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## *How to Protect Your Assets*

### **Disrupting the Fraud Triangle**

Manufacturers and distributors are often victims of occupational fraud. In fact, according to the Association of Certified Fraud Examiners (ACFE), manufacturers are among the top four industries targeted by fraudsters in terms of median losses.

What causes people to steal from their employers? The “fraud triangle,” developed decades ago by criminologist Donald Cressey, explains the motivation behind occupational fraud.

#### **Three Components**

The fraud triangle represents the “perfect storm” for unethical colleagues seeking to defraud the company for their own gain:

1. **Financial or emotional pressures:** Life has its ups and downs, but when someone is facing what appears to be an insurmountable problem, he or she might be prone to criminal actions.

For example, gambling debt or drug activity might cause potentially embarrassing financial pressures that the person doesn’t feel comfortable sharing with friends, family, or colleagues. Similarly, living too close to the financial edge—spending too much on lifestyle choices like cars, homes, or vacations—can create pressure.

In addition, a high-pressure business environment can contribute to fraud. If people are compensated or bonused via quota, it’s not unheard of for an employee to create fake accounts or otherwise violate the company’s code of conduct.

2. **Opportunity:** People who would otherwise not engage in fraud might be tempted to do so if an opportunity presents itself in a way that the individual perceives to be undiscoverable. If he or she believes that the fraudulent activities can be conducted in secret, the opportunity might be appealing enough to act upon.
3. **Rationalization:** This is how fraudsters justify their actions. Rationalizations might include the idea that the company is big enough to absorb the loss, that the fraudster “deserves” what he or she is stealing, or that the “noble” nature of the need—paying for an ailing relative’s care, for example—justifies the theft.

#### **Stop, Look, and Listen**

To deter fraud, employers must take a hard look at their corporate environment, their expectations, and their own behavior.

**Create awareness.** Regular ethics training is a must to keep occupational fraud top of mind for the entire employee base. Sharing occupational fraud statistics and the impact of fraud on everyone’s livelihood can disrupt the “opportunity” side of the fraud triangle.

**Add deterrents.** Good internal controls—and a strict policy of following them—create barriers to fraud. Technology can also play a big role. Inventory tracking devices and security protocols can deter physical theft of supplies or finished parts. Document blocking, imbedded tagging, and encryption can stop intellectual property theft.

**Check yourself.** The tone always starts at the top. Owners and executives must set an example with impeccably ethical behavior. Those who flaunt the rules, treat lower-level colleagues with disdain, or are even loose with petty cash or their expense accounts may open the door to others acting similarly.

Don't let your hard-earned assets slip away. Encourage all of your employees, suppliers, and customers to be on the lookout for suspected fraud, and make your zero-tolerance policy well known.

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Interested in fraud-proofing your company? Let's discuss next steps.



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