FRAUD MANAGEMENT

BEST PRACTICES

Here are some best practices that can help employers prevent employee fraud.

KNOW your employees

Screen job applicants thoroughly. Knowing if an applicant has a criminal record or financial issues that could be a motive to commit fraud can help you identify high-risk candidates.

IMPLEMENT anonymous reporting

When employees are empowered to call out any signs of fraud without worrying about retaliation, they are more likely to keep their eyes open and report what they see.

CREATE a positive culture

When employees are mostly satisfied with their jobs, the incentive for committing fraud is greatly reduced. Team-building initiatives and an open-door policy can help create a positive culture, motivating everyone to do what's right.

DEVELOP internal controls

Small businesses are particularly vulnerable to fraud, as they often rely on one person to handle most transactions. To prevent fraud and create more accountability, have multiple employees share these responsibilities.

ESTABLISH the standards

When standards for conduct are clearly defined and communicated from the top down, it's much more likely that employees will stick to them.

USE independent review

Having an outside party conduct regular reviews of your business's bookkeeping can ensure that nothing slips beyond notice.

COMMON TYPES OF FRAUD
and Their Consequences

Payroll Fraud

- Employees may doctor their timesheets to take credit for hours they aren't working.

- This enables employees to take home more pay than they are entitled to, stealing from the company.

- Employers should double-check all payroll records monthly to check for discrepancies.

Asset Misappropriation Fraud

- Employees engaged in this type of fraud manipulate records to hide fraudulent movements of cash or goods in a way that benefits them.

- This can cost businesses a lot or a little, depending on how sophisticated the fraud is.

- Using automated technology to handle shipping records or payroll creates less opportunity for this type of fraud.

Intellectual Property Fraud

- Employees may try to pass off counterfeit goods as genuine articles.

- This can harm a company's reputation as well as open the door for litigation.

- Companies should limit access to important intellectual properties and make sure intellectual properties are protected by copyright, patent or trademark.
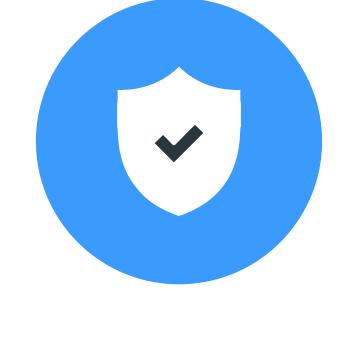
Corruption

- This generally refers to employees who try to leverage relationships with clients or vendors for personal gain with the promise of favors.

- This type of fraud creates unfair balance in the business-vendor relationship and has the potential to hurt a business's competitiveness.

- Establishing a clear code of ethics and making sure employees are aware of it helps set expectations and keep employees honest.

Vendor Fraud

- Employees may attempt to manipulate accounts payable or payment systems to funnel money to themselves.

- This can go unnoticed for a long time, especially if a business has large numbers of transactions involving vendors.

- This is a situation where having multiple employees share responsibilities can help. It reduces the risk that one employee can get away with fraud.