

Secure from Within

Tips to Help Small-Business Owners Prevent Internal Fraud and Theft



Nobody is immune to fraud. Not big companies. Not small companies. In fact, smaller enterprises may be more at risk to internal criminal activity because of a perceived familiarity among employees and a predilection toward trust by management. Companies do not have to abandon trust in their employees, but they can take several useful actions to help protect them from internal fraud. If you want to curb abuses or the temptation to commit fraud, start by creating an ethical culture, institute basic internal controls, and secure other nonfinancial holdings of your business, such as data or intellectual property.



Create an Ethical Culture

Company management establishes the level of integrity within their organization through their own actions, often called tone at the top. Only then can you insist on an ethical business environment for all. Some of the easiest and most effective steps to implement are an official code of

professional conduct, comprehensive ethics training, and an anonymous ethics hotline.

Code of Conduct

A code of professional conduct should clearly cover all key behavior points, including areas such as use of corporate property, appropriate procurement procedures, and a conflicts-of-interest policy. Establishing clear rules will deter fraud by eliminating gray areas.

Ethics Training

Companies should hold training sessions that raise awareness of ethics issues and identify what to do should ethical issues arise. The training should focus on the practical application of the rules as it pertains to your company, and should be held at regular intervals.

Ethics Hotline

A hotline gives employees a way to confidentially report unethical behavior from within the ranks or to ask questions about an ethical dilemma.

Institute Fraud Controls

Once the parameters of an ethical business environment have been established, management can focus on fraud controls. These are systemic procedures, applicable to all, put in place as preventive measures. The following are six starter steps to bolster internal security.

Screen Potential Hires Thoroughly

Check past employment, references, criminal records, and credit.

Separate Accounting Duties

Divide responsibilities so no one person controls all financial activity related to company assets.

Review Bank Statements

Obtain and review statements before bookkeeping, looking for missing checks, checks to unknown parties, and checks written to third parties but endorsed by an employee.



Restrict Credit Card Use

Verify that all charges are business-related by examining statements and corresponding receipts monthly.

Initiate Surprise Accounting Reviews

Have an internal audit or hire a CPA to conduct an accounting review at least once a year, but at different times so the schedule is unpredictable.

Secure from Within

Insist on Vacation

Mandate that vacation time be taken because those committing fraud often do not take vacation so they can guard their illicit activity.

Secure Nonfinancial Holdings

Be aware that larceny is not restricted to cash. Company managers must take extra care to secure other valuable commodities, including employee Social Security numbers, company credit card numbers, computer network access, and proprietary company plans, to name a few. In these areas, the key preventive is access. Only those with need-to-know authority should be privy to this critical information; otherwise, management leaves the company vulnerable to identity thieves, hackers, and industrial espionage.

If you have not implemented these procedures, you should seriously consider doing so. They are critical to securing your company from within.



A HIGHER STANDARD

PICPA members must comply with both AICPA's and PICPA's codes of professional conduct, which require adherence to the Statements on Auditing Standards. PICPA members must exercise professional judgment and due care in the selection and application of a financial statement service.



The Pennsylvania Institute of Certified Public Accountants, with more than 22,000 members, advocates to strengthen the accounting profession and serve the public interest.

The PICPA offers resources for a variety of financial topics.

- ▶ Personal Finance
- ▶ Small Business
- ▶ Tax Help
- ▶ Fraud Prevention
- ▶ Retirement

Visit www.picpa.org/resources to learn more.