

Prevention And Processes Are The Key To Fighting Internal Fraud.

Employee fraud makes the news nearly every day, yet employers often think “I know all of my employees so well...that could never happen to my organization.” But it can – and does. Fraud committed by employees accounts for annual losses of \$3.7 trillion, according to the Association of Certified Fraud Examiners. The typical business loses 5% of its revenue every year to employee fraud. Keith Parsons, BOK Financial’s Director of Financial Crimes, says businesses can prevent internal fraud before it ever happens.

Four Red Flags

1. The employee who refuses to take vacation or sick days.

“These are often very trusted, tenured employees,” Parsons said. “They may even offer to fill in for others. They can’t miss work or their fraud will be discovered.” **Prevention tip:** Insist on mandatory vacations for all employees.

2. One person “doing it all.” “If you have the same person receiving, paying and reconciling invoices, you’re vulnerable,” Parsons said. Fraud may go on months or even years before it’s detected – and in these situations, the employee seldom has the money to make restitution. The best way to fight fraud is to take away the opportunity. **Prevention tip:** Follow best practices for segregating duties between financial record keeping, authorization and reconciliation. “Even if you’re a small organization and don’t have a lot of people,” Parsons said, “You can randomly switch responsibilities.”

3. Unusually close relationship with a vendor or customer.

The line between an employee’s work and personal life continue to blur, but Parsons urged executives to be mindful of an employee that has an unusually close relationship with a vendor or a customer. “If you have an employee working with someone who receives payments from your organization or a customer

who makes payments to your organization, a too-close relationship could be a warning sign that there’s something else going on.” **Prevention tip:** “Trust your instincts,” Parsons said. “If you think something isn’t right, conduct an audit.” Implement processes that require another individual to sign off on transactions.

4. Employees living beyond their means, or those with financial troubles.

“The two main components of employee fraud are motivation and opportunity,” Parsons said. Implementing processes to remove opportunity is part of the solution. Employers also need to be aware of an employee’s motivation. Parsons said employees with personal issues such as a gambling problem (their own or that of a loved one), legal issues, debt incurred from living beyond their means or substance abuse problems may be more likely to commit fraud. “It can also be that employee who is overly controlling and suspicious,” Parsons said. **Prevention tip:** Get to know your employees; have regular 1:1 meetings. Set up a fraud hotline, and encourage employees to use it if they suspect fraud.

Employee fraud can be devastating to an organization, not just due to the financial loss, but also due to the broken trust in others and to the organization’s reputation. The preventive steps you take today can pay off for years to come.



Keith Parsons is a Senior Vice President and Director of Financial Crimes at BOK Financial. Before entering the banking industry, Keith worked for the National Security Administration as an Intelligence Analyst and in Counter Narcotics as a Senior Intelligence Analyst.



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