

Protect Your Business Against Payroll Fraud

Know These Five Tips To Avoid Costly Fraud Schemes.

Small businesses are often the most vulnerable and easiest targets for occupational fraud and abuse and particularly payroll fraud. Many small businesses think they are less likely to experience insider theft, like payroll fraud, simply because they are small and often foster a friendly, family-like atmosphere. But unless the owner handles all aspects of computing and paying the payroll, there is room for fraud in every small business.

National statistics from the latest report by the Association of Certified Fraud Examiners report some troubling statistics. According to ACFE's Report to the Nation on Occupational Fraud and Abuse:

- More than 39 percent of the cases of fraud occurred in businesses with fewer than 99 employees;
- Payroll fraud schemes accounted for nearly 10 percent of the \$600 billion lost to fraud last year;
- Small businesses pay out an average \$127,500 in fraud losses per incident, while large companies' losses average \$97,000 per scheme.

Among the reasons that small businesses are so vulnerable is their basic lack of accounting controls and small staffs. Small companies often have one employee who writes and signs all company checks, manages and reconciles the bank statement, handles the payroll taxes and keeps the company's books. This puts significant financial control in the hands of one person who may be overworked and lacking specific skills.

Small business owners can learn to recognize payroll fraud techniques and avoid being victimized by following these five tips:

1. Check employee background and criminal records. Don't be complacent about employees in the hiring process. Background and criminal record checks are important if you are placing an employee in charge of finances.

2. Establish quality controls. If you do payroll processing in-house, divide payroll tasks between two trusted employees who are responsible for data input and the review process.
3. Consider outsourcing payroll processing and administration. A reliable, trusted financial or payroll processing advisor is a smart investment to prevent fraud.
4. Choose payroll processing vendors carefully and provide specific instructions. Vendors should be able to demonstrate they have reputable history, provide secure, quality services and offer a range of expertise in bookkeeping, tax and payroll administration. Make sure to provide specific instructions about who is authorized to act on your company's behalf and has access to payroll information.
5. Be cyber security aware. Often small companies don't think about computer security—make sure all payroll information is totally secure and password protected. Don't write passwords down or make them too easy to hack.

Most businesses should be alert to the signs of payroll fraud, but research indicates the signs are often missed for up to a year or more. Red flags that payroll fraud might be in progress include:

Unusual spikes in the number of checks being presented for payment, High federal or state payroll taxes and A payroll provider that is delivering multiple packages during the payroll period.

As a precaution, small businesses should review their bank statements very carefully, check for unfamiliar fees charged by third parties, and check bank statements on-line at least twice a month.

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