

# Top 10 Tips on Preventing Employee Fraud

Research has shown that small to mid-size businesses are often more vulnerable to fraud than their larger counterparts because they have fewer employees. Companies with fewer employees tend to have less segregation among duties, fewer internal accounting and auditing controls. Because small and mid-size companies tend to develop closer relationships and trust between owners and their employees, they might be less suspicious and thus more susceptible to employee fraud.

Businesses can protect themselves by making employee fraud prevention a priority. Just follow these guidelines to create a secure fraud prevention environment:

- 1 Implement an accounting solution as part of your fraud prevention.** Through the right accounting software solution, small businesses can mitigate fraud risk through specified user security levels, audit trails as well as through an Internal Accounting Review, which identifies common transaction mistakes, departures from GAAP (Generally Accepted Accounting Principles) and Red Flag transactions. User security levels are useful in ensuring employees only have access to areas of the business that are within their specified responsibility.
- 2 Understand your company's specific fraud risks.** Conduct a thorough audit of your company's specific vulnerabilities in order to design and implement internal controls and fraud prevention programs to mitigate this risk.
- 3 Conduct employee background checks.** Verify educational and employment history, as well as references, to ensure there is no previous history with fraud or other illegal activity. For employees who will manage company assets, it is especially important to conduct credit reports (if authorized by the candidate).
- 4 Control the bank statements.** To help fight check tampering, it's best for owners to open bank statements. When reviewing bank statements, owners should look for missing checks, checks issued out of sequence, unknown payees, checks that appear to have been altered, checks not signed by authorized signatories, or any other unusual items. Owners should also conduct regular bank reconciliations at least once a month. Consider using your bank's online features more often to streamline the process if your company regularly has large numbers of transactions and/or large dollar volumes.



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- 5 Use only approved vendor listings.** To avoid billing schemes and phony invoices, management should routinely check the list of approved vendors and look for unknown vendors, vendors' names that are similar to other known vendors, vendors with no physical address or phone number or vendors that match an employee's address.
- 6 Centralize payroll check distribution.** By centralizing the payroll program, management can help eliminate "ghost" employees; which include fictitious persons on the payroll, employees retained on the payroll that no longer work for the company, or friends or relatives of an employee.
- 7 Create a fraud policy.** Design, publish and implement a fraud policy that sets forth what conduct is expected from employees, what actions are prohibited, how fraud can be reported and the punishment for noncompliance.
- 8 Train your employees in fraud prevention.** Employees serve as the eyes and ears of a company and by ensuring that your staff knows at least some basic fraud prevention techniques, you'll establish a first line of anti-fraud defense.
- 9 Conduct routine and unannounced checks on high risk areas of your business, including the financial and inventory departments for vulnerabilities and possible fraudulent activities.**
- 10 Make employees go on vacations.** Employees who may be partaking in fraudulent activity may not take time off because they are afraid someone will catch on. Ensure that all employees take vacations so no one in the organization has control each and every day of the year.

Research has shown that "tone at the top" – or management's stance on ethics – is one of the best ways to affect an employee's behavior. But in the end, fraud, by nature, is hidden. Therefore, there is no guaranteed way to avoid it. Nevertheless, it's important for businesses of any size to take employee fraud seriously and implement deterrents to help prevent and identify fraud as quickly as possible.

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## About Sage

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