



Summer Vacation and Fraud

As we enter the summer months, you may consider monitoring your accounting personnel vacation schedules. Having a job rotation program or mandatory vacation for accounting personnel and others in management is a key control to preventing fraud, and is one that is simple to implement. Articles have pointed to the benefits of vacation for employees related to improved health, employee morale, and overall happiness. While these will benefit your Organization by having a happy, productive employee, mandatory vacations can also help to detect the occurrence of fraud.

The Association of Certified Fraud Examiners reports that when comparing the median loss due to fraud between companies that did and did not have job rotation or mandatory vacations at the time the fraud occurred, the losses were \$100,000 with this control compared to \$188,000 without this control. That is almost a 50% reduction of fraud losses just by requiring vacation for your employees. Similarly, the duration of the fraud occurring decreased from 18 months to 12 months when companies had this control in place.

If an employee at your Organization is committing fraud, one of the easiest ways to detect this is to have someone else perform their duties while they are on vacation. This can identify any unusual transactions, incorrect payroll data being processed, or vendors that do not appear legitimate. While it is great to have a loyal employee who cares about your Organization, vacations must be required so that there is interruption to the transactions processed each day. If you have a loyal employee who never takes a day off, consider requiring them to take vacation for a one or two week period, with the days being taken consecutively and not distributed throughout the year.

While there are other more significant controls that can be implemented to reduce fraud, including segregation of duties, monitoring and reviewing by management, fraud trainings, and hotlines, implementing mandatory vacations may be the least costly of these methods and will increase your prevention of fraud.

Source of ACFE Statistics: 2010 Global Fraud Study – Report to the Nations on Occupational Fraud and Abuse.

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