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Prevent and Detect Internal Fraud Four Methods You Can Implement Today

by Kyle B. McQuaid, CFE, Consulting Manager

With the economy as it is today and one out of ten people out of work, it becomes easy for employees under considerable financial pressure to rationalize absconding precious assets from their employer. Most likely the fraud would be in the form of liquid cash: to put food on the table, to pay for the medical expenses of a loved-one, or to make the house payment. We all know people in our personal and professional lives who are out of work and who are struggling to make ends meet. This environment creates the perfect incubator for internal fraud.

In 1973, Donald R. Cressey, as part of his doctoral dissertation, researched and interviewed 200 embezzlers for his book: *Other People's Money: A Study in the Social Psychology of Embezzlement*. Cressey, as the end result of

this work, devised a pattern to the embezzler's psychology that he named "The Fraud Triangle." The sides of the triangle represent three common elements that the embezzler's psychology demonstrated: Perceived Opportunity, Pressure and Rationalization.

I won't belabor the point that two sides of the triangle – Pressure and Rationalization – partially exist as a result of the American unemployment rate and the economic recession. Instead, I believe it most prudent to examine what we might do to address the third side – Perceived Opportunity.

Joseph T. Wells, a former FBI agent and founder of the Association of Certified Fraud Examiners, advises that four methods can be taken to prevent and detect internal frauds. The methods are:

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H&M Staff Awarded CFE Credential

The Association of Certified Fraud Examiners (ACFE), the world's leading provider of anti-fraud training and education, recently awarded Scott Kies, Tracy McLaughlin and Kyle McQuaid, and Brian Ritschel, the Certified Fraud Examiner (CFE) credential. In order to become a CFE, an anti-fraud professional must meet a stringent set of criteria and pass a rigorous exam administered by the ACFE. In addition, candidates must meet the ACFE's character, experience, and education requirements and demonstrate knowledge in four areas critical to the fight against fraud: Fraudulent Financial Transactions, Criminology & Ethics, Legal Elements of Fraud and Fraud Investigation.

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Online Marketing Tool – Guidestar

by Heather Jones, Consulting Manager

During rough economic times when the contributions aren't as plentiful as they were in prior years and budgets and staff are being cut at a rapid pace, it is crucial to use all available tools to promote your organization. Did you know that contributors may search for non-profits on guidestar.org, a website that displays non-profit information, including your organization's Form 990?

Guidestar.org allows potential contributors to view your last three Form 990 reports with all of your financial data and program achievements. One area that contributors will notice is the Schedule of Functional Expenses.

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Prevent and Detect Fraud (Cont'd from page 1)

1. **Education.** Employees are the eyes and ears of an organization; if something is amiss, they likely will know about it before management or the auditors. Their education should concentrate on three main areas: WHY fraud occurs, HOW to recognize it, and WHAT to do if they suspect fraud.
2. **Active oversight.** Management needs to understand fraud schemes and to be involved in fraud prevention. Management should review bank statements, reconciliations and understand the revenue and expenditure streams of their organization so that unusual trends or transactions stand out.
3. **Reasonable personnel policies.** Employees are much more likely to steal from organizations when they perceive they are being treated unfairly or think that management or oversight boards are deceptive. Organizations should compensate their employees fairly and treat them well. Otherwise, employees might attempt to right their grievances with not only unproductive behavior, but with fraud and theft, too.
4. **Seek professional assistance.** When an organization has serious questions about fraud prevention and detection, they should seek professional assistance. Just as we do when we consult a doctor when we don't feel well, or a lawyer when we have a legal issue, we should seek professional assistance when questions of fraud arise as well.

These methods, along with on-going risk assessments and a constantly evolving system of internal controls, are helpful in fraud prevention and detection. The elimination of fraud is simply not possible, but with some limited measure, it can be mitigated.


Seeking Assistance? Our consulting division can conduct fraud investigations or provide recommendations for your internal controls. Contact Kyle at (602) 277-9449, ext 304 or kylem@heinfeldmeech.com. 

Guidestar (Cont'd from page 1)

This schedule details out the expenditures that the organization has spent on fundraising efforts, program services and management and general expenses. To ensure accurate reporting on this schedule, it is a good practice to analyze each expenditure and verify if the expense was incurred for the program or for the operations of the organization. Also available to the public on your 990 form is the compensation paid to each officer, trustee and key employee as well as to former officers. This is also your organization's opportunity to explain (in Schedule O) the reasons behind someone's compensation. The Form 990 also gives information about your accounting practices, your implemented policies, your program accomplishments, and the organization's exempt purpose. So the Form 990 is an opportunity to market your organization to the public.

Guidestar.org provides additional free marketing opportunities to get your contributors excited about your purpose and your mission. You can post a mission statement, an impact statement, phone number, website address, videos and photos, funding needs, information about your programs, news about your organization, and so much more. This website also allows the public to write a review or comment about your organization.

Contributors are even afforded the opportunity to make a donation directly to the organization from the website powered by the Network for Good. All of the information discussed above is provided by guidestar.org to the public for free. If more information is desired about a non-profit organization, contributors or entities can purchase additional packages.

According to Guidestar.org, there are 1.8 million tax exempt entities recognized by the I.R.S. So make sure take advantage of the free marketing opportunities available to you and begin using Guidestar to provide your contributors with the tools to make informed decisions about donating to your cause. This is your chance to stand out from the rest!! 


Board Members Wanted?

By Kimberly A. Robinson, CPA, Audit Partner

Finding and training new Board members is time consuming and sometimes impossible. Candidates are sometimes reluctant to consider opportunities because of the increased time demands of board membership as well as the increased time demands of the candidate's own positions. This is especially problematic because the need for board members has never been greater. Finding committed Board members can help not only with financial topics, but also with providing other services that nonprofits need, such as fundraising, support, and advice on organization and public relations.

Begin your search by ensuring that you are attracting the right Board members. Identify skill sets and connections you will need in order to accomplish the vision and plans of your organization. Also, identify what types of diversity are most significant to your work – racial/ethnic, age, socio-economic, geographic, business section, etc.

There are a number of ways to locate and attract Board members, including references from friends, acquaintances, and other Board members, or placing ads in your own newsletters, local newspapers or the alumni newsletter of a local college. Volunteers, donors and clients should be the first place you look – you don't have to sell the organization, since they already know it. You can also contact organizations whose members offer the skills you are looking for in a Board member (e.g., Arizona State Board of Accountancy or State Bar of Arizona). The internet is yet another good resource, with sites like www.boardnetusa.org, www.volunteermatch.org or www.bridgestar.org offering free matching services.

Is your organization in need of a Board member with a financial background? Consider one of Heinfeld, Meech & Co., P.C.'s professionals to serve as one of your Board members! While several of our professionals already serve on boards, there are others that are interested and highly qualified to help your organization. For more information on our professionals, contact Diane at diane@heinfeldmeech.com. 



H&M University Workshops

Information on our workshops, including links to online registration, can be found at www.heinfeldmeech.com/hmu. For more help, contact Susan at 520-742-2611, x107 or hmu@heinfeldmeech.com.

Fair Labor Standards Act (FLSA) Compliance

Dates/Locations:

Tues., March 23rd – Vail (Tucson area)

Wed., March 24th – Mesa (EVIT)

Cost: Clients - \$79; Non-clients - \$99

Registration ends – 3/12/2010

Preventing Fraud – Best Practices for Internal Controls

Dates/Locations:

Tues., May 4th – Vail (Tucson area)

Wed., May 5th – Mesa (EVIT)


Thurs., May 6th – Flagstaff (La Quinta)

Cost: Clients - \$79; Non-clients - \$99


Registration ends – 4/23/10

CFE Credential (Cont'd from page 1)

CFEs have the ability to: Examine data and records to detect and trace fraudulent transactions; interview suspects to obtain information and confessions; write investigation reports, advise clients as to their findings and testify at trial; be well-versed in the law as it relates to fraud and fraud investigations; and understand the underlying factors that motivate individuals to commit fraud.

The ACFE, the world's premier provider of training and education for fraud detection and deterrence, has been identified as "the premier financial sleuthing organization" by *The Wall Street Journal*. For more information about the ACFE, visit www.ACFE.com. 

H&M Announcements

Staff Achievements: The following staff recently received their CPA certifications: Diane Robinson, Staff Consultant, Bethany Howell, Staff Auditor, and Juliane Jedick, Staff Consultant. 

Easing the Pain of an Audit

By Eric S. Taylor, CPA, CGFM, Partner


For many, going through an audit feels like the biggest hassle in the world. They would rather go through a root canal procedure at the dentist than deal with the auditors for a solid week. Audits can be time consuming, disrupting the everyday duties of several of the personnel of the organization being audited. Contrary to popular belief, it is not the auditor's sole mission to stay at the client for long periods of time to disrupt the organization. There are ways to help ease the pain of going through the audit and to help ensure there are minimal interruptions. This helps in making sure the audit is completed timely and could help keep future audit costs to a minimum.

An easier audit starts with completing the proposal process early, well in advance of the audit fieldwork season. This enables you to schedule the audit several months before the fieldwork is to begin. This also provides greater opportunity to schedule an audit at a time that is more convenient for you. The auditors' calendar can fill up quickly and early for the busy audit season. When scheduling the audit it is important to pick a week that has as few scheduling conflicts as possible. If possible, try to schedule audit testwork during a non-payroll processing week.

After the audit fieldwork has been scheduled, it is a good idea to add it to the calendar and to let the staff know the dates of

the audit. Once they are aware of the dates, they can schedule their vacations and time off accordingly. Having a full staff during scheduled fieldwork dates definitely increases audit efficiency.

Approximately a month before the audit, the auditor should send audit questionnaires, commonly referred to as PBC's (Prepared By Clients). These are sent so that you can gather the needed information at your convenience before the auditors arrive. That way, the auditors are not disrupting more of your everyday duties than necessary. When these questionnaires are received, it is a good idea to distribute them as quickly as possible to the appropriate personnel. Audit efficiency will also be helped if the completed questionnaires are collected from the various personnel and provided to the auditors as they arrive. This gives the auditors a chance to look over what has been received and what is still needed. It is important to let the auditors know as early as possible if an audit area is not ready to be audited.

In conclusion, taking simple steps can minimize the headaches and distractions of going through the audit process. A little planning and audit preparation goes a long way in "surviving" an audit. Doing so can also minimize the cost of future audits, by reducing the number of hours auditors spend in the field. With better preparation, you will find that going through an audit is not as painful as you thought. 

About Heinfeld, Meech & Co., P.C.

H&M is an Arizona-based CPA firm with offices in Tucson, Phoenix and Flagstaff that is exclusively dedicated to providing accounting and auditing services to not-for-profit and governmental entities. We offer this free quarterly newsletter as part of our commitment to providing resources and training to Arizona's non-profit business personnel.

For more about Heinfeld, Meech & Co., P.C., please visit our web site at www.heinfeldmeech.com.