

Shavano

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THE HIDDEN DANGER OF EMPLOYEE THEFT

If you're a business owner, you may feel that you've built up a sixth sense when it comes to choosing the right business partners and customers. Fraud is all around us these days, after all, and it's important to know who to trust. But it's not just strangers who find us vulnerable. Your employees could be stealing from you. The problem can be especially devastating for small business owners, who surprisingly tend to lose the most.

YOUR MOST LIKELY SUSPECTS

The Association of Certified Fraud Examiners (ACFE) conducts the foremost study in the area of employee fraud each year. In its latest report, ACFE reveals that small businesses with fewer than 100 employees are more likely to be targeted and shockingly lose twice as much per scheme as larger companies (a median loss of \$200,000 versus \$100,000).

The ACFE also found that the amount of fraud losses tends to increase based on how long the employee has worked for the victim organization. An employee who commits fraud within their first year causes a median loss of \$40,000, while those with more than 10 years at the victim organization cause a median loss that's six times higher, at \$241,000. Employees with a company less than one year also commit the fewest number of fraud cases.

So, when it comes to fraud, tenure isn't a safeguard. Your most likely suspects? Employees who have been working for you for one to five years — they commit 44 percent of occupational fraud crimes.

The most common forms of fraud vary from industry to industry. For instance:

In retail, the most common employee crime is skimming (charging a customer full price, but taking a little cash out of the total for themselves).

Builders face the constant threat of employee theft of tools, copper wiring, new appliances, and other construction equipment and inventory.

All industries are vulnerable to asset misappropriation, which includes payroll, check, and billing fraud.

In the corporate world, bid-rigging, bribery, conflicts of interest, illegal gratuities, invoice kickbacks, and purchasing schemes top the list of corruption cases.

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By **Steven Bankler, CPA,**
Shavano Park resident

DETECTION AND PREVENTION

Fraud is most often identified thanks to tips from other employees. That's why it's essential to create a safe environment for employees to report suspected theft. Companies that provide hotlines and similar anonymous reporting methods receive the most tips and can stop fraud faster and at half the cost of those that don't.

External audits are a great idea in many cases, but they often come too late. Compared to the internal controls, which can stop fraud within five months, external audits alone often stop fraud 23 months after it starts and with a loss that can be four times greater.

To help prevent employee fraud in the first place, review and strengthen internal controls (checks and balances). Start with a work culture based on mutual respect and accountability. No one person should be "keeping the books" alone. Add layers of internal controls, and consider adding outside controls like book-keeping services and external auditing. For tough cases, forensic investigative accounting can dig deeper into the motivations and behaviors of your stakeholders and those who work for you to uncover fraud that might otherwise be undetected.

Steven Bankler has more than 40 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection as well as exit strategy services for closely held businesses. He also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations and estate planning. For past Shavano Living tax tips and to learn more about Steven Bankler, CPA, Ltd., visit www.bankler.com.

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