

- much longer to detect.
- **More than 80 percent of frauds are committed by employees** in certain departments. They are: accounting, operations, sales, executive/upper management, customer service or purchasing.
- **More than 85 percent of fraudsters had no previous fraud record.**
- **There are definite warning signs that fraud is occurring.** They include employees living beyond their means (43 percent of all cases) and experiencing financial difficulties (36 percent).

The good news: It's never too late to start combating fraud. An "ounce of prevention is worth a pound of cure." Here are several steps to consider:

Develop a code of conduct. Although the vast majority of employees will never commit fraud, those who are tempted can be put off by a corporate code of conduct that clearly outlines a zero tolerance stand. The code should contain clear illustrations and information about behavior that violates the code as well as instructions on how to confidentially report suspicious behavior.

Set up a hotline. The ACFE has commissioned research on the overall effectiveness of employee hotlines and found they are the most effective control companies can use. A number of providers offer hotlines designed explicitly with small businesses in mind. The cost per employee is minimal in relation to the fraud it can help to uncover and the losses avoided.

Engage management in the fight. Managers must be seen and heard reviewing controls and urgently correcting weaknesses that are detected. If your organization's managers are perceived to be unwilling or unable to take the time to review its controls, they may inadvertently be sending a message that it is safe to commit fraud.

Invest in training. Educate staff members about the red flags associated with fraud from inside and outside the company. Training can pay significant dividends. This helps detect and prevent theft and sends a strong signal about your firm's intention to fight fraud no matter where it originates. Employees must perceive a high probability that fraudulent activity will be detected. That "perception of detection" is often sufficient enough to dissuade them.

Surprise employees and management. To further heighten the perception of detection, consider hiring your accounting firm to institute unannounced audits of key areas. Surprise visits can be unsettling, yet they can uncover frauds that might have remained undetected until they reached unimaginable proportions. Surprise audits should be random and unpredictable.

Force employees to take vacations. It's not unusual for a seemingly dedicated and loyal employee to commit fraud. Many occupational frauds require extensive maintenance in order to avoid detection. You can help uncover fraud before it reaches critical mass by insisting that all employees use their allotted vacation time. If an employee taking time off suddenly returns having "forgotten" to do something, review in detail what that individual felt compelled to do. It could be a

"Tips have consistently been the most common way to detect fraud Such systems enable employees to anonymously report fraud or misconduct by phone or through a web-based portal. [Anonymity] is key because employees often fear making reports due to the threat of retaliation from superiors or negative reactions from their peers. ... In organizations that had hotlines, 47 per cent of frauds were detected by tips, while in organizations without hotlines, only 34 per cent of cases were detected by tips."

-- Report to the Nations on Occupational Fraud and Abuse

case of forgetting to complete a critical transaction, but it may also mean a fraud scheme was in play that required intervention to remain hidden.

Accounting and legal firms often work well together putting these controls into effect. It can potentially save your company thousands, if not millions, of dollars in losses and put everyone on alert that fraud will not be tolerated and the consequences will be severe.

Percentage of Cases of Top Frauds Reported by Size of Organization

Method	Up to 100 Staff	100+ Staff
Billing	28.7%	24.9%
Check Tampering	26.1%	8.0%
Corruption	26.5%	35.2%
Skimming	21.6%	11.0%
Expense Reimbursement	16.8%	14.2%
Non-Cash	14.9%	18.1%
Cash on Hand	14.7%	10.7%
Payroll	13.4%	6.5%
Larceny	12.3%	8.4%
Financial Statement	5.6%	4.5%
Register Disbursement	3.0%	2.9%

Effectiveness of Detection Methods

Method	Percent of Cases
Tip	40.2
Management Review	15.4
Internal Audit	13.9
Accidental	8.3
Account Reconciliation	6.1
Document Examination	5.2
External Audit	4.6
Surveillance/Monitoring	2.6
Notified by Police	1.8
Confession	1.0
IT Controls	0.8