

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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More About Theft and Small Business

A small forestry consulting business with over 25 employees initiated a company re-organization in order to be ready for anticipated growth. During the process a few accounting discrepancies were discovered. This drove the owner to delve deeper in the books using a CPA to assist in the records review. That review led to the discovery that a high level, long-time employee had been routinely padding his expense account and forging checks written to him for "reimbursements."

Further investigation revealed the fraud had been going on for many years, resulting in a significant loss to the company. Without the reorganization program, the breach might have never been caught. There weren't any processes in place to detect a problem like that.

This month I am wrapping up the discussion about small businesses. Without some type of theft and fraud prevention and detection program, small businesses are targets for fraudulent activity. These recommendations will help the small business owner focus on low cost solutions that will get the best value for the money.

Warm Regards,
Aaron Gilland, CFE
DRM, Inc.



Building a Cost-Effective Anti-Theft Program in a Small Business

Once small business owners realize that they are susceptible to fraud, even from loyal, dedicated workers, they are generally ready to put some type of prevention and detection program in place. The key to such a program lies in prevention to avoid a problem in the first place and early detection to keep losses at a minimum. Even a bare bones prevention and detection program is better than

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none at all. Well-planned programs can go a long way in taking your small business off the fraudster's target list and can be cost effective as well.

Prevention

Generally the first step in a prevention program is to ensure your company has effective internal controls. Employees who perform critical jobs, especially with cash, shouldn't handle the documentation and records of those transactions. Purchasers who work agreements with suppliers shouldn't be entering the contracts into the accounting system. This is pretty much standard operating procedure in large companies but can get tricky in small companies where, at times, there is more work to go around than people to do it.



Through well-structured, well-communicated policies and procedures a business can make a big difference in thwarting fraud. Employees who know the correct fraud detection procedures and are diligent in following those procedures in all cases automatically establish an anti-theft system that monitors itself. It's just good practice and it supports a discipline that becomes part of the culture - the "way we do things around here." In fact, anyone questioning the procedure could be suspect.

Especially look for questionable procedures in the following areas:

- * Operations
- * Sales
- * Executive/Upper Management
- * Customer Service
- * Purchasing

Sales and Executives have fewer cases, but the losses are largest. Customer Service and Purchasing provide potential problems in that they interact with outside contacts and can be convinced to collude to de-fraud the company. Small business owners should scrutinize the processes in these departments to ensure they are clear and there is a paper trail to document activities and cash transactions.

Early Detection

Detection is the second consideration in a fraud prevention program. Many fraud cases are detected by accident. There are three avenues that can be most useful in making detection more formal:

- Tips are by far the most common detection method. Tips catch nearly three times as many frauds as any other form of detection, and most of those tips come from employees. If given a way to do so discretely, such as through hotlines, employees will alert company officials.

- Management reviews are the second most effective way to detect fraud. Small business owners are by necessity very busy and it can be a challenge to pull back from the immediate demands of doing work to make sure you keep the proceeds from your efforts. It's a challenge that's worth pursuing.
- Internal Audits are more effective in larger organizations than in smaller ones, but that shouldn't deter small business owners. Audits should be done on a routine basis to reinforce standard practices and to deter and/or stop detected fraud as soon as possible. At the same time, audits should be conducted periodically on a random, surprise basis so potential fraudsters can't anticipate the schedule and hide their handiwork. Utilizing an outside party to conduct the audit ensures the integrity of the process.



Follow-up

Once a crime has been committed and the perpetrator identified, small business owners have to decide how to respond. Most don't prosecute fraud cases that have been detected and confessed. There can be any number of reasons. Since fraudsters are oftentimes friends, it's difficult to take aggressive action. Prosecution is lengthy and expensive, and chances of recovering the losses diminish with time.

If a company wanted to prosecute, too often small businesses don't have resources and procedures in place to be successful. Many don't have solid employee discipline procedures and, if they do, don't have the level of evidence required for a court hearing. The additional expenses of lawyers and time lost in trial preparation makes formal legal action an unpleasant alternative. The problem is that other employees and even outsiders don't see a tough stance on fraud. By lessening the consequences, the company sends a message that it's worth it to risk being caught.

The Good News

Luckily, any action you take, no matter how small, makes a positive difference in your fraud exposure.

Equally important, many of the best solutions cost very little to implement. Small business owners often overlook the impact that a "by the book" environment can have. Controls like publishing a formal code of conduct and implementing an anti-fraud policy makes a clear and explicit statement against fraudulent and unethical conduct that employees will take seriously.

To overlook the obvious and run the risk of a significant loss to a small business is just bad business.