

# Biggest threats to the assets and inventory of companies

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It is important for corporations to have security measures in place to protect themselves from theft and fraud. Companies often invest millions of dollars in security measures to protect themselves from criminals. The problem is that often the biggest threats to the assets and inventory of companies comes from within. It is estimated that in the United States a third of its employees have stolen from their employers (Wells, 2001). The asset that is most targeted by employees is cash due to the fact that cash is the most valuable and liquid asset a person can get their hands on. It is imperative for companies to have accounting control mechanisms in place to prevent employee theft. A good mechanism that can be used to prevent theft is the fraud tree. The fraud tree can be described as asset misappropriation schemes that are used by employees to target the assets of a company. The two major asset types included in the fraud tree are cash and inventory. Nearly 90% of the frauds occurring in the corporate world are associated with the cash account of the company (Wells, 2001). The major types of cash misappropriation schemes are larceny, fraudulent disbursements and skimming. In term of inventory and assets frauds the most commonly used schemes are misuse and larceny. In the article Enemies Within a fraud scheme example that was described was an account receivable employee that stole over \$200, 000 in cash from a company. The reason that the accounting clerk was able to steal money was because his job function included collection of cash and accounting receivable posting. This fraud could have easily been prevented by the accounting department of the company by creating a clear separation of duties. The account receivable clerk should have never been allowed to deal with any actual cash

transactions. A different employee should have been responsible for the collection of cash payments. Five different subcategories of the fraudulent disbursement branch are billing, payroll, expense disbursement, check tampering, and register disbursement schemes. A billing scheme can be defined as a fraud that attacks the payment system of the firm (Worrels, 2010). The billing scheme involves creating a false entity to which the employee stealing the money sends the payment. The scheme is hard to detect at times because the money being misappropriated seems like a legitimate business expense. The second step of the scheme is creating a false invoice. The last step of the scheme is to obtain approval for the payment of the invoice. The mastermind for these types is typically a person working within the accounting department or person in a position of power such as a manager. A second common fraudulent disbursement scheme is a payroll scheme. A payroll scheme occurs when a company pays for an employee that does not exist. The employee that does not exist is often referred to as a ghost employee. Companies that are involved in money laundering often use this scheme to create false expenses and the fake payroll is cashed out by the person running the scheme. These schemes often occur more often than people think. I once had a family member that was a victim of such a scheme. He was unemployed and went to the unemployment office to ask for benefits after his benefits ran out. When he went to the office the system reflected that he had been working for two years consecutively at a company he worked about 2 years before. The office started an investigation which revealed that the company was running a payroll scheme using employees that had previously worked for the company. A third type of fraudulent

disbursement scheme is the expense reimbursement scheme. The Association of Certified Fraud Examiners (ACFE) defines an expense reimbursement scheme as any scheme in which an employee makes a claim for reimbursement of fictitious or inflated business expenses (Theiia, 2011). The employee can apply the scheme by asking for reimbursement of expenses that never occurred or which they used for personal use instead of official business. The fourth type of fraudulent disbursement scheme is register reimbursement. This is the oldest trick in the book which often occurs in businesses that make lots of cash transactions such as bars. The bartender when the boss is not looking dips his hands into the cash register and takes a personal tip from the owner's money. This scheme is bad for business because the employee that enters into this type of behavior often does it on a recurrent basis. The last type of fraudulent disbursement scheme is check tampering. This scheme involves a person in a high position such as the owner or manager making a check to in their name for personal use and claiming in the accounting books that the check was made for business expenses. The scheme can sometimes be carried out by a low level employee as well that have access to the accounting system of the company. References Theiia. org (2011). Disbursement Schemes Made Easy. The Institute of Internal Auditors. Retrieved July 7, 2011 from <http://www.theiia.org/intAuditor/fraud-findings/2009/disbursement-schemes-made-easy/> Wells, J. (2001). Enemies Within. Journal of Accountancy. Retrieved July 7, 2011 from <http://www.journalofaccountancy.com/Issues/2001/Dec/EnemiesWithin> Worrels. net (2010). Billing Schemes -

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