Helping Small Businesses Detect and Prevent Fraud

cyber security small business fraud protection

Summary: Organizations with fewer than 100 people account for 22% of all fraud cases and a median loss of $150K. Preventing financial fraud is easier when small business owners and employees know how to spot signs of trouble. CFIs can help their commercial customers by educating them about fraud — we provide several fraud-prevention steps for you to share.

Over 50Ys ago, a teenager conned countless people in multiple industries into thinking he was a pilot, a doctor, and a prosecutor, among other professions he absolutely had no experience in. He also forged checks and signatures to fund his escapades. That teenager was Frank Abagnale Jr., whose wild (and illegal) adventures became the subject of Spielberg's 2002 film "Catch Me If You Can."

In the small business world, fraud and embezzling isn't as outwardly bombastic as Frank's crimes, but there's one tactic he used that other fraudsters often employ: they build trust. They create a comfortable environment. In many small businesses, it's easy to feel cozy. The workers all know each other, and they may know most of the customers, too. Who would try to steal from them?

Unfortunately, the answer to that question is "*far too many people*." According to the Association of Certified Fraud Examiners, in their 2022 "Report to the Nations," organizations with fewer than 100 people have the highest median loss of $150K and account for 22% of fraud cases. Preventing financial fraud is easier when small business owners and employees know how to spot signs of trouble and what to do afterward. Community financial institutions (CFIs) can help their commercial customers by educating them about preventing fraud and stopping it when it happens.

Who commits fraud?

In small businesses, the most likely financial criminals are the people with access to the firm's money: bookkeepers, company owners, and executives.

Fraudsters have more things in common than just access to a company's funds. They often perform multiple functions within the business, and do so solo, which makes it easier for them to hide what they're doing. Other staff trust them and may lack the expertise needed to recognize their crimes. Those with the easiest path to committing fraud work in environments where activities aren't often monitored or recorded, which also makes it easier for them to pull off fraud without getting caught.

Three steps to catching and preventing fraud.

When it comes to helping your small business customers catch and prevent fraud, here are some basic steps that you can share with them:

1. Assess fraud risk
2. Establish and test controls

3. Improve controls until everyone feels they’re adequate

To assess risk, small business owners should ask themselves what they have that a thief might want to steal. Prioritize safety for the biggest potential prizes and the least-defended targets. If the business has experienced fraud in the past, think back on how that theft took place. Maybe the business has protected that target in the time since then. But if it isn’t better guarded, it’s a logical possibility for the next fraud attempt.

A variety of methods can help a business establish **controls to help guard against fraud**, including:

- **Require specific documentation for payment requests.** Any money transfers should have a paper trail that discloses who made the request and for what reason. E-signatures, which are tracked and time-stamped, can also use hashing technology — an algorithm that translates file info into a shorter code that represents the original — to create electronic copies of every version of a document. That lets you compare if a questionable version ever crops up, and helps you identify a timeframe and people involved.
- **Limit employee access to confidential information.** Staff should be able to see only the information they need in order to do their jobs. If they need more, they can ask for permission and explain the reason behind their request. It’s too easy to abuse total access.
- **Use multi-person signoff for financial activities.** More than one person should look at expense reports, payroll, vendor bills, and overtime requests. Sharing accounting duties creates collective responsibility and makes falsifying statements much more difficult.
- **Mix up your accounting routine.** Require that staff who usually handle bookkeeping take time off from these responsibilities once in a while and let other employees — or a third-party accounting firm — handle their duties. New eyes are much less likely to overlook questionable expenses or procedures.
- **Double check anything out of the ordinary.** Call vendors using the number stored in your records before you pay any unusual bills or follow changed payment instructions or contact information.
- **Get neutral eyes on important documents.** An independent reviewer or consultant should look at bank statements, reconciliations, and vendor payments every month.

Small businesses can then test those controls. If the owner tosses in a fake fraudulent request for payment, does the accounting team catch it? What changes would help employees spot potential trouble?

Coaching small firms about ways they can protect themselves from fraud is one way that CFIs can add significant value to their relationships with commercial customers.

LOOKING FOR SETTLEMENT SERVICES

ECONOMY & RATES

Rates As Of: 10/21/2022 06:56AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	4.09	0.76	4.03
6M	4.48	0.56	4.29
1Y	4.60	0.59	4.22
2Y	4.54	0.26	3.81

5Y	4.40	0.31	3.14
10Y	4.27	0.44	2.76
30Y	4.32	0.54	2.42

FF Market	**FF Disc**	**IORB**
3.08	3.25	3.15
SOFR	**Prime**	**OBFR**
3.03	6.25	3.07