



# WELCOME

*Guarding your business against  
employee fraud.*

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**How many of you have been  
defrauded by employees?**

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**How do employees commit  
fraud?**

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# Employee Fraud

- Stealing money or merchandise
- Taking kickbacks or bribes from suppliers or customers
- Falsifying internal reports
- Falsifying time and attendance records
- Cheating on expense accounts
- Stealing company trade secrets
- Taking home office supplies, postage, **etc.**

# Employee Fraud, cont.

- Giving friends unauthorized discounts on merchandise or services
- Using company computers or other equipment without permission
- Claiming workers compensation for an injury that did not occur
- Filing false government returns
- Withholding information from management, auditors, investors, creditors, etc.



# Four Elements of Employee Fraud

- The activity is hidden from management
- It violates the employee's duty of trust to the employer
- It is committed for the purpose of direct or indirect financial gain
- The employing organization loses assets, revenues, or resources.



# Three Requirements to Commit Fraud:

- Motive
- Rationalization
- Opportunity

# Possible Motives for Fraud:

- Need the money
  - Lifestyle needs / pressures
  - Health issues
  - Retirement
  - Illicit activities
- Can't admit to failure or afraid of its consequences
- It's fun !!

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**What can you do to manage  
your employee's motivation to  
commit fraud?**

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# Possible Rationalizations for Fraud:

- I am only borrowing it, I will pay it back
- It isn't that much, the company won't miss it
- I am doing this to protect the jobs of others
- Everybody does it
- I am entitled, they owe me
- I deserve it, others have it
- I'll stop once I have enough
- My problems outweigh the risk of getting caught

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**What can you do to manage  
your employee's  
rationalizations towards  
committing fraud?**

# Opportunities to Commit Fraud:

- Poorly designed controls
- Poorly enforced controls
- Lax or inefficient management
- Nature of the business (cash transactions, large number of transactions, compensation system, decentralized, etc.)

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**Of the three requirements to commit  
fraud, motivation and rationalization  
are moderately controllable by you.  
Opportunity is very significantly  
controlled by YOU.**



# Warning Signs of Fraud:

- Accounting irregularities
- Employees who routinely break rules or cut corners
- Employees living beyond their means
- Employees who are too dedicated
- You don't have as much cash / inventory / other resource as you expected to

# How to Minimize Employee Fraud:

- Set a company-wide culture of honesty and respect, and you are much more likely to be treated in kind.
- Trust, but verify
- Pay attention to details and do not be careless. Most frauds start out small and build over time. Little things matter.
- Prevention is better than detection, but don't ignore detective practices also

# What Makes Entrepreneurs Particularly Prone to Being Defrauded:

- Optimistic
- High-energy, always on the go
- Focus on what they want to, avoid things they don't like (such as accounting)
- Tend to use non-financial metrics to monitor the business
- Tend to ignore short-term problems in favor of longer-term rewards

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**Questions ?**

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Testimonial

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**Thank you.**

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