

## SMALL BUSINESS FRAUD PREVENTION

undetected fraud. Go to [www.paducahbank.com](http://www.paducahbank.com) for an E-statement enrollment form.

**Internet Banking** • Paducah Bank's free Internet Banking service gives you access to your bank account information 24 hours a day. You can view account balances and account history, transfer funds, pay bills, and view check images even when you are working from home or are out of town. Check images can be viewed for payee and endorsement validity, unknown vendors, unexpected payments, repetitive or duplicate checks to the same parties, and altered deposit slips. In addition, with Internet Banking you can set up multiple users with different levels of access for each individual based on their job function. Go to [www.paducahbank.com](http://www.paducahbank.com) for an Internet Banking application.

**Bank Deposits** • Bank deposits should be made daily by an employee who is not responsible for opening the mail or managing accounts receivable. Funds to be deposited should be kept in a secure manner. This can include a safe or a locked bank deposit bag. In addition, bank deposits should be restricted to only those employees who need access for their job responsibilities.

**Annual Credit Report** • Monitor and review your credit report annually. A centralized service for consumers to request free annual credit reports is available at [www.AnnualCreditReport.com](http://www.AnnualCreditReport.com). It was created by the three nationwide credit reporting agencies to encourage consumers to regularly review their credit reports. Your credit report should be reviewed for newly opened accounts that you do not recognize, creditors you do not recognize that have accessed your credit report to process an application, and addresses shown for you

that are not correct. Any of these items may indicate fraudulent activity.

**Bank Records** • Review and update all bank records such as signature cards, night deposit contracts, and safe deposit box contracts annually or upon any employee departure.

**Security** • Educate employees on the importance of using strong passwords and protecting their passwords. Passwords should not be based on personal information that can be easily guessed. Passwords should not be written down, saved on computers, or shared for any reason; however, they should be changed at regular intervals. In addition, financial records should be kept in a secure location that is not accessible to employees with no need for the information. Consider the use of privacy screens on computers so that other employees or customers cannot view information.

**If You Suspect Employee Fraud** • Report suspicions of employee fraud to the appropriate local law enforcement agency and any financial institution where an affected account is held. Otherwise, the employee is likely to repeat the crime.

Seeking legal counsel prior to firing, disciplining, or approaching an employee suspected of fraud is a wise practice.

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# Fraud Prevention

FOR SMALL BUSINESSES



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## SMALL BUSINESS FRAUD PREVENTION

Most small business owners are not trained to detect fraud. However, business owners can take steps to protect their business from fraud. Is it worth it? Absolutely! Small businesses can implement many fraud deterrents with little or no cost and can often make operations more efficient in the process.

Three common factors exist in the majority of frauds. These factors are:

- **Pressure** – A financial need arises that may cause someone to turn to fraud as a solution.
- **Rationalization** – The belief that everyone else is doing it or the feeling that one is entitled to additional compensation.
- **Perceived Opportunity** – Operations may provide the opportunity to commit the fraud with little chance of being caught.

Paducah Bank understands how overwhelming the concept of fraud prevention may seem. Therefore, we have prepared this brochure of relatively simple procedures to help minimize your risk of employee fraud and increase your awareness of the everyday risks involved.

**Management** • Promoting high employee morale and management ethics is vital to preventing employee fraud. Ethical standards are set by management and are demonstrated by example. If your company normally deals with customers, suppliers, or employees in ways that are unethical, this attitude will filter down to employees and increase the probability of fraud. Becoming proactive in your efforts to prevent fraud can be a very effective step in your anti-fraud program. The more employees perceive that fraud will be caught, the less likely they are to commit it.

**Hiring Practices** • One of the most important steps in preventing employee fraud is hiring the right person. Evaluate each applicant's character as well as job skills. Keep in mind that skills can be taught, but good character cannot. Consider conducting the following before hiring:

- Background Review
- Reference Checks
- Drug Screening
- Past Employment Verification
- Criminal Conviction Checks
- Education or Certification Verification

**Segregation of Duties** • No employee should control a single financial transaction from beginning to end. The best practice would be dividing responsibilities, thereby making it more difficult for a person to steal from you or your business and manipulate your records to cover it up.

### **Job Rotation**

- Make sure other employees are cross-trained in critical areas of business to ensure someone else could perform tasks if the bookkeeper/treasurer is out.
- Assign steps of the accounts payable process to different individuals.

### **Mandatory Vacation**

- Require all employees to take at least one week (consecutive days) of vacation each year.
- Ensure all records are available to others during an employee's vacation so others can perform their duties while they are away.

### **Dual Control**

- Separate receiving, recording, and reconciling duties.
- Someone other than the person writing checks should reconcile bank statements.
- Perform an audit of check stock on a regular basis.
- Implement an approval process for the payment of invoices.
- Send mail to a secure box with multiple individuals having access.
- Mail should be opened under dual control and checks recorded immediately.

### **Red Flags of Fraud**

- You notice an unusual drop in business profits.
- An employee often works late or on the weekends and refuses to take vacations.
- An employee's standard of living changes to a degree that is inexplicable based on their salary.
- Checks or deposits are altered, delayed, or missing.
- There are unexplained cash shortages when balancing.
- You receive numerous complaints from customers of bookkeeping or account errors.
- Business records are disorganized or missing.
- There is a shortage of inventory.

### **Fraud Prevention Tools**

**E-statements** • Paducah Bank offers E-statements for all deposit accounts. Once enrolled, the statement reminder can be e-mailed to you as well as others who are independent of the accounting activities. This independent review from "outside" the accounting system strengthens the internal control structure of your business. Even a brief review of bank account activity greatly reduces an employee's ability to perpetuate an