Top 10 fraud prevention and detection measures
A complimentary risk management tool

1. **The perception of detection.** Increasing the fraudster’s perception of being detected may very well be the most effective anti-fraud measure an organization can implement. Potential fraudsters are significantly less likely to undertake or continue their schemes if they believe there is a high probability they will be caught. Therefore, it is imperative that all employees, managers and executives are informed that the organization has controls in place specifically designed to target fraudulent activity. If the presence of such controls is not communicated, they will do little good in deterring theft and fraud.

2. **Employee education.** Employees should be educated on what constitutes fraud, as well as how fraud impacts not only the company as a whole but also each individual employee. Further, they should be adequately informed of the organization’s policies and consequences pertaining to fraud and encouraged to report any suspicious activity. This education may be done formally, as part of an employee orientation or training program, and should be reinforced through other informal means such as posters, newsletters and other casual intra-office communications.

3. **Hiring procedures.** Potential employees, particularly those applying for positions with access to cash and other assets, should be screened as part of the hiring process. Employers should weigh the costs and benefits of running various types of background checks, including past employment verification, criminal conviction checks, drug screening, reference checks, education and certification verification.

4. **Written code of ethics.** Organizations should implement a formal written code of ethics that applies to all employees, managers and executives. Any violations of this code should be handled swiftly and without exception so as to set a strong ethical tone throughout the company. It may also be beneficial to adopt an official fraud policy to accompany the code of ethics, including an explicit declaration of actions constituting fraud and the prescribed consequences for those actions, so that formal guidance exists should a questionable situation arise.

5. **Restrict access to cash and bank accounts.** Cash is by far the most common target for potential fraudsters. As all organizations must handle cash at some point in the business cycle, no company is immune to the need for strong cash controls. Specifically, organizations must ensure that those individuals with access to company funds are trustworthy and that appropriate checks and balances are in place to deter and detect any violations of that trust. This includes segregating as many of the cashhandling duties as possible so that the responsibilities for authorizing disbursements, recording cash transactions, physically handling the cash and reconciling the bank account all fall to separate individuals.

6. **Fraud reporting mechanism.** Companies should implement specific procedures for accepting complaints from employees and other parties regarding potential fraudulent activity. The use of a hotline is an especially effective way to accomplish this. Further, all employees should be made well aware of where and how to report any suspicious, unethical or illegal behavior. Employees should be assured that they can provide such information anonymously and without fear of recrimination for good-faith reporting.

7. **Minimize employee pressure.** Employees facing pressure, whether personal or professional, are more likely to give in to the temptation to commit fraud. Therefore, it is in the best interest of the
organization to assist in minimizing and alleviating the various pressures felt by employees. If management sets an honest and ethical tone and uses only objective performance measures, employees may be less inclined to feel the need to cheat to get ahead in the workplace. Additionally, employee support programs and open-door management policies provide employees with support during difficult times.

8 Surprise audits and pro-active audit policies. Fraudsters that are aware of upcoming audit procedures have the opportunity to alter, destroy or misplace incriminating records and other evidence. Conversely, if employees are informed that surprise audits may be performed at any time and in any department, the potential fraudster will realize that the risk of detection is greatly increased and may be deterred from defrauding the company. Organizations should also implement pro-active audit policies that aggressively seek out inappropriate conduct, rather than waiting for improprieties to come to their attention during normal audits.

9 Mandatory vacations and job rotation. To aid in the detection of frauds that are occurring, as well as to deter tempted individuals from undertaking new schemes, organizations should implement strict policies regarding mandatory vacation time and job rotation. Many internal frauds require continuous manual intervention to remain undetected. Consequently, requiring all employees to spend a few days away from their usual duties and allowing other employees to step in and work behind them can aid in the prevention and detection of many frauds.

Effective disciplinary measures. No control environment will be effective unless there is consistent discipline for ethical violations. Consistent discipline requires a well-defined set of sanctions for violations and strict adherence to the prescribed disciplinary measures. If one employee is punished for an act and another employee is not punished for a similar act, the moral force of the company’s ethics policy will be diminished. The levels of discipline must be sufficient to deter violations. It may also be advisable to reward ethical conduct. This will reinforce the importance of organizational ethics in the eyes of employees.

If your company has been the victim of a serious crime, you know how disruptive it can be to your business and, potentially, to your bottom line. Although it’s hard to believe, the threat of crime among your employees exists as much as it does with outsiders.

To help your company protect its operations, Zurich can structure a crime insurance program to meet your requirements. In the meantime, these key fraud prevention and detection measures can help you keep your business operating smoothly.