Kari:	Welcome to Take 5. Plante Moran's podcast to deliver valuable information in five minutes or less. I'm Kari Shea, a Senior Associate in our insurance practice and I'm here today with one of our senior fraud evaluation service team members, Eric Conforti. Eric and I want to talk to you about the impacts embezzlement and fraud can have on an organization, and the guidelines you should follow to reduce the risk of fraud. As an auditor, we are continually stressing the importance of internal controls and the fact that instances of fraud continue to increase.
Eric:	Unfortunately, fraud is a problem for most companies, even if they don't realize it. It's estimated that the typical organization loses about 5% of its revenue to fraud each year. That translates to a potential global fraud loss of nearly 3.7 trillion dollars.
Kari:	I think it's also important to note that both large and small companies can be vulnerable and when a company becomes the victim of fraud, it effects more than their bottom line. It effects every single person in the organization.
Eric:	That's why it's important for organizations to review their financial processes. By giving their employees education to detect, deter and report fraud, a company can protect both its finances and its people.
Kari:	Eric, are there certain guidelines that companies should follow?
Eric:	Absolutely. There are many ways to reduce the risk of fraud. Some good first steps are in the hiring practices. Start with performing background checks, contacting references and verifying educational degrees. Make sure you have a strong written code of ethical conduct that defines improper and illegal behavior. When someone is hired, make sure they're given that code and that they read and sign it. Also, from their very first day on the job, let employees know there is zero tolerance for improper business conduct or fraudulent activity, and if an event occurs, you must take fair, disciplinary action.
Kari:	I know that for a lot of people to understand that I'm boarding the right employees is a very important step, but what types of procedures should companies have in place for some long term protection?
Eric:	Well companies should implant internal controls that ensure every transaction is properly authorized, recorded and reported, and that all assets are safeguarded. Some safeguards could include securing firm assets within controlled areas, verifying vendor and client information such as performing Google searches on addresses or looking up registration documents on state websites, and random periodic checks of accounting activities. Be sure not to just ask questions, but to get the answers as well. We've seen too many times where the right question was asked, but it was shrugged off and no follow up was performed.
Kari:	Let's spend a minute talking about empowering employees. We know that typically in organizations workforce is their largest and most effective reporting source. When employees are given tools to report policy violations, they are given a clear signal that management is committed to the elimination of dishonesty in the workplace.

Eric: Exactly. It's important to take time to educate employees about fraud and how it effects the company. It's also a good idea to offer ongoing training that alerts employees to what fraud is and how it is prevented and detected. Organizations should also give employees, vendors and their customers opportunities to report concerns about fraud. This could be done through telephone hotlines, emails, web based portholes, faxes or even face to face meetings. The key is that the method is clearly communicated and understood. Also, anonymous reporting, either internally or through an independent service provider, can help employees feel their information has been shared in a safe and confidential manner.

We've performed multiple investigations where employees knew of the fraudulent activity but they didn't know who to tell or they were too scared to speak up because it was their own boss committing the fraud.

Kari: In my experience, it's also important to encourage and empower employees to utilize the services and procedures put in place. There is often a negative stigma attached with whistle blowing, but encouragement from senior management, as well as ongoing training and support from the organization, can really strengthen a [inaudible 00:03:51] option program.

Eric: I couldn't agree more. Essentially it all comes down to creating a culture of ethics and compliance, along with an open door policy and effective channels for reporting concerns.

Kari: That about does it for us. If you have any questions, feel free to reach out to either Eric or I. Thanks for listening.