



---

## The Importance of Being Vigilant In This Economy

---

As part of management of any company or organization, you are probably concerned in the current economy about decreasing sales, slow paying customers, and tight cash flows. However, this is a crucial time to be concerned and watchful of your employees as well. It has been shown that the temptation to commit fraud becomes much greater in more troubled economic times.

The three pieces of the fraud triangle are motivation/need, opportunity, and rationalization. In today's current economy, management and owners need to be concerned about all three of these.

- Employees are motivated to find any means possible, whether it is due to a spouse being laid off, unpaid medical expenses, or worrying about their investments/retirement. There isn't a day that goes by that we don't hear the depressing news of more layoffs, stock prices plummeting and companies closing.
- In many companies, there is opportunity for fraud, even if management believes they have very good internal controls. It is hard for management to be aware of all the opportunities and they may be too focused on certain areas that will allow their employees to see opportunity in overlooked areas.
- It is not hard for an employee to rationalize their actions. Maybe your company is already having financial problems, so a little less money will go unnoticed. Or maybe they are afraid that they are going to get laid off eventually (or are already taking a reduction in their pay) so they feel justified in taking "what is theirs" now while they have the opportunity.

There are several steps that management and business owners can take to reduce their risk of fraud at any time and especially in this current economy:

- Don't just attribute decreases in sales or slow paying customers to the economy. Monitor your receivables listing closely and communicate directly with as many customers as you can to prevent employees from pocketing incoming payments or not recording sales.
- Keep an eye on your bank statements. Look for any unusual or suspicious vendors on your cleared checks, especially if you utilize a signature stamp rather than reviewing all company checks that leave your office. Similarly, look for any unusual transfers or electronic payments to vendors that you do not recognize.

- Monitor any company credit cards as if they were your personal accounts. It is not difficult for your employees to make unauthorized credit card purchases if you are not tracking this closely and requiring receipts for all purchases.
- Be aware of your employees' lifestyle. Look for telltale signs, such as extravagant lifestyles or changes in attitude, employees who do not take vacation time off, and employees who guard access to reports or the accounting software.

Try to have employees share duties and strengthen your internal controls as much as possible.

- Last, and probably most important, establish the proper tone at the top. Have an open door policy and implement a whistleblower policy or fraud hotline. Let employees know that you are looking closely at everything, including payroll, bank statements, and customer receivables. Act honestly and ethically in everything that you do and say to set a good example for your employees. Consider distributing an updated ethics policy or other communication to keep ethical behavior on the forefront of your company's activities. Try to create a sense of transparency to help employees know and understand the financial situation of the company and any changes that are upcoming. This will improve morale and hopefully make your employees more loyal to the company and less likely to commit fraud.