

## ARE YOUR SYSTEMS AND PROCEDURES PROTECTING YOU FROM FRAUD?

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According to the 2012 Association of Certified Fraud Examiners Report to the Nations on Occupational Fraud and Abuse a typical organization loses 5% of its revenues to fraud each year. This number continues to blow my mind as I put it in perspective and consider the impact this can have on each individual business. The research also continues to show that small businesses with fewer than 100 employees are particularly vulnerable to fraud. Smaller organizations typically have fewer resources than their larger counterparts, which often translates to fewer and less effective anti-fraud controls. In addition, because they have fewer resources, the losses experienced by small businesses tend to have a greater impact than they would in larger organizations. The 2012 Fraud Report to the Nation also states that over 50% of the frauds observed in their study were committed as a result of lack of internal controls or an override of existing internal controls.

### What is internal control?

What are we talking about when we say “internal control” or “control”? The definition of internal control is: Systematic measures (such as reviews, checks and balances, methods and procedures) instituted by an organization to conduct its business in an orderly and efficient manner, safeguard its assets and resources, deter and detect errors, fraud, and theft, ensure accuracy and completeness of its accounting data, produce reliable and timely financial and management information, and ensure adherence to its policies and plans. So let’s face it, we don’t all have the resources of Microsoft or Boeing to implement textbook level internal controls where there is immaculate segregation of duties in every department that helps to prevent and detect fraudulent transactions. Small businesses tend to place a lot of trust and responsibility with one or two key people, and this does not have to be a negative thing. In fact, it is very critical in the operation of your business to achieve maximum efficiency. However, designing adequate oversight and controls over key areas is important and can help prevent but also detect fraud and can actually help improve efficiency.

### We can help

Shannon & Associates, LLP has been involved in the review and design of internal controls for many businesses. Business owners are prompted to take a look at these controls for various reasons; sometimes that reason is a fraud has taken place and management wants to implement controls that can help prevent it from happening again, other times management is being diligent and proactive and want to help protect their business from the “not if but when” scenario that faces most small business. Improving the efficiency of various departments is also another reason businesses may want to participate in a process review or internal control review. The result is not only increased efficiency by employees, but also a stronger system of internal controls.

Having an internal control review of your business is a cost effective, painless and sometimes even fun process. These reviews can be highly customized to fit your businesses wants and needs; this includes the scope, timing and delivery of our observations. Typically an assessment which consists of asking questions and walking through the daily operations of your business is completed in order to obtain a detailed understanding of the current environment. Secondly, observations and recommendations are gathered which are communicated and discussed during our initial assessment as well as formally to management. One of the primary concerns I hear from business owners prior to the engagement is that they don’t have the resources to hire more employees to create ideal internal controls or they can’t implement controls because it affects efficiencies. However, most of the time recommendations can be implemented that work with the resources currently in your business to make slight changes that do not have a negative impact on any one person’s role or responsibility but at the same time add a very strong level of control to the operations of the business.

A recent testimonial given by a client in response to their internal control and process review highlights the steps taken as well as the results they experienced as a result of engaging in this review:

***Recently, we asked Shannon & Associates to perform a review of our Bookkeeping procedures at Protective Coatings, Inc. Jessica Kinney was assigned to lead the review. From start to finish she was professional and provided us exactly what we were looking for. Jessica spent time with several departments while on site and took a tour of our facility. She was genuinely interested in learning not only our financial process, but our production process as well. All during the visit Jessica let me know her suggestions in areas that needed attention as she came upon them. She explained things in a manner that was easily understood, and gave simple suggestions as to how to implement her ideas. After her visit to our facility, she drafted a letter to explain what she had observed. She included both ideas for change and positive feedback. She asked if we had any ideas to add and if we felt comfortable with the results. She then came to meet with myself and the President of our company to close the review. We have put her suggestions into place, and can already see the difference they have made. The experience was educational, beneficial, and enjoyable. – Becki Holberg – Protective Coatings, Inc***

If you are interested in further information or exploring the benefits of obtaining an internal control review, please contact Jessica Kinney at [jkkinney@shannon-cpas.com](mailto:jkkinney@shannon-cpas.com).