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## Target employee crime to protect company assets

Fraud continues to be a financial drain on companies, and employees are a major source of the problem, according to recent industry studies.

In KPMG's Fraud Survey 2003, 75% of companies reported experiencing fraud in the past year, or 13% more than in its similar 1998 survey.

Both KPMG and the Association of Certified Fraud Examiners (ACFE) agree that the majority of business fraud is committed by employees. Some 60% of fraud in the KPMG study was employee fraud, while the figure was 64% in a 2004 ACFE study.

### Three forms of employee fraud

The ACFE estimates the cost to businesses at \$660 billion a year. It segments fraud into three categories:

*Asset misappropriations* involve theft or misuse of an organization's assets. Common examples include skimming revenues, stealing inventory and payroll fraud.

*Corruption* occurs when fraudsters wrongfully use their influence in a business transaction in order to procure some benefit for themselves or another person. Examples are accepting kickbacks and engaging in conflicts of interest.

*Fraudulent statements* generally involve falsification of an organization's financial statements, such as overstating revenues or understating liabilities or expenses.

In the ACFE study, asset misappropriations accounted for 90% of the fraud cases and hit companies for a median loss of \$93,000. Fraudulent statements were the least commonly reported frauds but had the highest median loss, \$1 million.

### Stay vigilant

One key to minimizing employee fraud losses is basic vigilance, according to consultant Claudia Volk of CJVolk Associates, who spoke on the topic at the 2004 Association for Financial Professionals Conference.

"Most fraudsters aren't brain surgeons," Volk says. To illustrate, she tells the story of an internal auditor at a large firm who thwarted a case of expense account padding. The auditor rejected three employee requests for mileage reimbursements when he noticed that all three were for the same amount and he had personally seen the three employees get into the same vehicle and head to their conference.

"The conference they were attending was a seminar on ethics," she adds.

## **Uncovering, preventing fraud**

More than three out of four organizations in the KPMG survey reported uncovering fraud through internal controls, while two-thirds reported detecting fraud by internal audit. The third most cited method for uncovering fraud was notification by employee (63%).

"Tips" were most often cited as the method of discovery in the ACFE study, which concluded that confidential reporting mechanisms, such as employee hotlines, reduce fraud losses significantly.

Volk also suggests these fraud mitigation measures:

- Strengthen internal controls.
- Conduct periodic compliance audits.
- Designate compliance personnel.
- Establish code of conduct.
- Conduct background checks for finance personnel (ask for annual financial statements).
- Institute fraud awareness training.
- Tie ethics objectives to employee evaluations.

In addition, talk to your Treasury Management representative about services to help protect your bank accounts against employee fraud. Security features such as dual authorization and token authentication for online payment initiation services and fraud-fighting reconciliation services are among the available options.

The most cost-effective way to deal with fraud is to prevent it. The ACFE study revealed that the median recovery among victim organizations was only 20% of the original loss, and almost 40% of victims recovered nothing.