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IN FOCUS

Fraud threat grows, legal experts say

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Companies across Oakland County and the country are faced with more fraud threats from within their own organizations than ever before, legal officials and investigators say.

A recent report by the Association of Certified Fraud Examiners estimates the typical U.S. business loses up to 6 percent of its annual revenues to fraud. The same study also revealed that of internal or occupational fraud cases, more than 80 percent involve misappropriated corporate cash.

The types of internal fraud ranged from skewed commissions to the development of "dummy" vendors, said Harry Cendrowski, president of Cendrowski Corporate Advisors, a Bloomfield Hills forensic accounting firm.

"There are a lot of businesses that are susceptible to private transactions that are actually cases of fraud," said Cendrowski. "It has been shown that fraud could have been prevented up to 90 percent of the time if there was a good system of internal controls that is actively enforced."

Jeffrey Collins, a partner in the white collar and corporate compliance practice group at Foley & Lardner LLP law firm in Detroit, said in addition to a system of internal controls, a culture of compliance should be created. This culture should be stressed from the top down as a way to prevent internal fraud. He also said top-level management must be held accountable.

"A company cannot turn a blind eye to fraud because if they are aware or have reason to believe fraud is happening, they can be liable for large damages," said Collins, a former U.S. Attorney for the Eastern District of Michigan. "Corporate executives don't wake up one day and just decide to cook the books. It's a progression and with a system of compliance, it can be discovered ahead of time."

Collins, Oakland County Prosecutor David Gorcyca and others will form a panel discussing fraud Nov. 29 at a Cendrowski Corporate Advisors summit at the Michigan State University Management Education Center in Troy.

Specific prevention strategies including limiting check-writing authority to a small circle of employees and requiring two employee


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signatures for accounts payable amounts over a certain dollar figure, said Matthew Leitman, a partner in white-collar criminal defense for Miller, Canfield, Paddock and Stone PLC in Troy. That helps to limit or prevent cases of skimming or inflated check writing.

Leitman said companies also should closely audit corporate credit cards and expense reports with set limits on what can be spent made known companywide.

"Executives should also be aware of relationships between employees and vendors to make sure there are no kickbacks being given," Leitman said.

Larger companies should develop a fraud hotline, Collins said, used to report possible cases anonymously. Fraud-prevention training, particularly for those in financial positions, should also be considered.

Cendrowski said cases of internal fraud are increasing both in dollar amounts and frequency. Often it occurs at the CFO or controller level.

One example is opening a line of credit with a bank, where future corporate deposits can be sent to an individual account. Another scheme involves a dummy vendor that is unlikely to be questioned because the person connected to the vendor is an authority figure.

Fraud-deterrence training is critical to help ensure internal fraud is not costing company thousands - or even millions - of dollars per year. But corporate executives also must ensure that these measures don't adversely affect the day-to-day operations.

"You still need to have the ability to earn money," he said.

The first step in identifying fraud, Collins said, is to contact a lawyer specializing in white-collar crime and defense, but local authorities also should be notified. Any attempt at a coverup such as lying or destroying documents, jeopardizes a company's position.

"More than ever, there is an emphasis on prosecuting the obstruction of justice," said Collins.

■ *Mike Scott is freelance writer*