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## **It Can't Happen in My Organization**

By Todd Ellis, CPA

According to the *2008 Report to the Nation on Occupational Fraud and Abuse*, published by the Association of Certified Fraud Examiners, organizations lose 7% of their annual revenues to fraud. Within the context of the U.S. Domestic Gross Product, that percentage would equal \$994 billion in fraud losses this year alone. Now, we're not saying that you can't trust your employees, but we do recommend putting some safeguards in place.

As a business owner, you are concerned about making your business better by increasing sales and customer satisfaction and maintaining employee morale. No one wants to think that anyone in their organization would even think of stealing from them. Yet, consider the following highly publicized case of embezzlement:

In 1999, the owner of a successful construction company hired a bookkeeper who appeared to be the model employee. She always worked very hard, staying late, not requiring assistance and relieving the owner of all the "hassles" of accounting for cash receipts and disbursements. Over the next six or so years, she was able to completely earn the trust of her employer resulting in her receiving unmitigated authority to manage the accounting system with no effective, management oversight. In 2006, it was discovered that this "model employee" had stolen at least \$9 million during her employment and had been living an extravagant lifestyle.

Of course, hindsight is 20/20, but from an accounting perspective, this situation could have been prevented in a variety of ways. The first step would have been for the owner to realize that his business needed to conduct a comprehensive analysis of their internal control system. Such an analysis would have shown the owner glaring deficiencies in the company's system of control that, if corrected, would likely have prevented a lot of the economic damage.

Further, if the owner had been educated on some of the indications of fraud, he likely would have realized that something was very wrong. In this case, an extremely profitable company was continually having cash flow problems. Moreover, several employees began to suspect that there was a problem with the bookkeeper because of her extravagant lifestyle and her implausible explanations of financial variances.

Since most frauds result in substantial economic damages that are never repaid due to the fact that fraudsters usually spend their ill-gotten gains, prevention is crucial. It *can* happen to your organization. Luckily, your accountant can help detect

To learn how DGC can assist your organization prevent fraud and strengthen internal control, please contact Todd Ellis, CPA at [tellis@dgccpa.com](mailto:tellis@dgccpa.com) or 781.937.5300.