

Davis & Company, CPA's, CVA's

Business Fraud

Fraud continues to be a concern for most businesses. Any business owner that believes their business is immune to fraud is not being honest to their company. Fraud occurs at nearly every business and it is estimated that nearly 5% of all revenue is lost to fraud.

There is no reasonable way to prevent fraud. Instead, fraud can only be deterred. Safeguards can be put into place that will help mitigate the conditions and opportunity for fraud to occur. Further, controls can also be initiated that will help detect fraud once it has occurred.

The 2006 ACFE Report to the Nation suggests that most occupational frauds are more likely to be detected by a tip than by other means such as internal audits, external audits or internal controls. Therefore the use of confidential hotlines and other reporting mechanisms continue to be useful as a fraud detection tool.

The 2006 ACFE Report to the Nation also confirms that small companies under 100 employees continue to be the largest target for fraudsters suffering a median loss of \$190,000 per fraud occurrence. One reason small businesses suffer such high fraud losses are that they generally do a poor job of proactively detecting fraud.

Small businesses can fight back, though. Some very simple suggestions to help mitigate the opportunity for fraud include the following ideas.

1. Identify likely areas where fraud can occur.
2. Initiate a confidential fraud tip hot line.
3. Have all bank statements reconciled timely by someone independent of the check writing or deposit functions.
4. Do not teach employees how to commit fraud. I have seen this time and again where an owner removes cash or assets from the company with the employee's full knowledge.
5. Aggressively pursue legal remedies against all perpetrators of fraud.

If you would like a full power point presentation regarding the 2006 ACFE Report to the Nation, please click the link below to our website. The presentation is free of charge as a public service of ACFE.