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## Steps to Surviving Fraud

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It is not the job of a turnaround professional to find or investigate fraud, but sometimes we as practitioners find actual fraud as we dig through a new client's books and records. Once fraud is found, forensic auditors and law enforcement are best equipped to deal with the fraud itself – but the turnaround professional is front and center dealing with the fall-out. At first, you may not actually know if the company will survive, but regardless of what happens, you will need to re-establish credibility with, well, everybody – here is how to do it.

### **Get rid of everybody that was involved.**

You need to immediately send a message to all stakeholders that the company is willing to do whatever it takes to clean up this mess. You are going to have some doubts on this point, specifically if this person or persons have a long term employment history or may even be senior management. No stakeholder – not a lender, customer, creditor, or employee – is going to think you are serious if the perpetrators are still working at the company. Do it on your time, but do it as soon as humanly possible – you and the team will figure out how to get the work done.

And, when I mean everyone involved, I mean everyone.

- If the owner of the company is involved in a fraud scheme, they will have to be removed just as well. In fact, it may make sense even if they weren't directly involved in the fraud – if the culture of the company extends from the Executive Suite in a fashion that this activity has become ingrained, then a change at the top is needed as well.
- If there were people that knew the fraud was on-going and did nothing to report or stop it, then those people must go as well. In this instance, looking the other way is as bad as committing the fraud.

Nothing less will convince stakeholders that you are serious about fixing the issue at the company.

### **Clean up the numbers**

You need to take immediate action to implement an accurate accounting system – all stakeholders are going to be aware of what has happened, and an undeniably accurate and trustworthy system must take its place. Depending on the circumstances and how deep the fraud went, you could be down a few people in the Finance / Accounting department. While the guideline to fixing this sort of issue is pretty easy, the implementation can be difficult, expensive, and time-consuming:

- Hire new people that can be relied on to replace those that can't. This may include using your firm's own staff or a competent staffing agency.
- Fix the system that got you in trouble - the system must be fixed. Most of the time the problem is not the accounting software package (there some packages that are not my

favorite), but the internal controls surrounding that package. Set up the proper checks and balances to supplement the accounting package and don't forget about the separation of duties.

- Auditing is the key to making sure the new system is followed. I always say that internal controls are meant to keep honest people honest, and to catch those that intend to defraud you as quickly as possible.

Stakeholders must be able to rely on the financial statements to make credit, lending and investment decisions, so it is vitally important the numbers are not only accurate, but perceived that way as well.

### **Communicate with key Stakeholders**

Action without the communication can cause stakeholders to become frustrated and derail any chance at a successful turnaround. Secured creditors are already feeling betrayed and could feel both animosity towards the company and potentially a little fear for their own employment. Unsecured vendors have provided goods and services and now have concerns that they may get paid – this also causes some anxiety for both their company and their own welfare. And finally, employees may feel as if they have lost security in their own careers as the employer is floundering due to this fraud. Communication begins the healing process, and it is important to not only create a recovery plan but to share that plan – with measurements that the stakeholders can follow – to gain back the company's credibility. Be consistent in your messaging and deliver on what you say.

### **Understand this could take a while....**

Understand it's a long and winding road back to the good graces of all stakeholders after a fraud event. Resentment, distrust, animosity, fear, loathing and any other feeling you can muster – you must overcome all of these for a successful outcome. It will take a while, but these steps start your journey.

*Joe Meddings, CTP is the President and CEO of Hollis Meddings Group, a strategic advisory firm that assists companies that are experiencing operational or financial distress. Hollis Meddings Group specializes in family or closely held organizations with \$10 million to \$500 million in revenues. Joe is a member of the Turnaround Management Association ("TMA"), and sits on several Boards including the Connecticut Chapter of the TMA.*