



To: Clients, Associates & Friends of Pro@ctive CPA  
From: Mark Wyssbrod, Managing Member  
Date: August 5, 2012  
RE: The Warning Signs to Fraud

Many small businesses owners are very optimistic. It's in their blood! That's why they can be more creative and more efficient than larger organizations. The strengths of small businesses are often understood, while the weaknesses are often overlooked.

One of the weaknesses small businesses face are internal controls. The primary internal control for small business is trust. Trust is hard to verify and when trust is broken it is often too late to correct the abuse. At least once a year I am told of a story about how a trusted bookkeeper or employee stole significant amount of money. The bottom line is small business need better internal controls.

Perhaps its time for you to review your operations and internal controls; this September Update will explore some important points to consider.

Mark W.

### **Warning Signs To Fraud**

Internal controls add a layer of complexity to operations and can seem as if they are interfering with the agility and efficiencies of a small business; as a result, many small businesses eliminate them. However, it is of great importance that small businesses can identify and understand the warning signs of fraud.

- Who commits fraud?
  - Any individual with opportunity, incentive or pressure, rationalization and capability is candidate for committing this crime.
- What are the warning signs fraud may be occurring?
  - Is an employee living beyond their means?
  - Is an employee talking about financial stresses and difficulties?
  - Is there an unusually close relationship with an employee and vendors or customers?
  - Is an employee having issues with control or unwilling to share duties and responsibilities?
  - Is an employee going through a divorce or having family problems?
  - Is an employee irritable, acting suspicious or defensive?
  - Does the employee have addiction problems?
  - Does the business have past employment-related problems with the dismissal of an employee?
  - Do any employees complain about inadequate pay?
  - Do any employees refuse to take vacations?



- Do any employees seem to have excessive pressures from within the organization?
- Do any employees have or have had legal problems?
- Do any employees complain about lack of authority?
- Do any employees have excessive family or peer pressure for success?
- Do any employees have instable life circumstances?

If you answered ‘yes’ to any of these red flags, it does not mean fraud is occurring. However, a ‘yes’ answer would increase the likelihood fraud can occur. Therefore, the organization should keep a watchful eye and review actions by any employee or owner whom the aforementioned questions answer is ‘yes’.

To discuss your organization’s internal controls and how you can reduce the chances of being taken advantage of, please contact us.

## Deadline Reminder

### Important Dates to Remember

- **September 17** - Final Corporation, S-Corporation, Partnership and Trust Tax Return filing deadline for 2011
- **October 1** - Final day to set up SIMPLE retirement plan for 2012
- **October 15** - Final individual tax return filing deadline for 2011
- **December 31** - S-corporation shareholders (owner of 2% or more) must report their employee benefits in their W-2 (i.e. health insurance, dental insurance, HSA contributions, etc.)
- **December 31** - Deadline to set up SEP, 401(k) and other retirement plans. You may need to fund the plans by this date as well

### Financial Ratio Of The Month - Inventory Days

The Inventory Days (ID) is a measurement of the amount of inventory in days you have on hand. If you are a business that works with inventory, this will be an important ratio for you to follow.

$$\text{The ID equals.} \\ \left( \frac{\text{Inventory}}{\text{Cost of Goods Sold}} \right) \times 365$$

Generally speaking the lower the ratio the better (i.e. you are managing inventory effectively). However, too low of a ratio could indicate you do not have enough product on hand to meet demand.

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