

**EXPERTS' FORUM** | Accounting

## Fraud Prevention Tips for Businesses

What is your company's annual revenue? Multiply that by seven percent. Why? According to the Association of Certified Fraud Examiners, businesses lose seven percent of annual revenue due to fraud.

Prevention measures are often overlooked by growing businesses but should be incorporated into a business operational procedures in the early stages of the business.

There are five key preventative measures that every business should consider to reduce their fraud risk.

**1. Effective Internal Controls.** One of the strongest deterrents to committing fraudulent acts is the fear of getting caught. Effective internal controls increase employee's perception of detection and reduce their opportunity to commit fraud.

The key components to internal controls are as follows:

- Segregation of incompatible duties
- Independent checks
- Physical security of assets
- Proper authorization Proper documentation

Certain duties are inherently incompatible and provide opportunities for fraud. These duties consist of authorization (approval), recording (posting in accounting systems) and custody of assets (cash, signed checks).

It is imperative that businesses segregate these duties as much as possible. Often times, a company does not have enough personnel to segregate these duties. In these situations, it is important to put in place adequate, independent checks (i.e. having someone not involved with a process review the process).

Something as simple as a business owner reviewing copies of cancelled checks can be an effective fraud deterrent. These safeguards serve as an effective transaction verification tool.

Businesses should also ensure their assets are physically secured including having locks on desk drawers, keeping overnight cash deposits in a locked safe, and installing security cameras.

Proper authorization to approve transactions and documentation also provide fraud prevention opportunities. Limiting authorization and documenting transactions reduces the opportunity for workplace fraud.

**2. Background Checks.** Conducting background checks for employment purposes can help prevent hiring individuals that could become a liability for the business. Background checks are one of the most cost effective ways to save a business from fraud.

**3. Fraud Awareness Education and Training.** A business employee handbook should have a Fraud Awareness section specifically outlining what constitutes fraud in the workplace and the consequences of committing fraud. Fraud awareness should be promoted through training sessions or meetings at least annually.

**4. Fraud Hotline.** According to the Association of Certified Fraud Examiners, 46 percent of workplace fraud in 2007 was uncovered due to tips from an employee, vendor, or customer. Providing employees an anonymous, worry-free way to report suspicious activity can greatly reduce fraud risk.

**5. Insurance Businesses** should obtain coverage for dishonest employees through their insurance provider. This type of coverage assists with protecting a business from losses and fees incurred due to fraud by employees. Insurance proceeds can help a business recover fraud losses.

A focus on growing your business should include developing proper checks and balances along the way. By considering various fraud prevention measures and implementing internal controls, businesses can reduce their risk of fraud and save a portion of their revenue. Resource: Association of Certified Fraud Examiners



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