How can you prevent FRAUD?

The most cost-effective way to deal with fraud is to prevent it. The following are some examples of how to prevent and deter fraud:

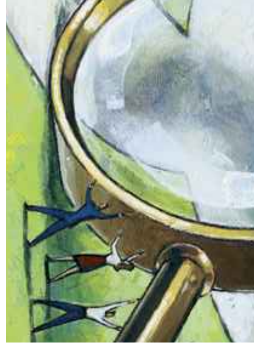
- **Have strong system controls:** Identify ways to increase security in your computer, recordkeeping and disbursement systems.
- **Pay attention to the warning signs on the books and records:** Create internal mechanisms that alert you to potential transgressions.
- **Report irregularities:** Create a system for employees to anonymously report illegal or unethical actions they have witnessed or suspect.
- **Provide fraud awareness program:** Communicate fraud policies; include in employee handbook.

How Can Meaden & Moore Help?

- **Conduct internal control and systems review.**
- **Evaluate specific accounting cycles** (ex: cash disbursements) including specific transaction testing.
- **Work with you to monitor non-financial measures.**

Fraud has a direct impact on your organization's bottom line. It also threatens your hard-earned reputation. Meaden & Moore's Certified Fraud Examiners have seen it all and can help you become more savvy about preventing and detecting fraud.

Please contact Andrew Clark, CPA,CFE at 216.241.3272 or email aclark@meadenmoore.com



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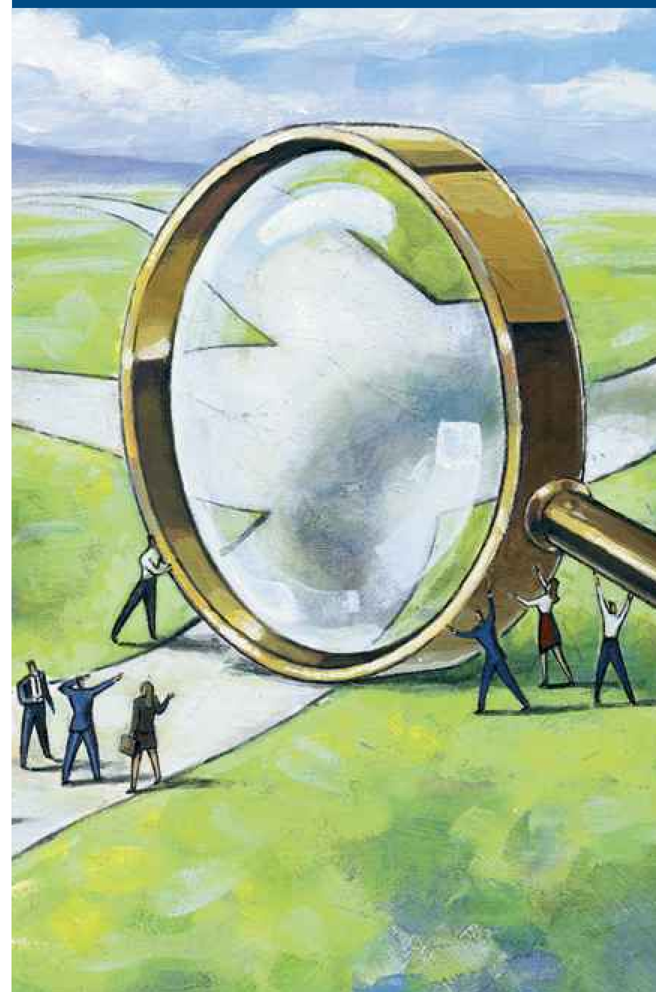
Protecting Your Business from

OCCUPATIONAL FRAUD



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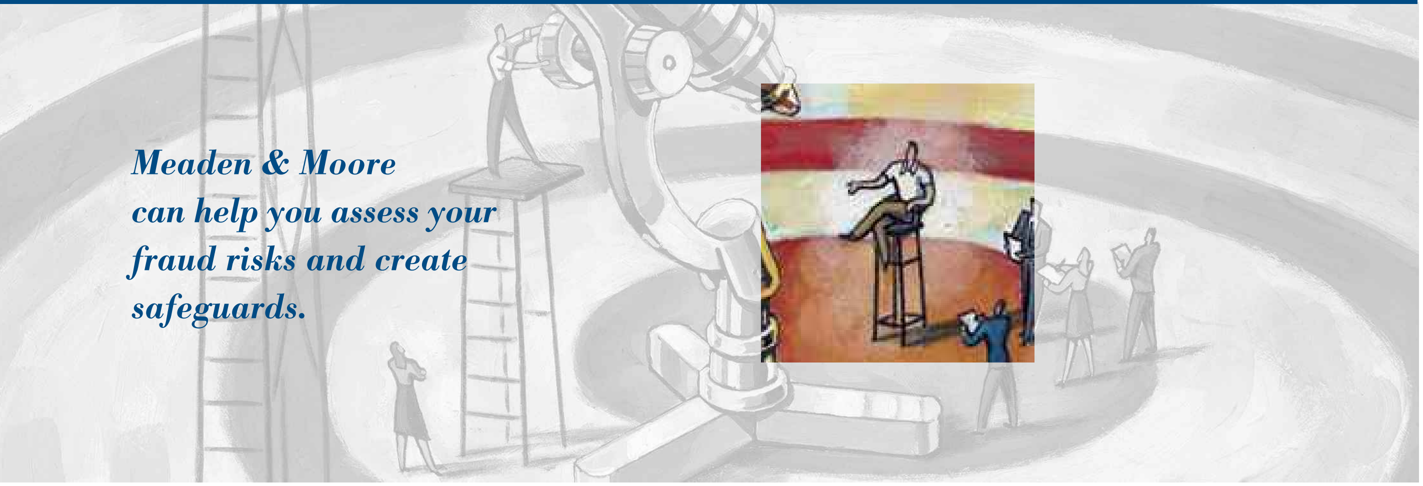
The typical U.S. organization loses 6% of its annual revenue to fraud.

In a recent study of fraud, small organizations (100 employees or fewer) actually suffer larger median losses from fraud than large organizations (10,000+ employees). Small businesses are less likely to be able to survive such losses and should better protect themselves from fraud.



What is FRAUD?

- **Fraud can take on many forms:**
  - Theft of money, inventory, merchandise, equipment or tools.
  - Accepting kickbacks or bribes from vendors or customers.
  - Providing false financial information about the organization to the government, creditors or investors.
  - Cheating on expense accounts.
  - Overstated hours worked or wage rates.

- **The above offenses are all "occupational fraud." There are four key elements to occupational fraud:**
  - The activity is clandestine.
  - It violates the employee's duty of trust to the employer.
  - It is committed for the purpose of direct or indirect financial gain.
  - The employing organization loses assets, revenue or reserves.

Why do employees commit FRAUD?

There are three major factors that contribute to occupational fraud:

- **Opportunity:** Have you unwittingly created an opportunity for employees to commit fraud?

- **Incentives and pressures:** Employees may have an incentive, such as "getting even" with their employer, or serious financial pressures.

- **Rationalization and attitude:** Fraudsters rationalize their fraudulent acts as being consistent with their personal code of ethics.

What does FRAUD encompass?

All occupational frauds fall into one of three major categories:

- **Asset Misappropriations** - involve the theft or misuse of an organization's assets. Common examples include skimming revenue, stealing inventory and fraudulent disbursements such as:
  - **Billing Schemes –** involves a payment by submitting invoices for fictitious goods or services, inflated invoices or invoices for personal purchases.
  - **Payroll Schemes –** involves payment by making false claims for compensation.
  - **Expense Reimbursement Schemes –** involves a claim for reimbursement of fictitious or inflated business expenses.
  - **Check Tampering –** the perpetrator converts an organization's funds by forging or altering a check on one of the organization's bank accounts or steals a check the organization has legitimately issued to another payee.
  - **Register Disbursement Schemes –** involves false entries on a cash register to conceal the fraudulent removal of currency.

- **Corruption –** fraudsters wrongfully use their influence in a business transaction in order to procure some benefit for themselves or another person, contrary to their duty to their employer or the rights of another. (Common examples include accepting kickbacks and engaging in conflicts of interest.)

- **Fraudulent Statements –** generally involve falsification of an organization's financial statements. (Common examples include overstating revenue and understanding liabilities or expenses.)