoid having sole financial control in the bookkeeper's hands. Certain bookkeeping procedures should be performed by the owner, or by another designated employee. It is not necessary that this secondary person have bookkeeping experience, but simply the capability to serve as a "cross check" to avoid potential theft situations and to successfully manage the assigned bookkeeping chores.

To improve the internal controls in your small printing company, it is suggested that owners implement the following policies and procedures:

- **Keep physical cash at your printing company to a minimum.** Many printers collect the bulk of their payments by check or credit cards. However, quick print shops with storefront operations are particularly vulnerable to cash thefts due to their higher volumes of cash transactions.
- **Assign cash handling duties only to specific employees.** The bookkeeper should not handle cash.
- **Have someone other than the bookkeeper open the mail.** In addition to regular mail processing, the mail opener should be specifically trained to handle these two types of mail receipt items:
  - **Customer checks payments.** All customer payment checks should be footed or recorded in some fashion. The mail opener may also be trained to fill out the bank deposit slip. These records can then be compared to the company books and bank statements to prevent the bookkeeper from skimming the checks. The bookkeeper will need to see the customer checks to record them on the accounting records prior to deposit, but the checks should be taken to the bank by someone other than the bookkeeper. The best way to handle this is to have the person making the bank deposit receive the deposit slip directly

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from the mail opener and the checks directly from the bookkeeper. The bank deposit person should obviously be checked to ensure that the checks and deposit slip match. Any variations should be turned over to the owner for immediate resolution.

- Notices, letters and complaints. These items should also be turned over to the owner for immediate resolution for both legal and customer service reasons. In a surprising number of cases, letters informing businesses of problems are passed directly to the person who created the problem rather than to the owner, and the necessary investigation and follow up to resolve the issue may not occur.

- Make Bank Deposits daily.
- Ask employees on a regular basis for any tips on wrongdoings at your company. Some companies set up a “Tips” box so employees can express their concerns discreetly.
- Ask vendors for any tips on wrongdoings at your company. Again, you may want to provide a discreet avenue for such comments. “Outside eyes” can offer a different perspective on your internal operations. This also sends a clear signal that you want your company to operate with integrity at all levels.
- Establish and communicate a clear policy to employees on Employee Gift Acceptance from Vendors. Make sure employees understand that violation of your gift receipt policy will result in loss of employment, as well as appropriate civil/criminal prosecution.
- Establish and communicate your policy to vendors on Employee Gift Acceptances. Make sure all vendors understand that violation of your employee gift receipt policy will result in loss of vendor status, as well as appropriate civil/criminal prosecution.
- Safeguard your Bank Statements and Reconciliations:
- Pick up your bank statements directly from your local branch instead of having them mailed to your company to avoid any opportunity for tampering.
- Open the bank statement yourself and review all check signatures. You should also review every bank statement for unusual items.
- The owner or another individual (other than the bookkeeper or mail opener) should reconcile the bank statement to the books. Comparisons to the mail opener’s listing of checks received should be reviewed on a test basis.
- Bank reconciliations should be done immediately.
- Count inventory and other assets and compare them to your records.

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- Force each employee to use his or her vacation time. Many fraudulent activities come to light when the "fraudster" is away from the office for an extended period and unable to correct or cover his trail.
- Bill payment:
  - Pay all bills with checks.
  - Whenever possible, the owner should sign all checks.
  - Only the owner should authorize transfers of cash out of the bank account.
  - When the owner is signing checks or authorizing transfers, require that all payments be related to a document (such as a voucher). This ensures that a paper trail exists for all disbursements, identifying all items or services the company is purchasing.
  - For larger companies, consider using a purchase order system. This provides for appropriate purchase authorization and also allows ordered items to be matched to invoiced items, quantities and pricing.
- Match the invoice with both the purchase order and shipping/receiving documentation, comparing prices and quantities.
- Instruct the bank to require two authorized signatures on checks written over a specific dollar amount.
- Formalize your internal control procedures. Review these procedures with employees and your CPA at least once a year.

Implementing internal controls is an excellent first step in preventing theft and fraud. You should also implement a multi-part plan, however, to further protect your company from such losses. This plan should consist of:

- Education. Educate your employees on the risks of and penalties for fraud. Teach them why people defraud companies and how to identify the telltale signs of fraudulent activity. Most importantly, explain how fraud hurts the company, and ultimately hurts everyone who works there.
- Communications. Communicate your internal controls, your requirement that these control procedures be followed, and your commitment to enforcing them. Emphasize that only you, the owner, can authorize circumvention of the controls. Communicate your concerns that all company assets are accounted for, and that you, as the owner, are aware, involved, and will constantly monitor the process.
- Annual review of internal controls. Review your internal controls with your employees and outside CPAs on a regular basis. Update your controls as needed to ensure your procedures are effective and are working well in your daily operations.
- Employee Prescreen and Testing. Over 7% of potential employees have some sort of record that may alert you to a potential problem. The best way to avoid hiring (Continued)
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a thief is to have a professional firm investigate the individual before you make an offer of employment.

- Treat employees as professionals and with respect at all times. Do not give them a rationale to defraud the company. Pay attention to those employees who indicate the company "owes" them something other than what they are receiving in consideration for their employment.

- Treat all employees with an equivalent and appropriate amount of skepticism. Do not take anything for granted. If something does not make sense, take the time to research the issue at hand.

- Trust your instincts. We once had an owner question whether he should be concerned about his CFO purchasing a luxury automobile that seemed to be beyond the CFO's means. We said yes -- but our client was reluctant to pursue the issue. Two years later, the CFO was caught charging gasoline for this personal car on a company credit card and was fired. It was later discovered that the CFO had been redirecting money intended to pay bank notes to his personal account, costing the printing company $300,000. If it doesn't "feel" right, investigate!

It's an undeniable fact: occupational theft happens. As the owner of a small printing company, you know that such fraudulent activity can be devastating to your bottom line. Trust your employees to do their jobs, but do yours as well by implementing these simple checks and balances in your daily administrative procedures. Stop the presses on potential fraud before it disrupts your company!

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