



## Employee Fraud

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Employee fraud tends to increase during tough economic conditions. Although employee fraud is around in both good times and bad, a downturn in the economy can leave employees feeling financial pressure in their personal lives. This pressure may push them to engage in risky behavior and do desperate things in order to maintain a lifestyle or succumb to the pressure of family or friends who know they have access to money at work. Alarming, discovery of employee fraud may take years depending on the complexity and ability of the employee committing the crime.

Employee fraud is defined as using one's occupation for personal enrichment through deliberate misuse of the employer's resources or assets. Your organization may be vulnerable without the proper systems in place to flag fraud. The following risk management tips will help ensure the financial health of your organization:

- Review cancelled checks and examine the signature on the back of each check

- Review bank statements each month and check for unusual transfers

- Check payroll reports for irregularities

- Consider periodic job rotations that remove employees handling money from those responsibilities to dissuade malfeasance

- Periodically distribute payroll checks in person and confirm absent employees are actual employees

- Review billing error complaints from customers/clients

- Require original invoices be kept in files

- Verify accounts before making any transfers

- Consider installing a security camera where finances are being handled

There are several low-cost measures your organization can deploy to help combat employee fraud. For example, consider conducting thorough background checks on all prospective employees paying particular attention to details such as whether the applicant graduated from the schools which he/she cited and that any unaccounted-for time in his/her past can be acceptably explained. Another example is to centralize your payroll to diminish the possibility of any "ghost" employees (fictitious people on payroll that no longer work for the organization or friends/relatives of an employee) who are being paid on the sly. It is also important to know your vendors. Consider establishing and maintaining a list of approved vendors. Encourage managers to routinely review and verify vendors. Managers should check for vendor names that are similar to approved vendor names and ensure physical addresses exist for vendors used.

Understand your fraud risks. An audit of your organization's specific vulnerabilities will help your organization set internal controls and mitigate potential risks. Recognizing that even the "nicest" employees may be

subject to temptations and ensuring procedures and practices are established and implemented will preclude the possibility of employee fraud. Trust your instincts. If something looks fishy, investigate. In the unfortunate circumstance where fraud is detected, consider enlisting professional assistance from a neutral party such as an attorney and/or an independent accountant.

More information on employee dishonesty and faithful performance of duty can be found on MCIT's website. "A Primer on Bonds", originally published in the September 2006 Bulletin, can be accessed in the MCIT resource library ([www.mcit.org](http://www.mcit.org)).