Fighting Fraud: Recognizing and Reducing the Key Factors

Your organization's success depends on the integrity of its officers, directors, and employees. A single fraud incident, compliance violation, or ethical lapse can delay or even derail your business goals, so company leaders must make serious efforts to combat it. In order to do so, it's important to understand how fraud takes root in an organization.

Three factors lead to fraud:

- People with the criminal intent to defraud
- Assets or revenue that can be stolen or diverted
- An environment that allows the fraud to take place

First, fraud always comes down to people—people who work for you, people you do business with, and people you don't even know. While most criminal intent issues are out of your hands, you can exert some control by the way you deal with your employees and customers. Developing fair and sound human resource policies and customer relation policies can help divert retaliatory actions by employees and customers who feel they are victims of an unfair or biased system. Recognizing the signals of problem or high-risk employees and implementing actions to monitor and manage those employees is a controllable proactive weapon against fraud. Effective employee screening procedures and assessments help ensure a match of qualifications to job responsibilities and reduce performance pressures on employees.

Second, all organizations have assets and revenue sources that are subject to fraud. The loss factors vary dramatically by the physical asset type and the revenues at risk. You should remember that with very few exceptions, all assets are vulnerable, not just cash and inventory. Intangible assets, such as your organization's reputation or its competitive market edge, can be damaged by fraud. By recognizing all asset and revenue vulnerabilities, you can avoid fixating protective measures on the front door while leaving the back door open. A regular audit of all your assets and a systematic method for tracking them will be beneficial in this regard.

Third, anti-fraud controls and procedures are an integral part of the business environment. While no set of controls is 100 percent effective, those that are well designed and implemented can help contain the cost of fraud by identifying the existence of past and ongoing schemes and deterring and preventing future schemes. Organizational ethics policies and practices, loss-prevention and investigative departments, incentive programs, training procedures, anonymous reporting mechanisms, and a straight-forward employee communication process all combine to develop an efficient approach to dealing with fraud. You should remember, though, that these controls possess a shelf-life and need to be constantly validated for effectiveness. In addition, you should continually weigh their costs against the risk levels set by management.

An integrated approach to fighting fraud requires a blend of deterrence, detection, and prevention. By recognizing the key elements that cause fraud, following the recommendations outlined above to combat it, and empowering your employees to become a critical component in the anti-fraud process, you can take the offense and in the end significantly reduce your losses.

Special thanks to Fred Graessle of Integrity Assurance, LLC for contributing this article. FlashPoint partners with Integrity Assurance to provide corporate compliance and asset protection services.