


## Inexpensive, But Effective Fraud Prevention

Small practices and businesses are more vulnerable to fraud and have more to lose than their corporate cousins, but a few inexpensive changes can do much to prevent workplace fraud.

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Robert Kardell, a fraud prevention lecturer, forensic accountant and former special agent with the FBI, tells small firm owners to consider this: The median loss suffered by organizations with fewer than 100 employees was \$190,000 per scheme, which is higher than the median loss in even the largest companies, according to the Association of Certified Fraud Examiners (ACFE). Kardell says small businesses suffer 1,000 times the loss per employee than large companies.

Kardell, who is a managing consultant with BKD, LLP Forensics & Dispute Consulting in Omaha, Neb., says small firms can implement three inexpensive and effective fraud prevention techniques.

- Encourage employees to report suspicious behavior. Once a fraud is uncovered, Kardell often finds that some employees were suspicious, but didn't want to "rock the boat" by going public. An anonymous tip line, e-mail reporting system or even a simple drop box at the boss' office door gives employees a safe way to report their concerns. Kardell said most frauds are uncovered by accident or through employee tips. Fraud hotlines limit losses as well. According to the ACFE's 2006 Report to the Nation on Occupational Fraud and Abuse ([www.acfe.com/fraud/report.asp](http://www.acfe.com/fraud/report.asp)), organizations with hotlines had a median loss of \$100,000 per scheme and detected their frauds within 15 months of inception. By contrast, organizations without hotlines suffered twice the median loss — \$200,000 — and frauds took 24 months to detect.
- Bring fraud education to the workplace. Kardell doesn't go into the specifics but describes the "symptoms" — an employee who is overly protective of his work, who comes in at odd hours or suddenly drives a fancy car (invariably bought with 'inherited' money). "It's interesting when you give fraud awareness talks to see the lights go on over people's heads," Kardell says. Fraud education has many effects: For one, fraudsters are less likely to commit wrongdoing if they know they're being watched, and for another thing, "You've now got everyone looking out for fraud, so management doesn't have to be everywhere at once."
- Conduct surprise audits. Management can examine areas of the business that are susceptible to fraud — travel expense reimbursement for example — by letting the employees know that at some point a surprise audit will be done of expense reports. Regular audits are helpful, of course, but Kardell has seen fraudsters take a break from their fraudulent activities if they know documents are going to be examined at a certain time of year. The ACFE report says surprise audits are effective at preventing fraud, but not commonly used.

It's important for firm management to send the message that fraud prevention covers everyone at the company, from top to bottom. "Let them see that you're all in the same boat, that you're all in it together." If employees are the only ones being reviewed, management runs the risk of inadvertently creating more fraud because employees begin to

resent the company.

Small practices and firms can also examine the internal control policies they already have in place. Oftentimes, they look good on paper, but don't work well in reality, Kardell says. For example, one company required two signatures on checks. The problem was that signer No. 1 had a master key that unlocked signer No. 2's desk, where he kept his signature stamp.

Separation of duties can be a challenge in small businesses too. While the policy may state that the same person who makes bank deposits should not be the same one reconciling the bank account, the rule can go out the window in case of extended absences, such as a maternity leave.

Kardell says some small business owners are reluctant to implement fraud prevention techniques if they haven't experienced problems in the past. "All the statistics show that fraud most likely is going to happen at some point," he says. An ACFE study estimates that companies lose 5 percent of their annual gross revenues to fraud. That's why Kardell recommends spending 2 or 3 percent of a company's gross revenues on fraud prevention.

Fraud can't be stopped completely. "It's always going to happen, but the best that you can do is come up with a good plan to deal with it when it happens, have some good fraud training and try to prevent it in the first place," Kardell says.

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