Informative Facts on Workplace Fraud

No one wants to think that their employees are actively defrauding them. Although it is not prevalent the fact is workplace fraud exists and can have a significant impact on business, both on the bottom line and on employee moral. This is especially true in a small business setting where the consequences can be more dire.

According to the report on Fraud, presented in the 2014 Report to the Nations on Occupational Fraud and Abuse, as compiled by the Association of Certified Fraud Examiners there are interesting and noticeable patterns to fraud that can help you better detect or prevent fraud in your organization. This report included an analysis of fraud investigations from around the world and found:

General Data on Employee Fraud

- The median loss caused by the frauds in our study was $145,000. Additionally, 22% of the cases involved losses of at least $1 million.
- Globally Owners and executives accounted for the most significant amount of losses at $537,000, followed by Managers at $137,000 and employees at $75,000
- Losses caused by fraud in Canada
- Managers caused the most financial damage at a median of $400,000
- Owners and Executives were not far behind at $355,000
- Employees still had an impact with a median $185,000
- The average duration of undetected fraud as 18 months
- Most common types of fraud were asset misappropriations, corruption and financial statement fraud.
- External audits were the least effective way of detecting fraud – resulting in detecting only 3% of all reported cases. **40% of the time fraud is detected by tips**
- Smaller organizations suffer the most disproportionate harm as a result of fraud
- Mining, real-estate, oil and gas had the largest reported median losses

- When collusion is involved losses are hidden longer and result in much larger losses
- The majority of Frauds, 77% were committed by individuals working in one of seven departments: accounting, operations, sales, executive/upper management, customer service, purchasing and finance.
- Banking, Financial services, government, public administration and manufacturing have the greatest number of frauds reported

Common Warning Signs

Most employees committing fraud did exhibit behaviours that could be warning signs. The two most common were ones you can spot if you are looking for them.

1. Appearing to be living beyond their financial means
2. Very close relationships with customers/clients or vendors.

Although background screening prior to employment is fairly common way organizations hope to weed out employees who may exhibit fraudulent behaviours the reality is pre-employment screening is not a good detector of fraudulent tendencies. In most cases fraud is committed by older, established long and senior level employees. Only 5% of fraudsters were found to have had a previous conviction for a fraud-related offense and 82% had never even been previously punished or terminated for anything connected to fraud.

The best way to prevent employee fraud seems to be to stay on top of the situation by putting and keeping in place standard checks and balances that are reviewed and monitored on an ongoing basis regardless of the level of employment or years of experience. Training managers, auditors and other employees to keep an eye out for signs of fraud is one step in minimizing fraud.

As a final tip, if you want to catch a fraudster, set up an anonymous tip hot-line or form. The organizations with tip lines detected frauds 42% more quickly and had 41% less losses. The most common person to report fraud was another employee, followed by a customer (21%), anonymous (14%), vendor (10%), other (6.5%), shareholder/owner (4.3%) or competitor (1.5%) You do have to be vigilant to ensure this tool is not used maliciously by a disgruntled co-worker, but tips lines did prove to be the best way to get ahead of fraud.