

Small and medium-sized businesses face growing fraud risks

Prevention can curtail negative effects

When Target or Best Buy is hacked, everyone hears about it. But companies of all sizes can become the targets of cybercriminals, scammers and thieves—and many learn this lesson too late.

In May the IRS warned employers and small businesses about cybercriminals' increasing attempts to steal sensitive information. And the Association of Certified Fraud Examiners found that occupational fraud—theft committed internally—is hitting smaller companies especially hard.

Karl Kispert, principal of the cyber and information security practice at Grassi & Co. in Manhattan, said small and medium-sized businesses are sometimes unaware of the risks of fraud they face simply because they haven't experienced an incident yet. Kispert's first goal is to make companies aware of their potential for a major loss. "It's not a matter of if," Kispert said, "but when."

Another challenge smaller companies face is a lack of resources to heighten security. But there's still a lot they can do.

The boss sets the tone

Experts say that management can help minimize fraud risk by setting the tone for a culture that does not tolerate rule-breakers. Owners must resist bending the rules themselves, such as taking petty cash without providing a receipt.

Hubert Klein, a partner in EisnerAmper's forensic, litigation and valuation services group, said employees may feel uncomfortable demanding a receipt from a superior. But management can create an environment in which employees feel secure in reporting wrongdoing when they see it.

Small and medium-sized companies may not have the anonymous tip lines that some large companies have available to collect information about fraud activity, but they can still rely on employees for information. "It's important for management to have a good relationship with employees," Klein said. "Having an open dialogue is part of the active monitoring process."

How accounting firms can help

Businesses can further protect themselves by shoring up areas where the company's

information security is lax. And they can tighten and diversify their internal controls, eliminating a fraudster's means to steal.

An experienced accounting firm can provide strategic support in these efforts. Forensic accountants can assess a company's business practices and identify weaknesses that put the business in greater danger of fraud. An accounting firm can also help develop updated policies and procedures that guard against the efforts of potential fraudsters and cybercriminals.

"A good forensic eye knows how a business should be functioning and can recommend how to better structure the business to prevent fraud from taking place," said Harry Steinmetz, CPA, partner-in-charge of New York forensic, litigation and valuation services at Friedman. A knowledgeable consultant can also advise a business on how to monitor for weaknesses or signs of fraud and maintain best practices.

Taking preventative measures against fraud is like going to the doctor for a check-up, Kispert says. If you care about your overall health, you must invest in it. The good news is even a relatively small front-end investment could go a long way in mitigating the risk that a serious loss could occur.