



CLIENT MEMO

BIG CONCERN FOR SMALL BUSINESS

According to various studies conducted by the Association of Certified Fraud Examiners (ACFE, www.cfenet.com), the per-employee losses from fraud in the smallest businesses are 100 times the amount of their largest counterparts. This is mainly due to the fact that small businesses have limited resources to perform adequate employee prescreening and implement sufficient internal controls as well as too much trust in the family-like atmosphere that is typical in a small business environment.

When does fraud happen? The three elements of fraud - the “Fraud Triangle”:

1. Pressure or motives – this is what causes a person to commit fraud. Pressure or motive generally comes from significant financial needs including medical bills, mortgage payments, expensive tastes, gambling debts or addiction problems.
2. Opportunity – this is the ability to commit fraud as fraudsters believe that their activities will not be detected. Opportunity is most often created by ineffective internal controls or inadequate management oversight. Of the three elements, this is the leg that businesses have the most control over.
3. Rationalization or justification – the person committing the fraud frequently rationalizes the fraudulent activities. Such rationalizations include “I’m borrowing and will pay it back later”, “They will never miss the funds”, or “They don’t pay me enough. I deserve it”.

Is my business vulnerable to fraud? We have created and posted on our website www.fbco.com an *Internal Control Check-up List* to help you identify the areas for improvement with respect to fraud prevention. Being able to identify such areas is an important and valuable first step to fraud prevention and detection.

What can I do to prevent fraud? As a starting point, we recommend the following fraud prevention programs to protect your business:

- ✓ Create a positive environment of honesty and integrity by setting an ethical tone at the top
- ✓ Introduce a written code of conduct that clearly defines what is acceptable business behavior and what is not
- ✓ Establish fair and realistic organizational goals
- ✓ Identify and measure fraud risks by performing an internal control study
- ✓ Hire and promote appropriate employees and institute continuous training
- ✓ Implement and monitor a strong and effective internal control system
- ✓ Contract a CPA to examine books and records

As your trusted financial advisors, we are committed and are able to help you minimize fraud risk within your organization. If you would like to discuss the above mentioned fraud prevention programs, please do not hesitate to contact us.

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