

## **An exploration of small business restaurants knowledge and skills to prevent fraud**

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### **ABSTRACT**

There is an underlying need for small business restaurant owners in America to understand the risks of fraud in order to help combat these issues if they want to remain a going concern. In recent times, small businesses have accounted for nearly 50% of cases reported to the Association of Fraud Examination. To address the issues associated with small business fraud in the restaurant industry, the researchers examined the knowledge base of small business restaurant owners, within a college town, with respect to asset misappropriation and internal control. Secondly, the researchers explored the same small business restaurant owners' ability to apply the skills necessary to help prevent asset misappropriation, specifically cash, in their business. Findings, conclusions, and recommendations are presented with the implications for business owners, researchers, and other interested parties.

Keywords: fraud, internal controls, restaurants, small business, case study

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## **INTRODUCTION**

Fraud is commonly defined as the intentional deception made for personal gains or to damage another individual. In recent history, many major scale frauds perpetrated by employees have been uncovered; highlighting gaps in companies internal controls. With about \$400 billion in the U.S. annually being lost to fraud, it's not hard to see how big of a problem this is today (Colleen et. Al, 2000). To help combat fraud, Congress passed the Sarbanes-Oxley Act (SOX) in 2002 to ensure that large, publicly traded companies had audited financial statements and documented internal control procedures (Sarbanes, 2002). However, SOX issues mostly address larger companies, leaving a void for small businesses dealing with fraud related activities.

Arguably, small businesses (employing 100 people or less), have even worse fraud problems than their larger counterparts. Most small businesses are not publicly traded, and thus do not follow SOX regulations insuring proper accounting procedures and internal controls. Asset misappropriation is one of the largest fraud problems facing small business due to this void in regulation. Asset misappropriation is when a person uses property of funds that belong to another person for an unauthorized purpose. This type of fraud is more prevalent in small business than any other type of fraud. In fact, the Association for Fraud Examination's (ACFE) identifies that about 90% of all fraud involves asset misappropriation (ACFE, 2010). Currently, during tougher economic times, some companies who have adequate internal controls often let them go to the wayside while trying to keep up profits in order to stay in business (Johnston, 2011). Due to the lack of resources, small businesses often face even a tougher time regulating the accounting procedures and money handling than their larger counterpart businesses. This, in turn, can create even more problems for the small businesses.

## **PURPOSE**

The purpose of this study was to determine if the small business owners, in the college town of Bloomsburg, PA, had the knowledge and skills necessary to prevent and/or detect asset misappropriation in their businesses by their employees. The researchers interviewed business owners to see where they are positioned in dealing with fraud related issues.

## **LITERATURE REVIEW**

### **Small Business Fraud**

What makes fraud in small businesses so concerning is that most of the money stolen from small businesses is of significant or material importance because of their size and subsequent lack of controls. It has been estimated by the ACFE that on average that five percent of annual revenues is lost to fraud and abuse of powers in all businesses. The statistics though, are even worse for small business. The ACFE describes small business as being "... disproportionately victimized by occupational fraud. [Because] these organizations are typically lacking in anti-fraud controls compared to their larger counterparts, which makes them particularly vulnerable to fraud" (ACFE 2010). Joseph T. Wells, the founder of the Association for Fraud Examination (ACFE), agrees with the findings, and explains that limited internal control review (with bank reconciliations and control over cash flows), too much trust, and little to no audits in small business, account for its high proportion of asset misappropriation (Wells,

2003). This statement is exemplified when combined with the fact that through a two year study, the average small business fraud cost \$200,000 per incident, which far exceeded the average of the largest companies (Jackson, 2010).

For the purpose of the study, the researchers use the definition of internal control, as defined by COSO: “A process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations” (The Committee of Sponsoring Organizations of the Treadway Commission).

### **Asset Misappropriation**

An asset misappropriation scheme can be as easy as doing your everyday job, while getting a little extra on the side. Examples are abundant, even in the northeastern Pennsylvania region. A woman working in Luzerne County recently stole nearly \$40,000 in one year from the pizza shop where she worked at. She would pocket customer receipts and cash, afterwards, she would then change the orders in the register with a cash register key. With rationalization of the crime, a motive, and the register key that she was entrusted with, this young lady pulled a scheme that is both simple and quite common (WNEP, 2011). Prevention in this situation could have been as easy as a simple control procedure to review voided transactions in the register at periodic intervals. As stated earlier, many of small companies seem to neither have the knowledge nor the skills to prevent fraud.

The above is an example of the almost infinite ways for employees to steal from their employers, especially with a lack of solid internal controls in place. Employees usually do not have the access or motivation to commit high level fraud, and rather more commonly commit asset misappropriation frauds, specifically those involving cash. Asset misappropriation frauds usually include the following schemes; skimming money (taking it before it enters the accounting system), larceny (taking money after it enters the accounting system), and embezzlement (taking money they are entrusted with).

### **Knowledge and Prevention**

The knowledge, prevention, and implementation of anti-fraud schemes appear to be the biggest issue in small businesses. Nine out of 10 small business frauds directly involve the company’s cash receipts or disbursements, which can be relatively easy to control according to many experts in the field (Wells 2003). Most professionals suggest three low cost tips to stop asset misappropriation before it happens; regular bank reconciliations, better monetary internal controls, and implementing an anonymous tip line/box for employees (Wells 2003; Wells 2005; Parr 2005; Banks 2007).

Bank reconciliations are the easiest and cheapest way to monitor company bank accounts. The owner just needs to receive an unopened bank statement monthly and balance the account from the previous month by comparing disbursements, deposits, and miscellaneous items within the accounting systems with the bank statement. John Dodsworth (2006), CPA and owner of CAMICO Insurance, which provides insurance for CPA’s, says that, “small business owners’ apparent lack of interest in protecting their investments with basic internal financial controls is what is causing their downfall”. This can be seen when companies don’t protect

themselves with something as simple as a bank reconciliation, that most business majors learn how to do in their first year of college.

Better internal controls can consist of making sure the employees you have, do not handle all of the money themselves. Spreading out financial responsibility again could be as easy as having a manager/owner count the registers money at the end of the shift or supervise employees counting money. Watching and documenting employees would take little time out of the work day for a manager/owner who is already at the business, but would provide a great benefit to the company. In a study from government sources in the UK, they suggest that better internal controls would prevent about 77% of workplace fraud, proving the need for them in small business (Parr, 2005).

Lastly, an anonymous tip box would be an important and easy step for employers. In the ACFE's 2010 report to the Nations identified that more than 40% of fraud found was through an anonymous tip (ACFE, 2010). An easy way to set up such a system for small business is through a locked tip box in a company. The cost to the company would be minimal, but potentially save the business a huge sum of money in the future.

### **Need for investigation**

The information provided from literature review, compiled with other statistics on employee theft, compels an active study of small business restaurant owner's knowledge and skills relating to internal controls. The National Public Accountant explains, "... 5 percent of the population will commit fraud regardless of the circumstances, 10 percent of the population will not commit fraud... the remaining 85 percent of the population will commit fraud given certain conditions" (Colleen et al, 2000). These "certain conditions" are arguably almost always apply when small businesses do not have the internal controls in place to deter people from taking easy money.

This study sought to fill a gap in the area of small business fraud in the small town community where there appears to be little research on the issue. The location of the study, Bloomsburg, PA, to the best of the researchers' knowledge, has not had any such study conducted. From a search of literature, one of the first cases of fraud happened over a century in the small college town was documented by a local newspaper in 1896. The Bloomsburg Daily reported that a man ripped off local small businesses by posing as a Secret Service agent and fraudulently stealing their silver coins ("A fraud travels," 1896). With fraud prevalent as far back as over one-hundred years ago, it is easy to see why this topic, and its current trends, needs to be researched today.

To summarize, asset misappropriation affects small business more than medium or large firms because unlike their counterparts, small firms often have only a few employees performing different functions. This limits the segregation of duties control present in many larger firms. The smaller workforce makes the implementation of internal controls such as supervision of employees often unpractical and cost ineffective in the eyes of the business owners. However, these oversights and lack of controls are often why fraud happens. With a little knowledge on how to set up systems to account for money and assets in place though, a smart plan can be set in place to thwart many fraudulent schemes. Therefore, the researchers believe it is necessary for research to be conducted in this area, to determine if; first, the owners of small restaurant businesses have the knowledge to properly identify internal control that should be present in their

business, and secondly; if they have adequate ability to implement the specific procedures to address these threats.

## **RESEARCH QUESTIONS AND VARIABLES**

Research Question One: To what extent is the knowledge base of small business owners, with respect to asset misappropriation, specifically cash, and internal control?

Research Question Two: To what extent do small business owners apply the skills necessary to prevent asset misappropriation, specifically cash, in their business?

The questions used in the study were developed from the COSO framework to determine if there was a general understanding of internal controls and, subsequently, the application of internal controls.

## **DATA AND COLLECTION**

The qualitative study was performed by randomly selecting and interviewing 10 small food service businesses in Bloomsburg's downtown area. The researchers identified the business then requested to speak to an owner or manager. The researchers then explained the benefits of the study, informed the business that all information would be kept confidential, and asked if they would like to be interviewed. If the business consented to an interview, the informed consent form was signed and dated. The interviews were completed between September 27th, 2012 and October 12th, 2012. Interview questions were crucial in determining the themes rooted in the content of the interviews. The interview questionnaires were designed to answer the research questions posed in this study.

Twelve categories of information emerged during the data collection phase of this study. The researcher, through analysis, placed each category within a theme. Two themes emerged from the categories. One theme focused on the owners' limited knowledge of internal controls and one theme focused on the owners' partial implementation of internal controls. Figure 1 illustrates the process the researchers took in organizing the data from twelve categories to the two themes.

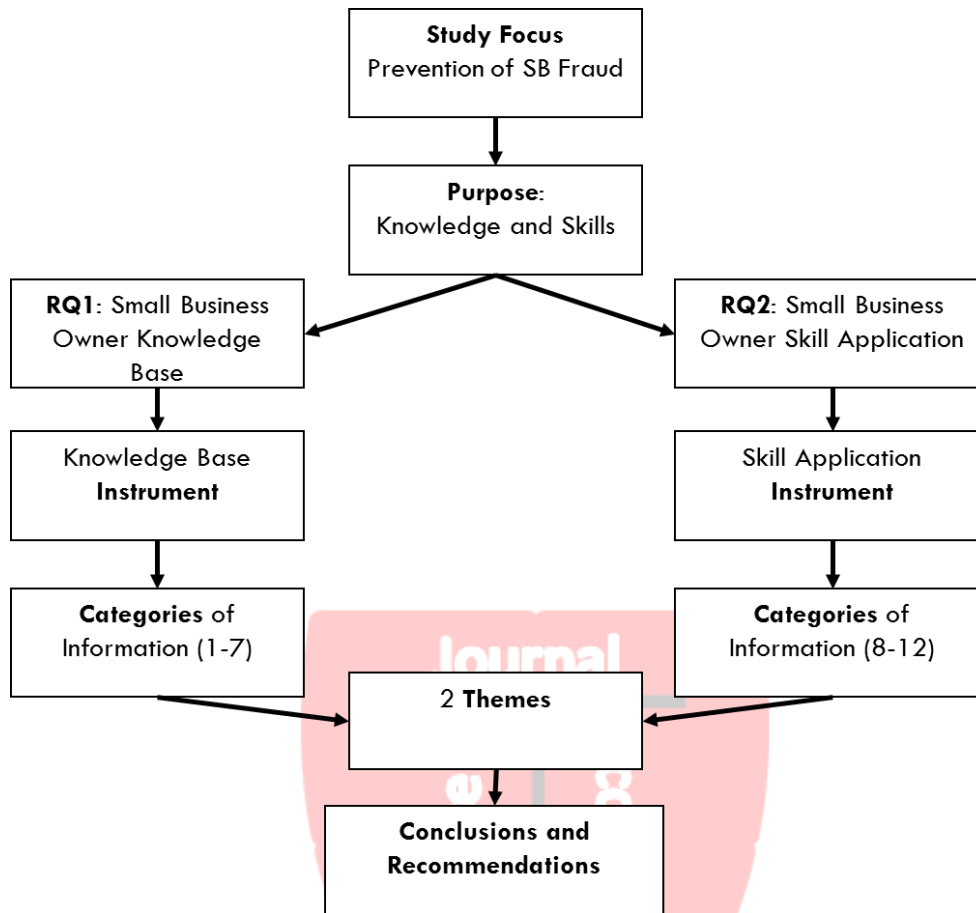


Figure 1. Process Model for Preparing Study Results

## FINDINGS

Research Question One: To what extent is the knowledge base of small business owners, with respect to asset misappropriation, specifically cash, and internal control?

Survey Question 1: What does the term Internal Control mean to you as applied to your business?

### Category 1: Internal Control Not Defined

None of the owners were able to give the correct definition of internal controls as dictated by COSO. One respondent said that internal controls meant “making sure that management follows polices and follows details with customer safety and security.” This owner misunderstood, thinking internal controls affected customers rather than the reporting system of a company and safeguard assets.

Another owner said internal controls meant, “making sure you monitor food costs, supply costs and profit margin to eliminate theft and waste. If you keep your numbers right you are keeping control.” This definition was closer to the true definition as he mentioned some of the things that internal controls can effect, such as different inventory accounts in the business. All of the other owners only mentioned prevention or detection techniques instead of a definition and could not define the actual term internal control.



### **Category 2: Working Knowledge of Some Internal Controls**

Eight of the 10 owners/managers responded to this question by outlining some of their internal controls that they currently use in their business instead of identifying and defining the term internal control. The respondents showed that they had a working knowledge of some internal controls and had the skills to implement these controls.

#### **Summary of SQ1:**

Even though most of the businesses could not define the term internal control, many revealed through their own use of controls that they had a general understanding of the term. Two businesses only had family members working for them, and no paid employees. Of these two, one business was formed less than a month prior to their interview and the other was a retired professor's restaurant that he held as a hobby. Both insisted they had no need for internal controls because of their size and because one person usually worked at a time, making internal controls not cost effective.

Survey Question 2: Are you aware of the prevalence of employee fraud in the small business community?

### **Category 3: Overall Awareness of Employee Fraud**

Nine out of 10 business owners/managers stated that they knew of employee frauds either through experience, the news, or friends. One owner said that small business is, "not a business you can walk away from and expect to run smoothly". The owner mentioned when running a small business, an owner/manager must always be present because of the constant threat of employees stealing. Another business owner stated that every small business owner is aware of the prevalence of employee fraud in small business because of the amount of cash that they handle. "The two biggest enemies are employees and waste" said another local business owner. He said he understands that employees steal cash, give away free food, or over serve customers, and these are the biggest issues his business faces.

### **Category 4: Exception to the Rule**

Three respondents immediately recognized the high amount of fraud within the small business community but were quick to mention that it did not happen at their establishment. They thought they were the exceptions. These three owners believed that their prevention and detection techniques were too good to be overcome by employees. They thought this was attributed to two main factors. First, the owners thought management oversight was simply too great for an employee to steal unnoticed. Second, they thought the Point of Sales (POS) system made it nearly impossible to skim cash or inventory because the business would not make food without an entry on the POS system. The POS system also tracked their inventory counts.

#### **Summary of SQ2:**

Only one business owner/manager surveyed did not know of the prevalence of employee fraud. The business had only been open for about a month and did not have any non-family employees. The owner was expecting to have an outside hire within the next three months. A

few business owner/managers surveyed believed that although fraud occurred in small businesses at an alarming rate, they were immune to victimization. The respondents cited two main reasons for not having employee theft, with the most pronounced reason being management oversight. Most of the other business owners/managers were practical, admitting that although they did not know of any frauds occurring at their establishment, they understood they could not be completely sure that fraud was not occurring.

Survey Question 3: Are you aware of the risks of asset misappropriation, specifically cash, in your line of business?

### **Category 5: Awareness of Risk**

All participants in the survey indicated that they were aware of the risks of assets misappropriation in their business. Many owner/managers stated that their biggest concern was employees giving away free food or skimming sales.

### **Category 6: Business Victimized**

Seven schemes perpetrated on four of the businesses were shared during the interviews. Some were shockingly well thought out as seen in the example of a manager theft below. A sophisticated scheme involved a store manager who knew how the camera system and money deposits in the store safe could work to his advantage. The manager would take money out of the cash register daily and put the money in the store safe prior to deposit at the bank. Above the register was a camera that was continuously monitored by the owner from a remote location. The manager would use the angle of the camera to hide two envelopes when taking money out of the register. One envelope was for the legitimate deposit to the safe, and the other envelope was for the employee to steal. The employee would cover the second envelope with the first and on his way to the safe would throw the second away in the trash where he would retrieve the money at a later time.

All the scams that were perpetrated on these small businesses besides the case above, involved lower level employees. Business owner/managers identified skimming sales, larceny using register money for tips, and collusion between employees as some of the schemes that had already been perpetrated upon their businesses. The most common scheme was a “no sale” in which employees’ gave away free food by either hitting a button to make it look like a sale occurred or by simply giving it away when no one was watching.

### ***Summary of SQ3:***

Most business owner/managers that claimed they did not have frauds perpetrated at their business in the past also understood that their two most stolen assets were their cash and their inventory. Many, as the prevention and monitoring questions will reveal, had already identified ways to thwart schemes in their business before they happened. They also had already prepared ways to detect them before they became a major problem.

Survey Question 4: What do you perceive as the warning signs of fraud related to asset misappropriation in your business?



### **Category 7: Some Use of Detection Techniques**

All of the businesses with employees had some level of detection techniques in place to find ongoing frauds. The most common techniques were reconciliation of the drawer to the register tape and monitoring food cost increases. These business owner/managers stated that they reconciled their cash register drawer to the register tape at the end of each business day.

However, most owners/managers used the drawer count ineffectively. This was due to the fact that drawer counts in all but one restaurant were done daily, after numerous shifts and numerous employees had accessed the drawer. Since the counts only came at the end of the day, no individual employee could be pinpointed as having responsibility over the stolen funds. To mitigate this risk, many of the interviewees alleged that they would then schedule different employees to work with those suspected of stealing in order to find patterns. In actuality, with many of the employees being students, it is unclear how flexible the employers are with changing schedules when money comes up missing.

In some cases, drawer counts were combined with inventory cost monitoring. Due to the combination of techniques, owners/managers have a detection method for the two largest self-identified threats; larceny and skimming. With both detection techniques, larceny from the cash register after a sale occurs and the skimming of sales before a sale occurs can be detected. The owners counts of inventory were often more effective than their counts of the drawer (which mostly occurred once a day) as well. Some other techniques that showed the owners/managers effective control over inventory were inventory counts taken twice a week, gross profit percentage monitored weekly, scrap saved for inventory counts, inventory updates logged on excel spreadsheets and POS systems, and just-in-time inventory application.

#### ***Summary SQ4:***

When asked SQ4, all survey respondents explained detection controls that were in place as an early warning sign of fraud. Restaurants with employees all had some controls in place to try to detect fraud, showing that owners did in fact have some of the necessary knowledge, even if they could not devise a way to prevent fraud before the act. The owner/managers used detection/prevention techniques to show the interviewees that warning signs would be identified if one of their controls created a red flag. However, some controls were incomplete or lacked a compensating control in case the control was circumvented. This showed that while owners had the basis knowledge of internal controls, they needed a more in depth knowledge in order to better protect their assets.

Research Question Two: To what extent do small business owners apply the skills necessary to prevent asset misappropriation, specifically cash, in their business?

Survey Question 5: What steps are you taking to prevent misappropriation (stealing) of cash by your employees?

### **Category 8: Some Prevention Techniques**

All business owner/managers questioned had some prevention techniques in place. Most techniques were effective, but many lacked certain factors to assure they were working properly. Again, activities such as register tape to drawer balance counts were often performed, but only

once a day, after numerous shifts and many different employees handled the cash. These owner/managers pointed out that if they found any money missing, they would revisit their cameras.

In another situation a seemingly effective control was actually ineffective when interviewing reviewing void and refund policies. One owner insisted that employees did not do voids at his business only because it was a policy to not void anything. He believed simply informing his employees that they could not void, without actually taking the function off the cash register, would prevent this type of fraud. The employees though, were not restricted by access codes or keys to the register to not perform voids or refunds. The employees could overwrite the controls by simply performing voids anyway. Further, the owner never reconciled the register tape to drawer and would never see voids that were performed. This oversight of two controls not only made his prevention of false refunds/voids insufficient, but also showed that his controls over monitoring cash were not up to par.

From the researchers' observation, businesses had on average six different prevention techniques in place. Many prevention techniques were often a detection technique that when known to employees, served as a deterrence. Here are some of the more common and some of the more advanced prevention methods (parentheses indicate number of business owner/managers calming to perform these techniques):

1. Manager/supervisor always present for deterrence (ten)
2. Reconciling register tape to drawer counts (eight)
3. Inventory counts or food costs monitored (six)
4. Cameras for deterrence (four)
5. No voids/refunds by employees (three )
6. Individual employee cash register codes (two)
7. Rotating cash register duties (one)
8. Review of the Profit and Loss statements (one)
9. Segregation of duties for register based upon job description (one)

### **Category 9: Supervision Techniques**

Many of the prevention techniques businesses owner/managers provided were actually monitoring techniques. The researchers noted that once these procedures became known to the staff they also served as prevention techniques. This is why many of the owner/managers listed them as prevention and not monitoring. Also, general lack of knowledge of the difference between controls may have been another factor in receiving overlapping techniques.

### ***Summary of SQ5:***

Many companies had numerous monitoring and prevention techniques. After reviewing the interviews, it became apparent that almost all of the business owner/managers were using their monitoring techniques as prevention techniques. Owner/mangers claimed by informing their employees of their monitoring procedures they essential were doubling also as a prevention technique because it deterred employees from attempting anything to harm the business.

Survey Question 6: What steps are you taking to monitor cash in your business?

### **Category 10: Prevention Techniques**

During the interviews, many owners re-listed their prevention methods in the monitoring of cash question. This may be because they have more emphasis placed on prevention than monitoring. Less monitoring procedures can be attributed to many reasons, including the cost of monitoring cash. The majority of ways to increase monitoring involve increasing the time management is present at the business or viewing of surveillance cameras. Many of the owner/managers interviewed were already working every day and used their presence at the business as the main way to monitor cash. All relisted their prevention techniques involving drawer counts and management presence. Other ways they monitor cash are by:

1. Looking at profit margins and giving owners reports (three)
2. Having a point of sales system (two)
3. Relying on luck or “senses” to find discrepancies (two)
4. Having a daily deposit that matches the register counts (two)

One business in particular had an elaborate way of monitoring sales year to year. This business kept an excel workbook that listed the sales of every day by the hour. With this, the owner combined data on weather and ran her own analysis of how weather patterns affected customer purchasing habits. From the data, she would increase or decrease staffing and also calculate the average amount of money she expected to collect in a day. She claims to use the system to monitor the company cash receipts for skimming because she can accurately predict expected cash flows.

#### ***Summary of SQ 6:***

Many responses to this question were similar to prevention techniques. The reason is because many business owner/managers use their monitoring and detection techniques as prevention. Owners often inform employees of what they do to detect fraud, and use fear as a way of preventing theft. Monitoring was also less prevalent in the number of methods used.

Survey Question 7: What ways are you involving your employees in helping to prevent asset misappropriation (stealing) of cash in your business?

### **Category 11: Lack of Employee Involvement**

None of the employers identified ways in which they actively engaged employees to help them detect fraud besides through employee trust. No businesses owner/managers had implemented a tip box in which employees could submit tips about potential frauds or concerns about the company. A tip box is considered one of the most cost effective ways to detect fraud. Conversely, all of the owners with employees admitted that they did believe that anonymous tip boxes would be an effective way to detect fraud within their business.

### **Category 12: Too Much Trust**

Trust in employees and supervisors was the most common way that owner/managers said they involved their employees. By giving employees trust and talking with them, owners felt that their employees would be less likely to steal. “My employees get upset when they see

something wrong and would say something,” said one owner. Another added, “once employees get to know you, it makes it harder for them to steal from you.” This trust usually was a blanket statement that owner/managers used to talk about all employees, not just those in management positions. One owner stated that because frauds were perpetrated by management in the past, he actually believed the opposite. Those he gave the most trust to (store managers) were the most likely to steal from him.

***Summary SQ7:***

Owners responded to this question by stating that they have trusted employees who would not steal from them. Their trust was based on personal communications with employees. Another trend involving employees seemed to be the family type atmosphere that these small businesses harbor. Many said their businesses were like extended families, and by involving employees into their family life, they were less likely to steal and more likely to report theft. Some owner/managers had parties with co-workers, rewarded staff with limo rides to basketball games, and gave out short term loans for school supplies and books. By making employees feel as if they are a part of the business and have too much to lose if they are caught, these owners believe that employees will have no motivation to steal.

***Theme 1: Limited Knowledge of Internal Controls***

Small business owner/managers were generally aware of the risk of employee theft/fraud in their business. Many of the owners understood the risks as a small business and have a general basis of knowledge in employee fraud prevention. All owner/managers could identify the basic concepts of internal controls, were aware of the threat of fraud, and could identify multiple ways that would indicate fraud was being perpetrated on their business. Only one business with employees was found to not have even minimal internal controls. However, most owners could not define internal control. All of the owner/managers were surprised when it was revealed by the interviewers that small businesses were disproportionately victimized by employee fraud according to the most recent ACFE study (ACFE, 2012).

***Theme 2: Partial Implementation of Internal Controls***

All but one company with employees had some controls necessary to help prevent fraud. Through their drawer counts and inventory monitoring, the businesses reduced the general risks of skimming and larceny to their businesses. These basic controls were used when performing analysis to determine if basic internal controls were met. In more than half of the cases, internal controls preventing skimming and larceny were combined to prevent both types of fraud. For example, owner/managers not only reconciled the cash receipts, but also counted inventory to search for skimming. Many owner/managers went further and listed on average six other prevention techniques they were implementing at their store to help prevent fraud.

Some of the businesses, however, had inadequate controls that could be circumvented. For example, some drawer counts were only performed at day's end, not after every shift in half of the businesses surveyed. This breakdown in controls left the door open for skimming because no single employee could be targeted as the culprit. Also, only two businesses had point of sales systems that required employees to input user codes. Other existing drawers could be tampered

with by someone who does not even have register access. Often employee positions to only work the register were not in place and any employee could tamper with the drawer. Overall, the controls that were in place in most businesses were mostly complete or adequate in protecting company assets against most types of employee fraud.

## CONCLUSIONS

The survey questions devised for the first research question dealt with the underlying knowledge owners have of internal controls and the COSO framework. The study showed that no owners could define internal controls, but all companies with employees had a working knowledge of what the term “internal controls” meant. Further questioning showed many of the businesses owner/managers had heard through the news or other business owners about the prevalence of employee fraud in the small business community. Three respondents though, verbalized their thoughts that they were the exception to the average small business, and that they would not be defrauded. Other survey questions within the first research question showed that businesses owner/managers were aware of their risks for fraud, and a few were victimized in the past. A total of seven schemes were revealed to the researchers as being perpetrated on the businesses interviewed. Because of this victimization, business owner/managers knowledge about prevention and detection techniques seemed enhanced. When asked about detection techniques, many had basic techniques, and some even had more advanced analytical techniques like monitoring gross profit percentages and using excel spreadsheets to log and review inventory trends.

The second research question revolved around applying the skills that they had said they implemented or had a working knowledge of its use. The results showed that many owners used their knowledge to implement controls in their businesses. Businesses with employees had at least four controls that they could describe to the researchers. Many were monitoring techniques that revolved around cash and inventory thefts. The survey also showed that employers often do not involve their employees in anti-fraud activities, but overall trust that their employees would never commit any crimes against the business.

The businesses in the study had more controls in place when compared to the AFCE Report to the Nations for both 2010 and 2012 showing the consistent defrauding of businesses under 100 employees. The results of this study somewhat contradict the general outlook on small business internal controls. When reviewing the ACFE Report to the Nation(s) over the past few years, small businesses are often thought of as places with limited and relaxed internal controls, but this is not the case with the businesses the researchers interviewed. Contrary to the research performed by the ACFE, these businesses did not seem to lack many basic anti-fraud controls such as drawer counts, reconciliations, supervision, monitoring of analytics and video monitoring (ACFE, 2010). Though many of these controls were not effective enough to pinpoint exact employees who had committed fraud (as per interviews), many were effective enough that they would uncover that something was wrong within their business. Therefore, it can be seen that the small sample of businesses in the Bloomsburg area seem to be a deviation from the national profile of small business controls.

There are many factors that attributed to these above average results. First, since Bloomsburg is a college town, and many small businesses rely on college students as their work force. These businesses get scammed more often and have improved their controls over time as a result. This may account for the relatively good controls that were found to be in place.



Second, the media today often informs the public more about frauds that occur in businesses because of the Enron, WorldCom, and other scandals that rocked the country in 2002. Since these stories were revealed, there has been a great public interest in fraud which has caused fraud coverage in the media to increase. As a result, many business owners may now be more aware of common schemes that are perpetrated on in small businesses.

Lastly, most of the owners the researchers have interviewed have been in the food business for years or acquired their business from an owner who had been involved for years. This means that they have experienced what internal controls are necessary to keep a business running profitable and fraud free for many years. Because of the controls inherited through experience or the acquisition of a current business, the restaurants interviewed have had a long history with managing employees and minimizing employee theft successfully.

## **RECOMMENDATIONS**

Due to the difference between the results of this study and the information published about the prevalence of working internal controls in small business, the article concludes with a recommendation for further research in the field and for the development of guidelines for small businesses. The researchers offer suggestions to other researchers, students, and the small business community in order to strengthen knowledge and implementation on internal controls.

One of the surprising elements of this study involved the proper controls most small businesses with employees seeming had. More research in the field of internal controls in small businesses would be beneficial to understanding why the results in this study vary from the ACFE findings. Other studies show that many small businesses lack basic internal controls and, as a result, they are victims of fraud more often for longer periods of time and for higher dollar values than larger companies. The results of this study, although not specific about past fraud, seem to differ greatly from the profile set out by many fraud professionals. It would be beneficial to see if other small businesses around different college towns also have a higher level of internal controls because of the environment with a majority of employees around college age (18-22).

Secondly, existing guidelines that could help small businesses create effective internal control systems should be more readily available and distributed to small businesses. Even with the many good controls found in this study, improvement is essential to the changing environment of employee fraud. Integration of these programs into existing small business communities, clubs, and organizations would be an effective way to start more small businesses on the path to creating an effective internal control system specific to their needs.

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