

How can a Forensic Accountant help prevent Fraud?

Small businesses have every reason to worry about fraud. The per-employee losses from fraud in the smallest businesses are larger than the amounts of their biggest counterparts. Thus, this can be an area where a Forensic Accountant can be a valuable consultant. Most small businesses don't have a need for a Forensic Accountant to do a full audit; however, CPAs can provide a number of fraud prevention services such as:

- Employee education
- Internal control reviews
- Cash reviews and reconciliations
- Inventory observations and asset verifications

Small businesses are very vulnerable to fraud. There appear to be three reasons.

Inadequate employee prescreening

Small businesses rarely spend the money to check work references, criminal records or require applicants to undergo drug screening or psychological testing. Undesirable applicants know this and thus gravitate to small businesses.

Limited Controls

Small businesses rarely have sufficient personnel to adapt adequate controls; “one-person accounting departments”. It is important then for the owner to overcome this deficiency with some oversight, which can be accomplished two ways. First the owner should actively understand and verify the financial information reported to him or her. Second, the owner can engage their CPA to attest to the credibility of the financial information, even if the company doesn't have a regular audit.

Too much trust

The final factor for large losses in small businesses involves the human element. In a situation where employees know each other well, it is natural for them to trust one another. The dichotomy is that trust is an essential element of business as well as an essential element of fraud. Never having faith in your employees is a bad thing; so is always trusting them. The goal is to strike a balance between the two.

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