

# Duvall & Associates, Inc.

## Business Advisor Newsletter

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"DID YOU USE ME - WHY'D I TRUST YOU? DID YOU STEAL MY MONEY?"

### THE WHO

Perhaps no business threat is as unsettling to an owner as the possibility of internal employee fraud.

Not only is internal fraud critically expensive, it terribly upsets the essential employer-employee foundation built upon the principle of trust.

According to a recent study, the typical U.S. company loses 7% of its annual revenue to fraud. Although the finding seems hyperbolic, even if reality were half the stated figure, the conclusion is indeed disconcerting.

More study results - asset misappropriation constituted about 90% of company fraud losses and nearly 2/3 of fraud schemes were perpetrated by employees acting alone.

Fraud is not predominantly committed by those with evil hearts - confirmed by the fact that 87% of the study's perps had never been previously charged with a crime.

Indeed the main culprit permitting fraud to flourish is simply an employee sensing an opportunity to steal - and just can't resist the temptation.

Businesses must create an organizational "checks and balances" structure whereby a single individual does not have the opportunity to unilaterally commit fraud. Thus, no one employee conducts both staff and manager tasks without intervening oversight.

Random audits help. 55% of all frauds were detected via internal audits and nearly half of all detections resulted from tips or complaints. Companies utilizing anonymous fraud hotlines experienced 60% average reductions in fraud.

Background employee checks will serve to weed out potentially bad seeds before actual hire.

Timely financials with detailed expense ratios enable owners to spot suspicious trends.

And a responsible, honest owner must serve as an example for all to follow.

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