

Executive Briefing



Leader's Guide to Managing Workplace Fraud and Theft

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Publisher
Profiles International
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Fraud, Theft and Workplace Violence

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70%

Of college students admit they
would lie to get a job.

\$50 billion

Amount stolen annually from U.S.
businesses by employees

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Fraud and Theft

Introduction

“
75%

of employees have stolen **at least once from their employer**

2 years

Average duration of employee fraud
before being discovered by employer

”

Fraud and theft impacting your bottom line?

Of all the reasons that businesses fail in today's market, challenges such as competition, financial mismanagement, leadership failure, and disconnection from consumers are sure to top the list. A less commonly recognized factor is the costly challenge of managing fraud and theft.

Employee theft is on the rise; StatisticBrain.com reports that employee theft cost U.S. businesses \$50 billion in 2012. The StatisticBrain data also shows that employee theft is the cause of about 43% of inventory shrinkage in business. That's equal to more than \$15 billion per year. The study goes on to estimate that 75% of employees have stolen at least once from their employer, that 37% have stolen more than once, and that one-third of all business bankruptcies are caused by employee theft. Consequently, businesses are forced to spend a great deal of time, effort, and money on background checks and loss prevention.

This executive briefing will help you:

- Define the problem
- Highlight scenarios and identify bottom-line impact
- Explore prevention steps & best practices
- Examine effective solutions and tools

Fraud and Theft

Defining the Problem—Fraud in the Workplace

What is fraud?

In the simplest terms, **fraud occurs when someone knowingly lies to obtain benefit or advantage, or to cause some benefit that is due to be denied**. A recent report from American Data Bank shows that up to 42% of employment applications contain false information.

The Record on Workplace Fraud

- 24:** Number of months before the average fraud scheme is detected anonymous letter
- 85:** Percentage of worst frauds committed by insiders on the payroll
- 55:** Percentage of perpetrators who are managers, up from 33% in recent years
- 44:** Percentage of workers who say their companies could do more to reduce fraud
- 30:** Percentage of business failures due primarily to employee theft
- 60:** Percentage of companies with staff trained to deal with fraud and ethics-related issues, up from 30% in 2000
- 27:** Percentage of employees who say they feel comfortable reporting fraud on a confidential hotline managed by people outside the company
- \$60,000:** Median loss when managers and executives are involved in fraud
- 20:** Percentage of employees who feel comfortable reporting fraud in an

TYPE OF CHECK & RESULT	INDUSTRY					
	Manufacturing	Health Services	Food Services and Stores	Business Services	Transportation	Retail
Criminal Hit Record	5%	6%	8%	4%	5%	7%
False Information on Resume	42%	49%	54%	48%	89%	49%
Credit Record with Negative History	37%	40%	51%	33%	28%	36%
Workers Compensation	14%	6%	14%	1%	12%	7%

Fraud and Theft

Fraud—The High Cost of Stretching the Truth

That little white lie could actually be a crime.

Vetting fraudulent resumes is a growing challenge for HR professionals.

Applicants often consider resume fraud to be nothing more than a little white lie, but the reality is that fraud can cost companies millions. In fact, falsifying employment materials is illegal in some states. Because of economic repercussions, vetting through fraudulent resumes is a growing challenge for HR professionals.

CBS reported that, according to experts, three out of ten people lie on their resumes. In a tight economy – with unemployment hovering around 7.3 percent – more job seekers will be desperate enough to stretch the truth.

A couple of the well-publicized resume fraud cases include:

- Notre Dame Football coach George O’Leary lost his job in 2001—mere days after taking the post—when it was revealed that there were serious inaccuracies on his resume, including a master’s degree from a non-existent institution.
- Marilee Jones was dean of admissions at MIT for 28 years, until it was discovered that she had falsified educational information. Jones was forced to resign.

Statistics and estimates from human resources studies indicate that as many as 42% of all resumes contain an intentional misrepresentation. Common misrepresentations include falsifying educational credentials and intentionally skipping over questions, or lying in response to questions about criminal backgrounds or legal offenses.



Fraud and Theft

Fraud—Invest in Investigation



Go above & beyond to ensure that your candidate is who he says he is.

All organizations should raise their levels of skepticism.

Companies that are serious about preventing and identifying resume fraud simply must invest in developing HR staff, or they should outsource assessments and background checks. All organizations should raise their levels of skepticism, look for inconsistencies, and demand thorough verification from job candidates.

Suggestions from a *Wall Street Journal* article “How to Spot Resume Fraud”:

1. Confirm the circumstances of every change in employment—voluntary or involuntary—with a candidate’s previous employers.
2. Don’t restrict yourself to calling only the references provided by a candidate. Seek additional references, such as former colleagues, supervisors, or direct reports.
3. Don’t assume that candidates provided by an executive search firm are well-vetted.

“
In a tight economy – with unemployment hovering
around 7.3 percent – more job seekers will be
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”

Fraud and Theft

Theft—More Serious Than Most Business Leaders Realize

Wrong is wrong is wrong

Regardless of the line of work, the fact is that people take things when they have no right to. Theft is the wrongful taking of another's property without consent. It presents a problem for all organizations whether they are corporations, limited liability companies, partnerships, or nonprofits. Regardless of the line of work, the fact is that people take things when they have no right to. Worse yet, they take things they have a professional obligation to protect.

Several truths that may be surprising

Very few first-time thefts involve large amounts. But once the thief realizes how easy it is to take \$100, he'll take \$200 the next time, then \$500, and so on. By the time he or she is caught, each individual theft can be thousands of dollars or more. Many people in leadership positions are surprised to find out that most theft is perpetrated by well-educated males in senior executive positions (61 %).

Theft most commonly occurs when there is:

1. A perception that the crime won't be noticed
2. An opportunity to commit theft
3. The rationalization that the company "owes" the perpetrator more than he is compensated

Employee Theft Statistics:

- The FBI calls employee theft "the fastest growing crime in America."
- The U.S. Chamber of Commerce estimates that 75% of employees steal from the workplace and that most do so repeatedly.
- One-third of all U.S. corporate bankruptcies are caused directly by employee theft.
- The Boston Globe and Denver Post newspapers recently reported that U.S. companies lose nearly \$400 billion per year in lost productivity due to "time theft," or loafing.



Fraud and Theft

Theft—Keep It From Derailing Your Business

Prevention steps & best practices

**Step 1 - Set the Example**

Start by creating a work environment that defines and reinforces anti-theft behavior. Owners and senior managers lead the way by clearly communicating to employees, customers, and vendors that the company is committed to honesty and ethically sound decisions. If leaders cut corners or shade the truth, there is no reason to believe those who follow will behave differently.

**Step 2 - Write Clear Policy**

Establish clear, written policies for all procedures and processes. Include an Ethics Policy that specifies how the company defines theft and the actions management will take when it is discovered. Make sure all employees have a copy of the policies so that no one can claim ignorance later. Then enforce the policies fairly and consistently.

**Step 3 - Check Backgrounds**

Make a background check and pre-hire assessment a routine part of the hiring process for all employees. Check vendors' dealings with other companies before approving them. Require references and check them.

**Step 4 - Set up a system of internal controls**

Segregate duties such as making deposits and reconciling statements, approving and paying invoices, authorizing and signing checks, keeping payroll records and writing payroll checks, and receiving payments and posting them to accounts receivable. Monitor controls and their effectiveness, and have an outside CPA review them annually. Make unannounced spot checks periodically.

**Step 5 - Increase the perception of detection**

The single most effective way to prevent theft is to make clear that it will not go undetected. Cross-train employees to cover vacations and illness, and make all the internal controls visible.

Fraud and Theft

Summary



It is impossible to completely avoid fraud, theft, and violence, but it is possible to improve certain aspects of the work environment. Employee screening, consistent, and purposeful onboarding practices, and development of an intentional organizational culture can result in:

- ✓ Reduced liability/cost for your organization
- ✓ Improved engagement
- ✓ Increased productivity
- ✓ Strong overall employee morale

Help your employees and ultimately your organizations by:

1. Defining fraud, theft, and workplace violence so that everyone in the organization is aware of symptoms and how to identify them
2. Establishing clear policies and procedures, and providing safe and reliable reporting processes
3. Communicating those policies and procedures regularly to all employees, as well as to contractors and vendors
4. Assessing all candidates in order to learn their basic work-related values, and to gain insight into an applicant's work ethic, reliability, integrity, propensity for substance abuse and attitudes toward theft
5. Assessing current employees in order to gain insight into their thinking and reasoning styles and relevant behavioral traits, and to understand how an individual's personality could affect his fit with his manager, coworkers and team, and his job performance
6. Using consistent, in-depth and objective insight provided by Profiles solutions to help managers motivate and coach employees, as well as resolve post-hire conflict, and performance issues

imagine great people™

Profiles International – Who We Are

Profiles International is the best source for talent management solutions, with over 20 years' experience and more than 40,000 clients in over 120 countries. Our data-driven talent management solutions – built on complex behavioral science, yet simple to administer and read – help you find the right people, shape them into a winning team, and lead them to their full potential.

Contact Us

