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Articles:

Occupational Fraud 1-2

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internal controls?
Call us and we'll
be happy to
discuss them
with you.***

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Occupational Fraud

Today's businesses are faced with a number of new challenges - from customer service issues to management systems to increased and more sophisticated technology. While many of these new systems and products make business operations more efficient, they also come with a certain amount of exposure to theft, both internally and externally.

"While employee theft is not a new issue, studies indicate that it has the propensity to increase for employers of **all sizes** during tough economic times."

"Institute for Corporate Productivity"
Friday, March 13, 2009

Occupational Fraud is defined as "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets."

Primarily due to the nature and organizational structure of a company and the increased complexities associated with day-to-day operations, companies may be prone to weaker controls and the inadequate segregation of duties. This situation is primarily due to a lack of personnel and/or financial resources, thereby creating a situation where the operation may be vulnerable to employee fraud.

The U.S. Department of Commerce reports that 30% of all business failures result from dishonest acts by employees and that **internal theft** occurs at a rate significantly higher than external theft. There are three variables that can lead to **occupational fraud**:

- Opportunity:

Employees can create opportunities to commit fraud by increasing their knowledge of the company's operations, by advancing to a position of trust and by being the only person who knows a particular function or operation.

The **Company** can increase the opportunity to commit fraud by having a weak system of internal controls.

- Incentive/Pressure:

This generally refers to immediate pressures individuals experience within their personal environment. The greatest pressures generally involve high personal debts or financial losses. According to the Certified Fraud Examiners, 57% of cases result from financial incentives or greed. Pressures can also be generated by maintaining a lifestyle that is unsupported, career disappointment and the prospect of being laid off.

Continued on page 2



Occupational Fraud - continued

- Rationalization/Attitude:

Some individuals have high personal integrity. These employees would normally act honestly at all times, unless the pressures or opportunities described above are extremely strong to influence their decision otherwise. Other individuals have low personal integrity and may or may not act honestly; their behavior is influenced by the situation. Most individuals generally believe in honesty, but can be tempted by convenient opportunities and intense pressures.

The decision to commit occupational fraud is determined by the interaction of all three variables.

Our goal at Freeman & Williams is to provide business owners and management insight into understanding the scope of occupational fraud, the effects it may have on your business and the importance of strong internal controls in mitigating future occurrences. If you have any questions regarding internal controls, or would like to have an internal control study performed on your company, please give us a call.

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Questions?

If you have any questions about an article in this newsletter or any tax issue, please feel free to contact our office at (775) 882-3201. You can also find a copy of this newsletter as well as our other updates and notices at www.fwcpas.com.