# The Warning Signs of Small Business Fraud Conducted by Internal Parties. Strategies for Prevention and Detection.

Traditional fraud and illicit activity remains a great risk to small businesses. Sometimes the most severe losses are suffered at the hands of internal threats or trusted partners. In particular, internal employees or contracted third party entities which oversee billing activity, perform accounting tasks, or manage a firm's banking relationship can pose material risks to businesses. Understanding the warning signs and knowing how to manage these risks can help you detect internal fraud and prevent this from occurring

**Potential warning signs are:**

- A bookkeeper/accounting manager routinely avoids prolonged time out of the office and does not go on vacation. When encouraged to take some well-earned time off they become defensive.
- An employee's lifestyle seems inconsistent with his/her earnings. Common triggers for an employee engaging in fraud stem from problems associated with drug or alcohol use, gambling or family finances.
- Financial records are messy and important items are commonly misfiled.
- A bookkeeper/accounting manager frequently takes records home or works alone in the office.
- A bookkeeper/accounting manager actively advocates for the replacement of the outside accounting firm.
- A bookkeeper/accounting manager makes frequent telephone or internet banking account transfers.
- A bookkeeper/accounting manager has asked for check signing authority and/or has sole control over deposits.

**Strategies that will help reduce the risk of fraud:**

- **Perform a Surprise Review:**
  Unannounced financial requests help to identify issues and send a message that transactions are watched closely. For example, review 2-3 prior bank statements and ask for support for several transactions. This simple exercise communicates a strong message of proactive financial oversight, hinders temptation, and makes opportunistic wrongdoers uneasy.
- **Separate Duties:**
  Fraud generally arises when a trusted employee/entity has full access to issue and reconcile receipts and payments with little or no oversight. Divide

responsibilities for initiating, authorizing, recording, and reviewing financial transactions among employees.

- **<u>Control Access:</u>**
  Limit access to physical financial information and assets, accounting systems, and online banking. Access to items such as signature stamps, blank checks and cash should be restricted. Common bookkeeping software and online banking access generally includes built-in functions that allow you to set user limitations and safeguards; never default all users to full administrator rights, share logins and passwords, or give access to employees who really have no need.

**If you have any questions, please feel free to call the CustomerFirst Contact Center at (203)462-4400.**