

**Dendro Resource Management, Inc.**  
*provides audit, security and consulting services  
designed to raise the theft and fraud prevention stance of the timber industry.*

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**About Us**

With over 23 years' experience in the forest products industry, Dendro Resource Management, Inc. (DRM) is a leader in timber audit services. DRM is committed to supporting the integrity of the forest industry by providing independent analysis and recommendations regarding internal controls as well as actively detecting and documenting theft and fraud incidents. Customer programs can be tailored with your Company's needs in mind. With DRM you are guaranteed independence and confidentiality.

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products and services

**Friends Stealing from Friends**

Most small offices are built on a foundation of trust and family-like values. Employees genuinely like each other and consider each other as friends. Many are related in some way, to each other or to the owner himself. It's hard to imagine that friends would steal from friends. Many small businesses are located in rural communities, a long way from the corruption of the big cities. In this environment, fraud seems far away.

Furthermore, small business owners, focused on growing the company, aren't inclined to encumber the organization with too many policies and procedures. Oftentimes, they don't want to take on the added expense in time and financial resources that a security program could require.

Consequently they aren't prepared when they stumble on security breaches unexpectedly.

This month and next we will look at the impact theft and fraud have on small businesses and present some actions available to small business owners to address the greatest problem areas.

These actions won't "break the bank" but can go a long way in providing some level of fraud deterrence and detection.

Regards,  
Aaron Gilland, CFE  
DRM, Inc.



**Fraud and the Small Business Owner**

A well-established forestry consulting company with over 15 employees in ANYPLACE, USA has served the forestry community for many years. One day, while conducting a routine administrative task, the owner noticed a few odd things on a bank statement. After checking a few other bank statements, he discovered one was missing. He decided to investigate further and went to the bank and requested statements for the past five

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[South Carolina Forestry Association](#)

years. All those statements were reviewed and again a few odd things were noticed. For instance, a check for the amount of \$12,000 was deposited into the bank at \$11,000 and \$1000 cash was issued to the depositor. The depositor was the company's bookkeeper.



The bookkeeper for this company had worked for the company for approximately 12 years. Over time, as she proved her capability and integrity her duties expanded and she was given authority to sign checks. She also acquired a debit card to allow her to pay for incidentals needed around the office. Some of her other duties included depositing checks into the bank (managing accounts receivable) and managing the accounts payable. After the investigation, she was confronted with the evidence that she had stolen approximately \$90,000. She immediately confessed, began crying and saying she did not want to go to jail.

This case occurred within the forestry community, in a small, rural town, far from areas where these types of crimes were experienced or expected. People trusted each other and knew each other. The case was ultimately settled out of court. A substantial portion of the embezzled funds were recovered in return for not



prosecuting the case in a court of law.

The losses due to fraud are disturbing numbers for any business, but for a small to mid-sized company they can be devastating. To make matters worse, small businesses are disproportionately victimized by theft and fraud. Roughly 31% of all occupational fraud cases were committed against small businesses. Perpetrators usually go after what they perceive as easier targets. Too often small businesses don't have the policies, procedures, and anti-fraud controls in place to be successful as deterrents so they make good targets. Victim organizations that had at least some controls in place experienced significantly lower losses and shorter time-to-detection.

### **Four Keys Areas in Fraud Prevention in Small Businesses**

There are four primary areas to consider in assessing your total

fraud prevention program: perpetrators, internal processes and control, early detection and follow-up. We'll start by looking at the perpetrators themselves.

### ***The Perpetrators***

Unfortunately, fraudsters often look pretty much like everyone else. In this case, the perpetrator was seen as a reliable and trustworthy employee of many years. More than 85% of all fraudsters had never been previously charged or convicted of a fraud-related offense. They can't be identified by appearance, by previous reliability or even by prior convictions.

Detection comes first by having processes in place that are well-structured to include adequate controls and division of



responsibility and followed routinely. In this case, this was a small office and the perpetrator had unchecked responsibilities that helped her go undetected for many years. Based on the trust within the office and in the employee, process controls or even

formal audits didn't seem necessary. Without the owner happening to stumble across the problem and having the perseverance to continue investigating the situation, the fraud could have been even worse.

Although not seen here, many fraudsters, especially in small businesses, are caught when others observe certain behaviors that were taken as warning signs of illicit activity. Watch out for are employees living beyond their means and those experiencing financial difficulties. If an employee is unwilling to share duties or has an unusually close relationship with a vendor or customer, those too are red flags that something could be amiss. Even an employee with a "Wheeler-Dealer" attitude can be a problem. Although these red flags don't always indicate fraud activity, they certainly call for caution.

The good news is that awareness is half the battle. As shown here, most fraudsters depend on the fact that small business owners aren't paying attention. Determining your greatest exposure and then taking positive steps, even small ones, to begin to fill the gaps will go a long way in establishing your fraud prevention program.