Overview  From fraudulent invoices to excessive use of cash payments, there are multiple ways employees can commit fraud. Read on to learn how to detect fraud, take corrective action and maintain control of company dollars.

Seizing Control:
How to Reduce the Risk of Employee Fraud
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Introduction

No company is immune to fraud. But as vigilant as businesses have become in protecting their computer networks, intellectual property and trade secrets from external threats, organizations often leave their guards down when it comes to theft from within.

The scope of the problem

According to the Association of Certified Fraud Examiners’ (ACFE) *2014 Report to the Nations on Occupational Fraud and Abuse*, organizations lose an average of 5 percent of revenue each year to fraud. Typically this occurs in one of three primary categories: asset misappropriations, corruption and financial statement deception. Those translate to about $3.7 trillion in annual losses globally.

The ACFE determined the median loss due to organizational fraud was $145,000 with almost a quarter of the cases reporting losses of at least $1 million. The median duration – the time between a fraud’s commencement and its detection – was 18 months.

Asset misappropriations, which include expense reimbursement schemes, were the most common type of fraud reported. These occurred in 85 percent of the cases, causing a median loss of $130,000.

Who commits occupational fraud?

According to the ACFE, 77 percent of occupational fraud was committed by employees working in accounting, operations, sales, executive management, customer service, purchasing or finance.

The 2014 ACFE study showed that most fraudsters work for their employers for years before they begin to steal. And the vast majority of those who commit fraud are first-time offenders, with only 5 percent being convicted of a fraud-related offense prior to committing their crimes.
Recognize the warning signs

Employees who commit fraud often exhibit behaviors such as living beyond their means, experiencing financial difficulties, having unusually close relationships with vendors and exhibiting excessive control issues.

You should also be on the lookout for potential fraud if you notice these warning signs:

• Invoices for goods you never ordered
• Invoices from non-existent suppliers
• Invoices that customers refuse to pay, claiming non-delivery of goods
• Excessive use of cash payments for expenses

These may not signify that fraud is being committed, but they do indicate a need for further scrutiny.

Take control

According to the ACFE, the presence of anti-fraud controls is associated with reduced fraud losses and shorter fraud duration. Fraud schemes that occurred at victim organizations that had implemented any of several common anti-fraud controls were significantly less costly and were detected much more quickly than fraud at organizations lacking these controls.

Here are the steps your organization should take to effectively reduce the chance and impact of occupational fraud:

Control your company’s environment

• Create an anti-fraud policy and regularly communicate your expectations to employees.
• Set up internal controls that include periodic internal audits.
Control your company’s environment (continued)

• Listen to employee input, and investigate all reports or suspicions of fraud. Create a fraud hotline. The ACFE found that over 40 percent of all reported cases were detected by a tip – more than twice the rate of any other detection method.

• Consider meeting with an employment attorney to learn your rights as an employer, how to deal with suspected fraud, how to communicate this issue to your employees and how to prosecute cases of fraud.

• Establish a formal reimbursement policy. Strong policies include requiring original receipts for all expenses, requiring senior-level employees to pay group expenses, prohibiting segmented expenses, prohibiting personal credit card use and mandating prior authorization on all reimbursement reports. Consequences for policy violation should be clearly articulated in the policy.

• Install an automated travel and expense management (TEM) system. An effective TEM solution will offer you the highest level of control over expenses by giving real-time access to key metrics and reporting data. This allows you to analyze company spending at various levels, including employee, department and supplier. With a holistic view of a company’s overall T&E spending habits and reporting trends, you can identify suspicious and/or wasteful expenditures through regular audits based on accurate data and then apply appropriate control measures. According to the 2014 ACFE report, organizations that actively monitored and analyzed data experienced losses 60 percent smaller, and schemes 50 percent shorter in duration, than organizations that did not implement data monitoring.

• Consider prepaid debit cards to control spending instead of a corporate credit card. Corporate credit card abuse is one of the most common sources of fraud and overspending in small businesses. Prepaid debit cards allow organizations with mobile sales forces and traveling executives to control spending before it happens, while gaining better insight into where the money goes.
Establish a risk assessment team

- When you create your anti-fraud policy, establish a process that addresses risk factors and potential fraud schemes. Involve appropriate personnel – a risk manager and representatives from accounting, human resources, general counsel and corporate security – to serve on the fraud-risk team and perform regular internal audits.

Periodically evaluate your company’s exposure to risk and identify actions your organization should take to reduce risk.

Monitor your anti-fraud control activities

- Enforce your anti-fraud policy, and be sure your controls are linked to your company’s specific identified fraud risk.
- Review your policy on a regular basis, evaluate its effectiveness and modify it as necessary.
- Ensure your anti-fraud reporting process includes investigation and corrective action that addresses incidents in an appropriate and timely manner.

Take corrective action

- If you think an employee is committing fraud, check up on him or her. It may be wise to seek the help of a professional fraud investigator. If fraud is confirmed, the professional can advise you on the appropriate course of action.
- Prosecute instances of fraud quickly. Prompt prosecution sends the message to other employees that fraud won’t be tolerated. This is the biggest deterrent to further instances of fraud.
- Create anti-fraud awareness training and deliver it to your employees.
Insperity® ExpensAble® software gives you visibility to help you control employee spending

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**ExpensAble Office Desktop**
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For more than 10 users
**ExpensAble Corporate Online**
Get visibility into your company’s spending with an automated, online expense management system. It will streamline your expense reporting, saving you money and giving you visibility into where it’s being spent. Plus, you’ll love the mobile flexibility of the smartphone app that allows you to instantly submit and approve expenses when you’re away from the office.

**ExpensAble Plus Prepaid MasterCard**
Add on the ExpensAble® Plus Prepaid MasterCard® for even more control and efficiency. The innovative prepaid debit card simplifies corporate spending so you can manage spending before it happens and recoup any unused funds at the end of a trip or event.
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