


## Fraud Prevention Procedures & Management Involvement

Cite this lesson 

This lesson will delve into fraud's effect on business, fraud prevention procedures, and how prevention programs can be sold to management level executives.

### Risks of Fraud for Businesses

No matter the size or type of business, fraud can happen. **Fraud** is the act of lying or committing crimes in a business for one's own gain, whether financial or personal.

Many people don't know that their actions can actually be considered fraudulent, while others see the benefits as outweighing the risks, or simply don't care. Often, employees feel a constant pressure to succeed or outperform their peers, leading to them to make criminal choices, and putting themselves and their company at risk.

This is why **fraud risk management** is so necessary in business today. Business owners and managers alike have to create fraud risk management programs from the inception of their company to assure that employees know the risks of committing fraud. Let's take a look at some fraud prevention procedures.

### Fraud Prevention Procedures

Though anti-corruption laws like Sarbanes-Oxley and the U.S. Foreign Corrupt Practices Act exist, it is important for companies to create fraud prevention procedures. These should fit the business size and product, but generally, there are procedures that all companies can use:

- Employee Awareness - know your employees. This may mean background checks, or assessments of work on a regular basis. Additionally, managers should keep an eye out on their employees, if they have a reputation for lying or petty behavior, managers need to be more aware of their actions.
- Employee Education - educate your employees as to what is considered fraud and its legal consequences. Employees should understand that more than their job is at risk.
- Effective Communication - use anonymous reporting procedures so employees feel empowered to report potential fraud. Low-level employees should know they have the same ability to report as an executive does.
- Reporting - employees and executives should make sure to report and document daily activities. A constant set of documentation allows for review and clarification if issues arise. If a business does not know what

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happened last week or last month, it will be impossible to detect fraud when it happens.

- Checks and Balances - audits and assessments should be set up at every level of the company. Unexpected reviews can also help catch fraudulent activity.
- Respect and Reward - make sure employees are already feeling respected and well valued within their position. Some ideas include offering competitive pay, benefits, and rewards. If an employee feels frantic to keep up, or threatened by others, they are more likely to commit fraud to get ahead.
- Follow the Rules - handle fraudulent issues the same way, no matter who is involved. A manager committing fraud should experience the same consequences as a new employee. Creating a culture where the rules for committing fraud are always followed will deter future occurrences.

Say Lucy was given a background check before she was hired at Company B. When she was hired, she was trained on fraud, what it is, and how it can affect not just her but the business. Although Lucy knows of fraud, she is worried that she is not going to move up within the company, because so many of her peers have tenure. Lucy starts to trade insider information with Company C.

She does this because she thinks it will secure her a higher position with Company C at a later date. Lucy's manager Eric catches Lucy sending the information by email, which is something he checks off and on. Lucy is then fired from her position and prosecuted.

## Prevention Programs and Management

All these prevention methods cost money and time. How does a fraud prevention rep convince management to accept these changes and invest in this type of program? It all comes back to the bottom line, so a rep will focus on fraud affecting:

- Income
- Reputation in the community
- Reputation with peer businesses
- Trust from customers and investors
- Overall stability

Fraud has brought down companies due to bad press. Customers shy away from what they now consider a 'shady' company. This should be emphasized to help a company realize how important preventative measures are. It is always best to create a program before there is a problem, then to have to react to an issue already happening.

## Lesson Summary

**Fraud** is the act of lying or deceiving another in hopes of personal gain from another's loss. Since fraud happens within the business environment, it is important to create **fraud risk management** with preventative procedures to assure fraud is actively deterred. Procedures should range from effective communication and reporting, to training and reviewing new employees.

Creating rules for dealing with fraud and sticking by them will help employees realize the consequences of this behavior. These procedures can take time and money, but a company can lose income, stability, and even their reputation from fraud. With the bottom line in mind, preventative measures are well worth it.

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## Worksheet: Fraud Prevention Procedures & Management Involvement

<https://study.com/academy/lesson/fraud-prevention-procedures-management-involvement.html>

### 1. What option below does fraud NOT effect?

- Income
- Stability of the business
- Current fraud laws
- Reputation

### 2. What is fraud?

- the act of lying in a business environment
- the process of lying to help someone else
- lying for personal gain and loss of another
- the act of lying

### 3. How can a business set up effective communication for employees to report fraud?

- Public tribunal
- Anonymous emails or phone lines
- One-on-one meetings with peers
- One on one meetings with management

### 4. What can a business provide to its employees as a fraud prevention procedure?

- Competitive Pay
- Audits
- Background check
- Reporting

### 5. If Company A has a no tolerance policy for fraud requiring termination, what should happen if a manager who has worked for a company for 20 years commits fraud verses a a new hire that was just hired?

- The new hire should be fired, while the manager should be given a warning.
- The new hire should be given a warning, while the manager is terminated.
- The new hire and the manager should both be given a warning.
- The new hire and the manager should both be terminated.