

## Fraud In The Workplace

The popular media have devoted countless hours to storylines that portray fraud in the workplace as an important plot device. From the early TV series *Perry Mason* and *Arrest and Trial* to the ubiquitous “ripped from the headlines” stories of the *Law and Order* franchise, as well as new series on cable such as *White Collar*, we’ve never lost our fascination for stories that involve fraud and how the perpetrator is finally caught. What compels the senior level manager, the low level employee or the longtime middle manager to ultimately risk everything, convinced that their crimes will go undetected? The characters in popular fiction, as in the real world, are frequently motivated by financial need caused by avarice, gambling debts, business reversals, poor investments or trying to maintain a lifestyle well beyond their means. Now it seems that almost every day in the business media there are new reports on workplace fraud in all its forms. The frequency of such reports now seem to be outpacing the tv episodes that draw from the “true stories,” and underscoring that truth is stranger than fiction.

In a time of massive Ponzi schemes and burgeoning white-collar crime, one can understand why fraud is not uncommon in the business world. In fact, employee fraud costs businesses billions of dollars each year. Employee fraud is an ongoing, widespread and varied problem, one that comes in all sizes for all kinds of companies. It can significantly impact a company’s productivity and profitability. The reasons for fraud are not always obvious to the business owner or even their attorneys. However, what is obvious is that it is often overlooked, ignored, and even undetected.

The current statistics for fraud in the workplace are staggering (source: ACFE Report to the Nations):

- The typical organization loses 5% of revenue due to occupational fraud;
- The median loss per case was \$160,000, and it took an average of 18 months for it to be uncovered;
- Fraud is much more likely to be detected by tips, than by any other means;
- Smaller companies are disproportionately victimized by fraud, as they usually lack a sufficient level of checks and balances;
- Fraud is more likely to be committed by a single individual, without a prior history of fraud, who often raises a red flag because they are living beyond their means and are experiencing financial difficulties.

To better understand why these statistics are so alarming one should be familiar with the three categories of fraud; Management Fraud, Employee Fraud, and External Fraud.

*Management Fraud* often involves a senior management’s intentional misrepresentation of financial statements, theft or improper use of company resources. *Employee Fraud* involves a non-senior employee theft or improper use of company resources. Lastly, *External Fraud* is the theft or improper use of resources by people who are neither management, nor employees of the firm.

Indications of fraud generally fall into a few categories: Accounting Anomalies, Internal Control Symptoms, Analytical Symptoms, Lifestyle Symptoms and Behavioral Symptoms. The prevalent warning signs of fraud may include accounting record discrepancies, unusual transactions, and conflicting or missing evidential/supporting documentation. If a business has not been producing the profits it anticipated, it might be advisable to conduct a fraud audit sooner rather than later. One can draw a

direct connection between unexpectedly lower revenues (or business losses) and possible patterns of fraud.

It is very important to maintain strict confidentiality regarding such matters. Some common mistakes businesses make is failing to retain counsel when fraud is uncovered or suspected, and/or not engaging the services of independent fraud investigators or a forensic team. If criminal or civil charges are pursued, an independent forensic accounting firm may be necessary.

Employee fraud is common, but not as inconsequential as the common cold. To help protect their clients, attorneys should be more cognizant of the various types of employee fraud.

To read about “The Fraud Triangle” and learn more about the forensic accounting services MSG provides, please visit our Web site at [www.msgcpa.com](http://www.msgcpa.com). For the most up to date discussions on financial topics pertinent to business valuation, forensic accounting and litigation support, please visit our blog at [www.forensicperspectives.com](http://www.forensicperspectives.com).