

Think your business is safe from fraud?

BY SULLY WITTE
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Fraud is not just another cost of doing business. It is preventable. But just when you think you have all the safeguards in place, you should think again. Because you probably don't.

Take, for example, the recent case of the two DMV workers in Columbia who were arrested for embezzling money. Or the case in Mount Pleasant, where a police department employer stole from the agency. These are government run businesses that were victims of fraud. It can happen to any business and is usually done by an employee that you would never suspect.

Justin Kiddy, CPA, CFE, a partner with McCay, Kiddy & Associates, LLC is a certified public accountant and business advisor. He specializes in detecting fraud and helping businesses prevent it.

Fraud is defined as the intentional misrepresentation or concealment of information in order to deceive or mislead for personal gain. What businesses owners see the most of when it comes to fraud is misappropriation of assets, such as stealing cash receipts, unapproved cash disbursements, and stolen inventory and fixed assets.

And whether business owners know it or not, almost every one of them is affected during the month of March. That's when March Madness takes place. Over \$1.2 billion was lost nationwide because employees were betting on the March basketball games - which is considered a non-business related item. So fraud is not just stealing - it also takes place in the form of goofing off.

Fraud affects 80 to 85 percent of companies. It is the result of the lack of internal

controls such as management review and overrides of controls.

Companies on average lose seven percent of their gross revenue to fraud annually. For example, a company that grosses \$500,000 would on average lose \$350,000.

The industries most impacted are banking and financial services, as well as government and healthcare industries. Businesses with less than 100 employees suffer the most, and fraud commonly occurs in the accounting and finance departments.

Some high profile fraud cases include Enron, Worldcom, Bernie Madoff, and

"The common saying in the fraud examiner community is that the number one cause of fraud is blind trust," said Kiddy.

"If there is someone in your company that you don't monitor that you trust to handle all of your financial needs, that is probably the person committing fraud against your company," he said.

Implementing an effective anti-fraud program is not as costly as one might imagine. However, business owners cannot count on the company's income tax preparer to notice that fraud is taking place.

Kiddy said that tax preparers are not looking for

is the only thing a business owner can control and one does that by putting internal controls in place. The other dynamics of fraud are pressure and incentives to steal, and rationalization that whatever is being taken is deserved.

Opportunities

Opportunities are created when one individual is responsible for several aspects of a financial transaction without being monitored. For example, if only one person writes checks, signs checks, receives payments, maintains the general ledger and reconciles the account, then you've created nothing

employees or lagging terminations.

One way to detect lapping, Kiddy said, is to make employees take vacations so you can see when someone is being billed for a fictitious service and the employee is pocketing the money.

Internal controls

Internal controls must be designed to fit your specific company in order to achieve the most effective segregation of duties possible.

If you think your company's finance staff isn't large enough to properly segregate duties, you're wrong. With just two staff and minimal monitoring your fraud risk can be reduced. If you think that as a business owner you do not have the skill set or the time to perform accounting functions, again, you're wrong.

Kiddy said that all it takes is due diligence and skepticism to monitor your employees.

Business owners should review every single outgoing check and employees should know it is going to happen monthly. Business owners should also cross train employees to do financial work so that no one person always has his hands on the piggy bank.

Monitoring

Monitor employees by going behind employees and the tasks they have performed and look for inaccuracies.

Look at your bank statements and review bank reconciliations. Limit your finance staff's access to necessary areas with IT controls.

A fraud hot line can also be established and is fairly inexpensive to set up.

This way employees feel comfortable reporting suspected fraud.

A fraud examiner like Kiddy should be hired to come in

once or twice a year to look around. Kiddy said it could reduce your median loss from \$207,000 to \$70,000.

Fraud statistics

Typically fraud goes on for two years before it is ever detected. Fraud is detected 46 percent of the time by tips from other employees, customers and vendors.

Auditors detect only four percent of fraud, Kiddy said.

Only seven percent of fraudsters have prior convictions or terminations. A background check won't show you that kind of history because often times they are never prosecuted, Kiddy said.

Red flags to look for in employees are those that live beyond their means. An employer knows what he pays his employee, and can likely estimate how much that person's spouse makes.

It is not hard to see if they are living beyond their means, Kiddy said. He also added that it is easy to notice when an employee is in financial stress as well.

Kiddy warns business owners to put in safeguards now and not wait until they are a victim of fraud. But even then, only 78 percent of those who do fall victim to fraud put in anti-fraud controls.

He suggests that all companies should conduct management reviews of their fraud controls, conduct surprise audits, and host fraud training for management and employees.

McCay, Kiddy & Associates, LLC, assists companies with financial analysis in situations where fraud is suspected. Call 843-881-4477 and ask for Justin Kiddy or Gordon McCay to discuss your forensic accounting needs or email justin@mkaacpa.com.

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McCay, Kiddy and Associates

Countrywide Financial but fraud is not limited to large public companies. Fear that it will happen to you is good, according to Kiddy. The numbers prove that fear would have saved some companies. For example, locally, a construction company lost \$1,000,000, a church school lost \$160,000, a medical practice lost \$160,000, a public school lost \$136,000, a chamber of commerce lost \$36,000, an art museum lost \$36,000, a legal practice lost \$10,000, a lumberjack company lost \$10,000 and a fuel company lost \$85,000. These all happened in the Lowcountry.

"Business owners cannot get complacent," said Kiddy. "Just because you know your employees well and trust them, don't."

fraud. In addition, they are not trained to look for it. He explained that tax preparers only do an "open the surface" scan of your books at best. Kiddy warned that fraud can easily be hidden in your ledger.

The types of people who most commonly commit fraud are gamblers, alcoholics, shop-o-holics, and those suffering pressures in their personal lives. Most rationalize the behavior by saying they are being underpaid at work. A credit check on potential employees can wave red flags to those who have financial pressures.

So how do you defend against fraud? To defend against it, a business owner must first understand the dynamics of fraud. First and foremost is opportunity. This

but opportunity.

Those opportunities are decreased with prevention and detection controls. In fact, if you are the business owners and the books are yours, you should be looking at them.

There needs to be a segregation of duties Kiddy said. A security principle is an employee whose objective is to prevent fraud by implementing the appropriate level of checks and balances on the activities of individuals.

Duties must be segregated to prevent fraud in the areas of cash receipts where you'll find skimming or lapping; cash disbursements where you'll find fictitious refunds or over-billing schemes; purchasing where you'll find fictitious vendors or related party transactions; and payroll where you'll find ghost

Paul Heinauer named a Red Cross Hero for Fire



PHOTO PROVIDED

Pictured from left: Honorary Chair Tom Carr, City of Charleston Fire Chief and Chair; and Paul Heinauer, President of Glasspro. Not pictured is Honorary Chair Marc Melfi, Summerville Fire Chief.

The American Red Cross, Charleston Region is pleased to announce that Paul Heinauer, President of Glasspro, has agreed to chair the Red Cross Heroes

for Fire Victims Campaign for the third year. Tom Carr, City of Charleston Fire Chief and Marc Melfi, Summerville Fire Chief, will serve as Honorary Chairs.

Funds raised during the Heroes for Fire Victims Campaign assists individuals who have been affected by home fires by providing food, clothing, shelter,

lost medication and mental health counseling. Last year the Charleston Region assisted 1,097 individuals, residing within our seven county region including Beaufort, Berkeley, Charleston, Colleton, Dorchester, Hampton and Jasper counties.

The Heroes for Fire Victims leadership group of Lowcountry residents, who serve as Campaign ambassadors are: Raye Albers, First Reliance Bank, Harold Campbell, Harold Campbell State Farm, Deb Campeau, HCA/Trident Health Systems, Debbie Clarke, Wachovia, Jan Clouse, Carolina Lanterns, Carly David, Bishop England High School, Tina Doscher, Heritage Trust Federal Credit Union, Mike Dolberg, Northwestern Mutual Financial Network, Rob Fowler, Channel 2, Ronnie Givens, Dixon Hughes, Mike Holcombe, Farmers & Merchants Bank, Mason Holland, Benefitfocus, Buck Inabinet, Taylor Agency Insurance, Carla Kay, Paul McKnight, SCE&G, Jack

Mitchell, AT&T, John Morgan, The Ponds Greenwood Development, Tony Pope, Tony Pope State Farm, Larry Rice, Paul Davis Restoration of Greater Charleston, Robby Robbins, Robert D. Robbins, LLC, Christopher Rose, Christopher Rose Architects, Bill Silcox, C.T. Lowndes & Company, Ray Smith, Raymond C. Smith, Jr. CPA, Paul Steadman, Steadman Agency and Clarence Wright, SCE&G.

Those Heroes donating to the campaign will receive an information incident report detailing the Red Cross services provided, a commemorative certificate and free disaster preparedness training. To make a donation to assist families who are impacted by residential fires or for more information contact the American Red Cross at 843-764-2323 ext. 368 or by going to www.

LowcountryRedCross.org to make a donation.

The American Red Cross shelters, feeds and provides emotional support to victims of disasters, supplies nearly half of the nation's blood, teaches lifesaving skills, provides international humanitarian aid, and supports military members and their families. The Red Cross is a charitable organization—not a government agency—and depends on volunteers and the generosity of the American public to perform its mission. A financial donation can be made by sending a check to the American Red Cross, Carolina Lowcountry Chapter located at 8085 Rivers Ave., Suite F. North Charleston, SC 29406 or by calling (843) 764-2323 ext. 368.

For information or to donate, please visit www.LowcountryRedCross.org.

A win-for-all thrift sale

It's that time again! The much anticipated bi-annual Mom to Mom Sale is coming up! This CASH ONLY sale is set for Oct. 2 from 7 a.m. to 2 p.m. at the National Guard Armory, 245 Mathis Ferry Rd. in Mount Pleasant. The doors will flood open at 7 a.m. and close at 11 a.m. and then reopen from 12:30 to 2 p.m. for the 50 percent off sale of all remaining items. In past years it has raised on average \$3500 per sale for charity.

Hosted by all three Mount Pleasant MOMS (Moms Offering Moms Support) Clubs, which is a network of new and tenured stay-at-home moms who come together in friendship to support one another through the journey of motherhood. The sale features toys, books, clothing, baby equipment, bedding, furniture and more from 100 different consignors and vendors at amazing prices.

All profits will go to the benefiting charity for the spring Mom to Mom Sale - Camp

Happy Days - which is based in Charleston and provides a comprehensive, year-round support system for children diagnosed with cancer and their families. For more information about Camp Happy Days, please visit www.camphappydays.org.

This is a CASH ONLY sale and there is a \$1 admittance fee that also goes directly to charity. For more information about the sale, please visit the new Mom to Mom Sale website: www.m2msale.com.

The MOMS (Moms Offering Moms Support) Club is an international non-profit support group for mothers who are blessed with the opportunity to stay at home to raise their children. There are currently three MOMS Club chapters in the Mount Pleasant area.

For more information about MOMS Club or to get involved, please visit www.momsclub.org.

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