

Protecting Yourself From Fraud: Watch for Warning Signs From Others

By Diane C.O. Gilson, CPA, CIA, President, Info Plus⁽⁺⁾ AccountingSM PC

Re-printed from Nation's Building News, July 5, 2004

The eighth in a series about preventing fraud from affecting your business.

Being personally vigilant around your office can help prevent fraud. But it's just not possible to see everything and be everywhere at once.

Maximize your watchfulness by keeping your ears open, too. Employees, vendors and customers may give you clues that someone may be stealing from your business. They might be looking out for your best interests; simply following procedures; or resolving questions, issues or complaints from their side of the table. Regardless of their motives, it pays to listen.

Warnings From Others

Do not ignore these kinds of "trouble on the home front" warnings:

- Tips or complaints from other employees. Treat this information with care and confidence. When one employee reports another for wrong-doing, one of the following situations may be occurring:
 - The accused employee may be entirely innocent and the accuser may hope to gain some sort of advantage.
 - The reporting employee may have known about the wrong-doing for some time but waited until a specific circumstance upset him or her enough to report it.
 - The reporting employee may have known about the problem but had to find the courage to report it.
 - The reporting employee may have just discovered the problem, is shocked and dismayed, and needs to share the problem with you (or others).

Tell the reporting employee that you appreciate his or her confidence in coming to you and that you regard the information seriously. Ask the employee to keep the information confidential until you decide how to best handle the situation. Then, to protect everyone involved, seek professional assistance quickly. (Read "[Good Self-Defense Strategies Will Help Protect Your Business From Fraud.](#)" for some tips on getting professional assistance.)

- Complaints from customers or vendors. Personally investigate any complaint that has to do with misapplied payments, false payment dates, consistently late payments, strange vendors, strange bank accounts or anything that is financially out of the ordinary. Note: A pattern of complaints is a very large warning.

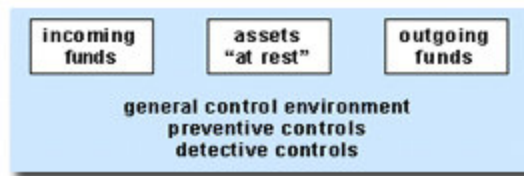
- Non-sufficient funds (NSF) checks. Unless you have intentionally overdrawn your bank account, you should never receive NSF notices from the bank. If you get one of these notices, immediately investigate the situation.

While investigating circumstances surrounding embezzlement, many fraud victims realize that they overlooked, ignored or downplayed warning signals from others. Paying attention to and immediately following up on tips and warnings can help expose fraud and prevent additional damage. Putting asset-protection controls in place gives you more time to heed warnings from others and stop fraud in its tracks.

Designing a System to Protect Your Assets

Work closely with your accountant to help implement a solid set of internal controls for your company. Because you know your business better than anyone else, you bring invaluable insights to this process. However, you probably have business “blind spots” too; that’s why it’s so important to seek a professional’s advice.

In the next “Protecting Yourself From Fraud” articles we’ll address the specifics of building an asset-protection system. In the meantime, here’s a diagram that illustrates the basics of fraud prevention.



Think of the three boxes (incoming funds, assets “at rest,” and outgoing funds) as assets sitting on rafts in a dry swimming pool. Your goal is to make the pool of controls (general control environment, preventive controls and detective controls) deep enough to keep others from swimming away with your assets, but not so deep that you drown in it.

The first step in designing a pool of properly balanced controls is to identify the assets you have sitting on those rafts. To do that, make a list of all of your assets and valuable information. Assets held by most businesses include:

- Checking and savings accounts (incoming and outgoing)
- Credit cards
- Job materials
- Office supplies
- Customer lists
- Vendor lists
- Computer software
- Financial information
- Owner’s identity

If you begin to think of all the ways these assets could be “diverted” to improper use by embezzlers or disgruntled employees and the havoc that would create, it makes “Nightmare on Elm Street” look like child’s play, doesn’t it?