

Basic Fraud Prevention for Every Business Owner

By Jere Batten, CPA, CFE

Don't be in denial about the potential for fraud because of the personal feelings involved. Many small business employees are long time friends or family members, no one wants to think a friend or family member might steal from them. But, there are circumstances that can drive even the most honest person to commit fraud. All types of fraud have three elements in common: opportunity (or the perception of opportunity), a need for money (often because of a problem that cannot be shared with others), and the ability to rationalize the crime.

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The following six steps offer important protection against fraud.

1. *Eliminate opportunity.*

A business creates the opportunity for fraud when it does not have basic checks and balances in place. Make sure you have rudimentary controls in place; you might be surprised at how many businesses don't.

2. *Maintain oversight.*

Use your financial statements as an early warning system for fraud. Know how to read your financial statements and what signs of fraud look like. Protect your assets by staying involved in your business.

3. *Lead by example.*

Model the ethical, honest behavior you want from others. A boss that skims cash, underreports income, or engages in other questionable business tactics makes it easy for employees to rationalize committing fraud.

4. *Be careful in hiring.*

Interview carefully, check references and conduct background checks.

5. *Be approachable.*

Make sure your employees feel appreciated for their contribution to the business and feel like they can talk to you if they have a problem.

6. *State the obvious.*

Have a written policy that fraud is unacceptable. Everyone in the company has a vested interest in preventing fraud. Educate employees about fraud, the effect it has on the business and them. Have a procedure that helps employees feel comfortable reporting suspicions of fraud.