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FINANCIAL FOCUS



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Your Accounting for a New Economy

Asset Erosion: Dangers of Recurring Small-Dollar Fraud

Often fraud increases as the economy struggles. Business owners must remain vigilant to prevent becoming a victim. There are many contributing factors that can allow recurring small-dollar fraud to thrive under the radar, but by familiarizing yourself with the most common schemes you can learn what to watch out for.

The danger of recurring small-dollar fraud is that it eats away at the assets of a company or organization over time. Because of the small dollar amounts it largely goes unnoticed, but over time it can add up.

Skimming

Skimming is the theft of cash before it is recorded. Since the company or organization has no record of the cash having existed, it is vulnerable to theft without anyone knowing it's missing. Any employee involved in receiving cash may be in a position to skim money. Without proper controls in place, employees may be able to take cash or sometimes even checks rather than reporting them as revenue.

Fraudulent Disbursements

Once cash has been recorded by a company or organization potential thieves are forced to be more creative. If insufficient or non-existent controls are in place, it may be at risk of theft through fraudulent disbursements. Fraudulent disbursements can take many different forms, but always entail a check to be written or cash to be wired for what appears to be a valid business expense, but is in fact an organized and orchestrated deception.

Fraudulent disbursements Include:

- **Fictitious Vendors** – Most embezzlement schemes using this method involve false invoices created on the behalf of a fictitious vendor. Most of these elaborate schemes involve the purchase of non-existent services rather than goods which can be easily verifiable. However, particularly shrewd thieves may purchase legitimate goods from a vendor and then resell those good to their employer through a fictitious company at inflated prices. Companies most susceptible to this kind of fraud are those with an employee who has unsupervised authority to approve invoices.
- **Compensation** – This type of fraud generally falls into one of two categories. Either a perpetrator is “boosting” his or her hours or a shift supervisor or payroll clerk is collecting paychecks for “ghost employees”. If a perpetrator is “boosting” their hours then they are submitting timecards or timesheets that inflated with hours that they did not work. The “ghost employees” scheme involves payroll checks being cut of funds electronically transferred for employees who no longer work for the company or never did.
- **Expense Reimbursement** – Fraudulent expense reimbursement involves employees seeking payment for “out of pocket” expenses that either don’t exist, are overstated, or are not eligible for reimbursement by a company or organization. These can include expenses that are mischaracterized. Often times the perpetrator will allow some personal expenses to “accidentally” be submitted with legitimate expenses in the hopes that it will slip by the accounting department whose task it is to determine if the expenses are correct, appropriate and reimbursable.

All companies or organizations regardless of size or industry can be victims of the type of recurring small-dollar fraud discussed in this article. While the individual instances may appear small they can add up over time and deliver a crippling blow to your bottom line. The most effect way to combat this type of fraud is to emphasize your company or organization’s intolerance for fraud. I must be a mission that is adopted from the top down, and internal controls must be put into place to identify and prevent this type of fraud from ever occurring.

For more information on how you or your company can institute policies to combat recurring small-dollar fraud contact your trusted advisor at LGT or Scott Cote, Director of Practice Growth, at 214-461-1467 or by email at scote@lgt-cpa.com.

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