Agribusiness News

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Fraud Detection and Prevention

Financial fraud and embezzlement is something that occurs in business more than you know. It is important for organizations that undergo external audits know that these engagements are structured to detect material fraud. Fraud occurring at immaterial levels may not be detected during your external audit and is typically the organizations responsibility to detect and prevent. This article will cover the types of fraud, related statistics, along with some basic detection and prevention techniques.

There are three types of fraud that can occur in a business setting:

- ⇒ Misappropriation of assets – this involves the misuse or theft of an organization's assets.
- ⇒ Corruption – this involves those involved in fraud wrongfully using their influence to create a benefit for themselves or others.
- ⇒ Fraudulent Financial Statements – Falsification of an organization's financial statements.

Based on data obtained from the Association of Certified Fraud Examiners (ACFE), misappropriation of assets leads the list of percentage of occurrence of fraud coming in at just under 90% of all detected fraud. Next is corruption at around 22% and fraudulent financial statements occurs the least at 4%. There are cases where more than one type of fraud occurs within the same organization and is why these numbers surpass 100%.

The average dollar loss per fraud type is just the reverse of the percentage of occurrence with the average loss for fraudulent financial statements being the largest by far at $4,100,000 per occurrence, corruption averaging $250,000 per occurrence and misappropriation of assets at $135,000 per occurrence.

Other data shows that the average fraud scheme lasts 18 months prior to detection and the vast majority of the perpetrators are first time offenders and the vast majority of the victims were deemed to have insufficient controls.

Here are some basic detection and prevention techniques that can help organizations with fraud:

- ⇒ Top warning signs of fraud perpetrators are employees that show changes in lifestyle,
- ⇒ Employees that are living beyond their apparent means,
- ⇒ Accounting records that are not kept current by certain employees,
- ⇒ Employees that won't take vacations, and
- ⇒ Employees with personal financial difficulties.

The ACFE found that organizations that used fraud prevention techniques had half the losses those that did not use such techniques. The main prevention techniques used in these organizations were: a fraud hotline, internal audits, surprise audits, fraud awareness/ethics training and internal controls established by management. Fraud hotlines are very effective for fraud prevention as tips from others in the organization is by far the most effective way of initial detection of fraud. Over 40% of initial detection of fraud occurred from tips. This is by far the most effective method of initial fraud detection.

These are some basic things that can be done to help detect and prevent fraud in your organization. For more extensive anti-fraud and internal control measures, please contact us for further details.

About Bergan Paulsen

At Bergan Paulsen, our mission is to provide timely, quality services that exceed the expectations of our clients. As a regional firm specializing in the agribusiness industry, we understand the issues these businesses encounter in their everyday financial planning.

If you would like more specific information on anything in this month's newsletter, please contact Mike Regan or Tony Heiple at 319.294.8000.

Hiring Incentives to Restore Employment (HIRE) Act

The HIRE Act provides employers with a payroll tax exemption equal to the 6.2% share of social security tax on wages paid to qualifying employees, effective for wages paid from March 19, 2010 through December 31, 2010. Since this is a payroll tax exemption, it will not affect the income tax returns, but the exemption will be figured on Form 941.

Qualified employees are those that begin employment with a qualified employer after February 3, 2010, and before January 1, 2011. These individuals must have been unemployed or employed for less than 40 hours during the 60-day period ending on the date such employment begins. They cannot be family members of or related in certain other ways to the employer. They also must certify by a signed affidavit that they have not been employed for more than 40 hours during the 60-day period ending on the date they started employment. This is done on Form W-11.

The exemption does not apply to wages paid to an employee who is hired to replace an existing worker, unless the existing worker terminated employment voluntarily or was terminated for cause. An employer may apply the exemption to wages paid to a rehired employee who is otherwise a qualified employee. The IRS has also stated that work performed as a self-employed individual does not count in determining whether that person has been employed for 40 hours or less during the 60-day period. Therefore, farmers that are hired as seasonal employees may be qualified employees and qualify for the payroll tax exemption.

The website www.irs.gov provides specific questions and answers related to this new tax act.

Small Employer Health Insurance Tax Credit

A new tax credit is available for small employers that purchase health insurance for their employees and contribute at least 50% of the total premium cost. To be a small employer qualifying for this credit you must:

- ⇒ Employ no more than 25 Full-time Equivalent (FTE) employees during the tax year,
- ⇒ Pay annual FTE wages that average no more than $50,000 for the year, and
- ⇒ Have a qualified health insurance plan or arrangement under which you pay at least 50% of the premiums for employees who enroll in the plan.

The credit is initially available for any tax year beginning in 2010, 2011, 2012, or 2013, and the credit is generally 35% of the employer's nonelective contributions toward the employees' health insurance premiums. The credit phases out as company-size and average wages increase. Also, no credit is allowed for premiums paid on behalf of partners, sole proprietors, 2% shareholders of an S corporation, 5% owners of the employer, and dependents of these individuals.

The tax credit is a general business credit and as such, passes through to the partners in a partnership. If a company has more then 10 FTE's or more than $25,000 of average wages, the credit begins to be phased out. There will be a formula to figure out how both phase-outs interact with each other.