

# Understanding Factors of Employee Fraud

written by Rory Lodge | April 28, 2015



The vast majority of your employees try to work hard and act with integrity. Unfortunately there is a small minority who, for a variety of reasons, take fraudulent actions that can harm your business. Employee fraud usually is not sophisticated but it is not easy to detect. According to a report on global fraud investigation, the [2014 Report to the Nations on Occupational Fraud and Abuse](#) on average it took over 18 months for most frauds to be detected and in most cases fraud losses were not recovered.

The most common types of fraud this report uncovered will not surprise to you:

## **Common employee fraud involves:**

- **Corruption** – Conflict of Interest, Bribery, Illegal Gratuities, Economic Extortion
- **Asset Misappropriation** – Cash (theft of cash on hand, larceny or fraudulent disbursements) Inventory or other assets (misuse or larceny)
- **Financial Statement Fraud** – Asset/Revenue Overstatements and Understatements

The most common form of fraud was actually corruption and false billing and the highest amount of losses suffered as a result of fraud were through financial statement manipulation followed by corruption. Put simply a few people take money, take or misuse items or cheat you out of business.

## **Why people defraud a business**

On one hand you may not be interested in the why behind a persons fraudulent actions because wrong I wrong. However, understanding the why's you might increase your ability to spot the signs of fraud before the problem grows.

The data tells us that fraud is more likely to be perpetrated by employees who have been with your business for some time; 1 and 5 years (48%), 6-10 years (27%), 10+ years (25%) and less than one year (7%). Unfortunately the biggest losses were caused by employees who held tenures of over 10 years, followed closely by employees working 6-10 years. In most cases these fraudsters were first time fraudsters, none of these

employees had previous criminal convictions for fraud or even workplace discipline for fraud.

When you create checks and balances you know there are sound reasons. However, sometimes they can seem odious for a trusted employee the checks and balances you put in place can become lax overtime. A trusted employee who borrows adds \$100 to an expense form one time may find it easier to add the create a false invoice 6 months later. Small acts lead to lowering of inhibitions and before long an employee has normalized the 'what they don't know can't hurt' thinking. According to the report most fraud is undetected for 18 months.

Most of people's actions are directed by our emotions. It may be tempting to think that employees defraud an organization out of anger or vindictiveness or even greed and while those can be contributing or trigger events most people make poor choices because they are experiencing personal, psychological or financial difficulties that may cause them to act outside their normal patterns of behaviour. People under duress can find their inhibitions, thinking and decision-making abilities lowered. A review the behavioural red flags associated with people who commit fraud show a lot of personal upheaval:

***The personal behavioural red flags identified in fraudsters included:***

Living beyond their means (42%) and Personal financial difficulties (40%), Divorce or Family problems (17%), Addiction problems (11%), Instability in Life circumstances (7%), Excessive family or peer pressure (6%).

Many of the other characteristics of a fraudster can be associated with issues including personality or mental health disorders. Other descriptors included; A "Wheeler-Dealer attitude (13%), Control issues (13%), Irritability, suspiciousness or defensiveness (11%), social isolation (9%),

Workplace 'problems' accounted for the smallest percentage of red flags: Complaints about inadequate pay (9%), past employment problems (11%), excessive pressure from the organization (6%) and lack of authority (.06%)

**Actions To Keep An Ear and/or Eye Out For**

You must be cautious and investigate clearly before making any accusations of course, but it is smart business to be vigilant in keeping your eyes open for possible signs of fraud. Here are some of the things to look out for:

- ***Controlling access to items and information:*** When an employee does not want to share information with anyone this can be a sign that there is something afoot. This can include financial information, information about projects or actual physical access to items such as supplies, equipment, products, money and so on.
- ***Controlling access to people:*** There can be good reasons why an employee wants to be the primary contact for customers, vendors and suppliers or even other employees. However if the person is overly possessive such that they will not allow anyone else to even contact a customer, vendor or supplier this can be a sign that there is more to the case than meets the eye. For example if the employee will not go on vacation or while on vacation indicates no one is to contact his/her relationships that can be a sign worth exploring further.
- ***Too concerned or not concerned about reports of fraud:*** If you do suspect something is askew and begin asking questions the employee who appears disinterested or is much too quick to offer to help may be trying to conceal something. Showing concern is normal, an employee who is not concerned or who is much too interested may be worth keeping an eye on.

- **Changes in behaviour:** Since factors of personal stress including personal, family, psychological and financial stress are often at the core of changes in behaviour including poor decision making it can be useful to identify and follow up with employees who may be experiencing personal challenges.

The important thing to keep in mind is that you have put your checks and balances in place for a reason and it is important to enforce them. If you do see signs of behavioural anomalies in an employee take the time to speak to that employee and see if you need to provide any supports. This may not only help catch problems but stop them before they begin.