FRAUD PREVENTION
Are Your Employees Stealing From You?

There’s good news and bad news when it comes to fraud in the manufacturing industry.

**The Bad:** According to the Association of Certified Fraud Examiners (ACFE), manufacturing ranks third on the list of industries most likely to be victimized by occupational fraud.

**The Good:** According to the most recent ACFE Report to the Nations, the percentage of fraud cases in the manufacturing industry has dipped slightly in the last two years.

Have you taken steps to protect your company from occupational fraud? Fraud prevention doesn’t always hinge on expensive software or sophisticated detection systems. Awareness and reinforcement of existing policies may be all that’s needed.

**The Triangle of Fraud Opportunity**
Research has shown that fraudsters need a “triangle” of opportunity, motivation and rationalization to commit their crimes. Of these three elements, the only thing employers can control is opportunity.

If you haven’t conducted a fraud risk assessment in the last year, it’s time to do so. Take a close look at your business and consider the following:

- **Determine what’s valuable.**
  Whether through a billing scheme or outright larceny, most fraud entails stealing money. But manufacturers often have special categories of valuable assets to protect. For example, inventory of finished goods and products, and supplies of expensive materials are subject to theft. Depending on the nature of your business, customer lists and intellectual capital — processes, plans and research — may also be extremely valuable.

  A comprehensive assessment of your assets, both physical and virtual, will help you determine and protect what’s at risk. For example, securing inventory and supplies may seem like an obvious step, but many companies, especially fast-growing ones, haven’t taken the time to create appropriate tracking procedures.

  The same goes for intellectual property. Unfortunately, there’s a market for competitive business intelligence. Consider adding download-triggered alerts to your IT system to prevent theft of your proprietary data.

- **Know the flow.**
  The ACFE reports that corruption, billing and non-cash schemes accounted for more than 90 percent of the frauds that plagued manufacturing companies last...
year. Many of these crimes could have been prevented if managers and executives were 100 percent plugged into the way the company moves money and products.

For example, owners should review their bank statements, transfers, receipts and payables, and ask questions about any transactions or vendors that are unfamiliar or new. Put login systems in place to track who’s moving money, supplies or products (and be sure to review the logs). Use numerical, sequenced checks and color-coded documentation — pink purchase orders, yellow estimates and blue invoices, for example — to promote good organization and easy-to-track paperwork. Conduct unannounced inventory counts and unexpected document requests to ensure that you’re seeing the “real” day-to-day situation, not a cleaned-up version of typical workflows.

• **Be smart.**
  Much of fraud prevention is common sense. Segregate duties to keep one person from handling both the inflow and outflow of funds. Insist that all employees take their vacation time so that it disrupts the opportunity for ongoing fraud schemes. And conduct background checks not only on new employees, but on existing ones as well.

Finally, don’t override internal controls, even (or especially!) if you’re the boss. Remember that integrity starts at the top. If you treat the company’s assets with respect and care, it’s more likely that your employees will, too.

We hope you find this information valuable. As always, we are here to help. If there is any way our team can assist you, please contact your Mueller Prost advisor at 314.862.2070 to discuss your unique needs. Contact Adam J. Herman, CPA/ABV/CFF, CVA, ASA, CFE for a vulnerability assessment to help detect and prevent fraud.

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**Hotlines Are Hot**

Anonymous tips are the most common fraud detection method, accounting for 43 percent of initial detections, according to the most recent ACFE Report to the Nations. Employees are responsible for more than half of all fraud tips, with customers and anonymous sources offering about 34 percent of tips.

Not surprisingly, organizations with anonymous tip-reporting hotlines saw a much higher likelihood of fraud being detected by a tip.