



## **FRAUD IN SMALL BUSINESSES**

The Association of Certified Fraud Examiners recently released its 2006 Report to the Nation on Occupational Fraud and Abuse.

Not surprisingly, one of the key findings was that small businesses continue to suffer disproportionate fraud losses. The median loss suffered by organizations with fewer than 100 employees was \$190,000 per scheme, higher than the median loss in even the largest organizations.

The most common occupational frauds in small businesses, in descending order, are:

- employees fraudulently writing company checks
- revenue skimming
- processing fraudulent invoices

Check tampering frequently occurs when one individual has access to the checkbook and also has responsibility for recording expenditures and/or reconciling the company bank statement. This situation is common in small businesses where limited personnel can make it difficult to segregate duties. However, this lack of separate responsibilities must be avoided.

Two ways for a small business owner or chief executive to evade check tampering is to insist upon signing all checks personally, or having an unopened copy of the company's bank statement sent to their residence so that it can be reviewed independently and compared to the company's books and records.

Revenue skimming is the theft of unrecorded sales. It is most likely to be committed by employees in the accounting department (over 40% of skimming cases), by executive/upper management (23%), and by sales and customer service employees (27%) who would be in the best position to make unrecorded sales of goods or services. Careful attention to cash receipts and inventory accounting controls is essential in this area.

Among fraudulent disbursements, billing or invoicing schemes are the most common and are associated with the largest small business losses. Over half of all billing schemes are committed by accounting personnel or executive/upper management. Again, the contemplation and placement of anti-fraud controls over billing and invoicing are crucial.

Remember, when you suspect fraud, it is important to act quickly, but not before you discuss with us a course of action to be followed.

