

Dealing with Deceit

The top five things to do when you suspect fraud at your organization.

BY PETE MILLER

FRAUD IS A SIGNIFICANT PROBLEM FOR organizations of all kinds, from publicly traded corporations to community-based not-for-profits. According to the 2014 *Report to the Nations on Occupational Fraud and Abuse* conducted by the Association of Certified Fraud Examiners (ACFE), 5 percent of annual global revenue is lost to fraud — and that figure only includes fraud that is discovered or reported.

From our experience, we see the toll that fraud takes on our clients. Beyond the loss of money, confronting fraud taxes you mentally and emotionally, it distracts you from your core business, and it can negatively impact your reputation if not handled correctly.

To minimize financial and operational damage, it's important to stay calm and follow a step-by-step plan to help you deal with fraud more efficiently and effectively. Here are five simple steps you should take if you suspect fraud at your organization.

1. Do something. While it is important not to overreact immediately when confronted with fraud, it's equally critical not to under-react. When a trusted member of your team appears to be doing something wrong, it can be tempting to sweep things under the rug. Ignoring fraud tells perpetrators and would-be perpetrators that they are free to do as they wish without consequences. Trust us: ignoring fraud always makes it worse. However, never take employment-related action without having solid evidence on your side. Doing otherwise is begging for a wrongful-termination lawsuit.

2. Be discreet. While some perpetrators are surprisingly brazen — especially those who feel they are entitled to what they are taking — most are paranoid and constantly looking for

signs they have been detected. If fraudsters become aware that others know, they may try to destroy evidence or otherwise cover their tracks, which can make it difficult or impossible to prove wrongdoing or prevail in a court of law. That's why you should do everything you can to avoid alerting them to your suspicions until you absolutely have to. A good certified fraud examiner (CFE) can usually find ways to investigate without being too obvious.

3. Get help. Don't try to handle fraud on your own. That path is fraught with legal and accounting issues. The first call you should make is to your attorney. The next call should be to a trusted accountant with experienced CFEs on staff. CFEs know where to look for evidence of fraud, how to preserve that evidence and, if necessary, how to explain it to judges, juries and law enforcement. You will also need to get your insurance company involved if there is evidence that fraud has occurred. If you have an employee dishonesty policy in place, you may have grounds for a claim under that policy and the ability to recover some of your losses.

4. Set an example. Once fraud is confirmed, you may have a choice of penalties. There are three basic levels of consequences for fraud: termination, a civil lawsuit, and criminal prosecution. We encourage our clients to impose the severest penalty allowed by law — all three if possible. It may seem harsh, especially if the perpetrator is a formerly trusted employee or even a friend, but everyone in your orga-

nization needs to know there is zero tolerance for fraud. Otherwise, you risk encouraging other would-be perpetrators down the road, and that's not in anyone's best interest.

5. Make positive changes. No matter what your situation, it's never too early to take preventive measures against fraud. For one thing, it's key to recognize the importance of internal controls. It's

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tempting to trust external audits, but these are not designed to uncover fraud. The CFE study cited earlier shows that external audits are one of the less common ways of detecting fraud.

Fraud can happen to anybody. It's important to get beyond the initial shock and disbelief and approach the problem rationally and with the same strategic awareness you would any other business decision. Using proven approaches, it is possible to recover from fraud or, even better, reduce the risk of it occurring in the first place.

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