

S I D E B A R

If You Suspect Fraud, Look for a Motive

In many cases, a reliable way to determine whether fraud has occurred or incompetence is at work is to see if a motive for fraud exists. If there is no motive, the chances of fraud are minimal. The following factors may indicate a motivation to commit fraud on the part of an owner, manager, or accountant:

Sense of entitlement. Entrepreneurs especially have a tendency to believe that they have personally earned everything in the company, it is all theirs, and there is no way that they are going to let anyone else enjoy the spoils of their hard work. A company I investigated completed six acquisitions in 30 months. The CEO diverted \$1.4 million in unauthorized salary and expense reimbursement that he felt was due him for saving five times that amount by finding and negotiating all the deals himself instead of using a broker or investment banker.

Personal financial strains. Business owners or their accountants have been caught committing fraud to pay for a drug habit, a family member's medical expenses, college expenses, weddings, gambling, "keeping up with the Joneses," or to fund a more pleasant retirement.

Need for outside financing dependent on presenting favorable operating results. The more numerous and onerous the covenants are in a bank loan, the

more likely there is to be a need to "adjust" the numbers to make sure all the covenants are met.

How the owner treats employees, vendors, and customers. When employees see their boss mistreating others, it emboldens them to mistreat their boss. In one case, the sale of a company exposed two long-term frauds—a smaller fraud where one partner was cheating the other, and a much larger fraud where the bookkeeper emulated her boss and embezzled a much larger amount from the two partners. Many employees who are caught stealing blame it on a need

to "get their fair share" from an abusive employer.

Because they can (lax controls). If it is easy, people will do it. Most frauds start out small, many by accident (forgetting to make a deposit or record a sale, preparing a check incorrectly, adding time cards incorrectly, using the company card for a personal expense, etc.). When there are no repercussions, it is difficult to resist "free money," and an accident turns into intention, which soon becomes scheming and committing.

Michael Goldman

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