

Employee Fidelity/Workplace Fraud

Disappearing petty cash...false billing...bogus cheques...altered expense claims...credit card fraud...financial misrepresentation...

Theft occurs in all kinds of organizations including small, not-for-profit agencies, retirement homes, schools and faith communities. Sadly, the culprits are often ‘insiders’ — managers, employees and volunteers who were once valued and trusted members of the community. Employee fraud ranges from simple theft — taking donations from a collection box in a place of worship or stealing cash and other valuables in a care home — to cheque forgery, bogus invoices, and elaborate accounting schemes. In some cases, employees have diverted small sums on a regular basis. Over a period of years — even decades— this has added up to very large amounts of money.

According to the Association of Certified Fraud Examiners (ACFE), the typical fraud case in Canada results in an average loss of some \$90,000 with statistics showing billing schemes to be the most common, present in more than a third of fraud cases¹

The first step in dealing with employee dishonesty is to recognize that the risk exists in virtually every organization. The next step is to identify vulnerable areas where fraud might occur — for example, cash donations, banking, bookkeeping, ordering of supplies, etc. This exercise should not be limited to your organization’s leadership. By including employees and volunteers, even in an informal way, you send a clear and powerful message about your organization’s standards and the benchmarks you have set for workplace behaviour.

10 Best Practices

The following are among the best practices that can help your organization prevent workplace fraud.

- 1. Background and Credit Checks:** Include background checks as part of your hiring practices. The same checks should be performed when bringing volunteers on board. Include credit checks for individuals who will be handling cash or other funds.
- 2. Code of Conduct:** Develop a Code of Conduct that includes policies, processes and controls to prevent fraudulent behavior. Make sure that everyone reads it and signs a form acknowledging that they have done so and that they agree to the policies and procedures outlined.
- 3. Training:** Train employees to be watchful at all times. Develop a way for people to ‘anonymously’ report violations or suspicions of fraudulent behaviour.

4. The Two-Person Rule: Establish a dual control system for handling funds. A policy that requires two people *in unrelated positions* to handle money will greatly reduce both the temptation and the opportunity to steal.

5. Access: Keep the number of employees who have access to financial matters as small as possible. When you minimize access, you minimize risk.

6. Donations: If your community accepts cash donations, make sure that they are deposited on the same day and not left overnight. Use the two-person rule to have funds counted and deposited. The two-person rule should also be implemented for donations that come in by mail. If funds must stay on your premises, keep them in a safe or locked office. If possible, ask regular donors to use electronic funds transfer to make donations.

7. Audits: Conduct regular audits...including surprise audits. Inform everyone that audits are routinely undertaken and that information is actively sought regarding fraudulent behaviour.

8. Vendors and Suppliers: To avoid phony invoices and other billing schemes, make sure that vendors and suppliers have been vetted and approved.

9. Formal Approval Process: Set dollar limits for employees and volunteers who order products and services. Beyond these limits, additional signatures would be required.

10. Financial Records: All records should be safely stored. Optimally, computer backups should be cloud stored or stored off site.

By implementing these best practices — and, if possible, by establishing a finance committee to oversee all financial matters — your organization will go a long way towards mitigating the risks of workplace fraud and protecting your reputation. By safeguarding your donations, you will also be safeguarding the trust of your donors.

¹**Association of Certified Fraud Examiners (ACFE's) 2012 Report to the Nations on Occupational Fraud and Abuse.**

For more risk control information, please consult an Ecclesiastical Risk Control Specialist in your region or visit www.ecclesiastical.ca

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