



Prevent & Detect Fraud Before It's Too Late

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When it comes to fraud and embezzlement, many Los Angeles and Southern California business executives may believe that this is not something that could ever happen to their businesses. "I know my employees," they tell themselves, "and they are honest. They would never steal from me or my business."

However, the truth is that occupational fraud and embezzlement can happen to any business, and embezzlers often turn out to be long-time, trusted employees whom business owners never suspected would steal from them. A difficult economy like we've been experiencing for some time now also increases the risk of fraud, as some employees facing financial pressures will resort to embezzlement to help get them out of financial trouble.

Sobering Fraud Stats

The Association of Certified Fraud Examiners (ACFE) has published some sobering statistics regarding fraud in its annual Report to the Nations. Organizations around the world are losing five percent of their revenues to fraud, states the report, with median business losses due to fraud of \$140,000. Almost half of businesses that are victimized by fraud do not recover any losses, and the smallest organizations in the ACFE study suffered the largest median losses.

The vast majority of these frauds are the misappropriation of assets, and smaller businesses are more susceptible to this type of fraud since they are less likely to have the resources to prevent and detect it. Small and medium-sized businesses face a number of different challenges when it comes to preventing occupational fraud, including:

- Cost-effectively combating fraud when small staffs make it difficult to utilize common internal controls like segregation of duties and other forms of internal checks and balances.
- Detecting fraud in the absence of staff dedicated to doing so.
- Recovering losses from fraud.

Even businesses that have annual financial audits conducted cannot be sure that these audits will uncover fraud and embezzlement. And the costs of fraud can go far beyond the value of the assets misappropriated. For example:

- Unexpected cash shortages can result in delayed payments to vendors and subsequent delays in shipments of products and materials by those vendors.
- Inventory shortages may result in the inability to fulfill orders and the potential loss of customers.
- There can be disruption to the business while the extent of the fraud is investigated as well as due to the suspension or termination of those suspected to be responsible.
- The discovery of fraud could result in a loss of confidence in management by owners, investors and lenders, making it difficult to obtain additional investment or credit.

How to Combat and Detect Fraud

One of the best ways small and medium-sized businesses can combat fraud is to work with an objective, independent advisor who can identify the specific fraud risks the company may be facing. With small staffs, it can be difficult to implement many of the fraud prevention controls that are standard in large companies. However, there are a number of processes and controls an experienced outsourced CFO services provider can help implement to minimize employees' opportunities to misappropriate cash, inventory and other assets.

Even among larger businesses, there is often too little use of data analysis and performance metrics to properly identify fraud. An outsourced CFO services provider can help businesses of all sizes implement management dashboards and other reporting and analysis tools that can identify fraud early on so the business can take steps to stop fraud in its tracks before serious financial damage occurs. For example, a good cash management system, properly and diligently monitored, will raise alarms if unauthorized cash transactions occur.

The benefits of implementing fraud detection, control and monitoring systems for a business are many, including:

- Early detection of any fraud attempts so they can be stopped immediately.
- Safeguarding the assets of the business.
- Improved investor/lender confidence in management's control over the assets of the business.
- The ability to produce evidence to support any fraud claims against perpetrators.

In addition, a regular review of business performance metrics will not only assist in fraud detection, but also aid in overall management of the business.

Concluding Thoughts

If you think internal fraud or embezzlement couldn't happen to your business, think again. Small and medium-sized businesses are more susceptible to fraud since they are less likely to have the resources to prevent and detect it. An outsourced CFO services provider can identify the specific fraud risks your company may be facing and help you implement processes and controls to minimize your employees' opportunities to misappropriate cash, inventory and other assets. Doing so will provide early detection of any fraud attempts, thus helping safeguard the assets and the future of your business.

You may also be interested in our related article that recommends a number of steps that can be taken to prevent fraud losses:

[Preventing Fraud: 12 Recommendations for People, Processes & Technology](#)

About CFO Edge

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