



# **My experiences with Employee Fraud**

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## **Introduction**

- ***The present industry scenario is most prone to losses due to Fraud not only associated with external agencies , but more so with internal agencies ( employee)***
- ***Fraud is not going away . If history has shown us anything , it is that fraud will evolve as criminals regroup and exploit weaknesses and vulnerabilities of new processes.***
- ***The battle is not over; it will simply be fought elsewhere and in other ways.***

***‘ Do not outplay the opponent, but outthink him’---  
Douglas Jardin***



## Clarification

**This presentation is basically not confined to the organizations I have been employed in but also includes cases where I have had the privilege to advise or assist in**



**Approach**

**Industry**

**Risk**

**Management**

**Action**



## **Fraud Root Causes**

- **Policy**
- **People**
- **Procedure**



## **Employee Fraud**

- **Theft or improper use of resources by employees**

### **Common Themes in Employee Fraud**

- **High degree of trust in employee involved**
- **Lack of internal controls**
- **Undue reliance on audit process (lack of checks and balances)**
- **General failure to pay attention to details/ Red Flags**



## **Why employees commit fraud.**

### **Greed, or Need?**

**One element common to most fraud offenders is that almost none of them took their jobs for the purpose of committing fraud - they are typically first-time offenders.....**



## How do good people go bad?

- **Two main reasons:-**

- A study found that nearly 90% were engaged in some form of "workplace deviance," which included behaviour such as time-sheet abuses and petty pilferage - one-third of employees had actually stolen money or merchandise on the job.
- The great majority committed fraud to meet their financial obligations.



## Essential factors for fraud

- **The other factors that prompt employees to commit fraud.**
  1. They must perceive an **opportunity** to commit and conceal their crimes;
  2. Be able to **rationalise their offences** as something other than criminal activity.



# Reducing Fraud Risk Probabilities

**Prevent.**

**Deter.**

**Solve.**

**Mitigate**

# Internal Control

A Process to provide reasonable assurance of :

*Reliability*

*Effectiveness/Efficiency*

*Compliance*

# What Is Internal Control?

Control Environment

*Sets the tone of an organization.  
Influences control consciousness  
Foundation for all other components*

Risk Assessment

*Identification and analysis  
Relevant risks to objective achievement*

Control activities

*Policies and procedures  
Achievement of Management  
objectives*

Information /  
Communication

*Data Analysis and Exchange*

Monitoring

*Processes that assesses quality of  
internal controls over time*

# Risk Factors

Lack of management oversight

Inadequate job applicant screening

Poor recordkeeping

Inappropriate transaction authorization and approval

Inventory that is small in size, high in value, or in high demand or lack ownership identification

Poor segregation of duties or independent checks

Poor physical safeguards

No mandatory vacations for control function employees

Unduly large amounts of cash on hand or in process.

Lack of timely and appropriate transaction documentation

Easily convertible assets

Inconsistent, vague, or implausible responses to inquiries or analytical procedures.



# Methods Used



*Asset  
Misappropriation*



*Fraudulent  
Statements*



*Corruption*



## Cases

### Banking

- Credit Card Docket – is this a fraud
- Form 16
- Calcutta Staff
- Chandigarh Loans Case
- ATM Cash misappropriation

### IT / ITES

- Data Base theft
- Impersonation
- RAM thefts
- Over Invoicing
- Missing Computers

### Transportation

- Courier – Debit card

### Hospitality

- Banquets
- Room Sale



# **Fraud Prevention Strategies**

# Strategy #1:

***Creating a strong internal control structure.***

*Risk Assessments*

*Documentation of System*

*Segregation of Duties*

*Supervision*

*Documenting Transactions*

*Transaction Approvals*

*Access to Resources*

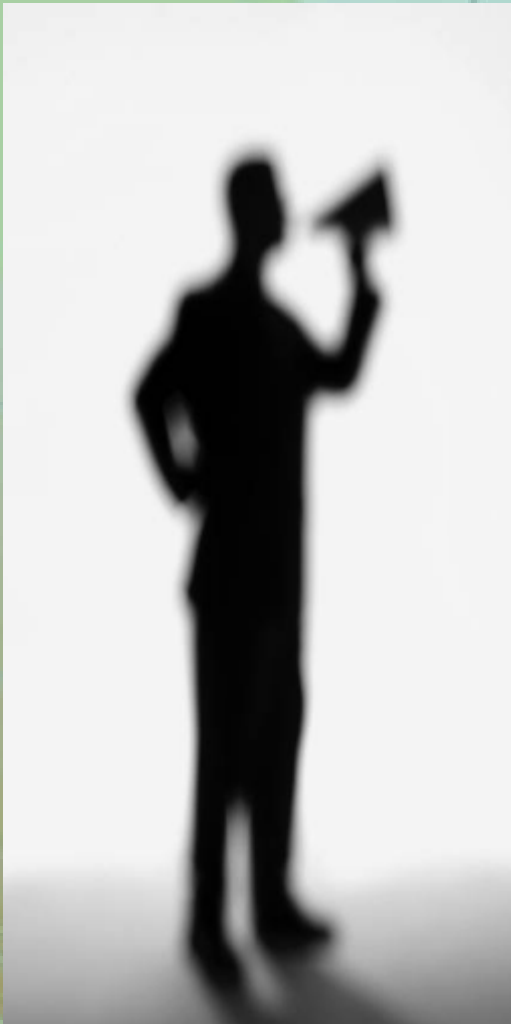
## **Strategy #2:**

***Establish & Enforce a formal fraud policy.***

- 1. Written policy signed by all employees***
- 2. Establish or outsource a whistleblower hotline***
- 3. Create rewards for whistleblowers***
- 4. Prosecute perpetrators***
- 5. Management sets example and encourages team effort to prevent fraud***

## **Strategy #3:**

***Know key financial trends and indicators.***



*Review key benchmarks and ratios monthly or weekly*

*Review general ledger detail on income/expense records*

*Establish and post targeted profitability goals by department*

*Mandate monthly reconciliations by independent personnel of all accounts*

## **Strategy #4:**

***Recruit Third parties to audit.***

*Annual independent  
audits*

*Insurance policy reviews*

*Employee contracts  
review*



## **Strategy #5**

*Watch for **RED FLAGS**  
signs among the team.*

# RED FLAGS

*Gambling  
or other  
expensive  
habits*

*Drug  
abuse*

*Financial  
difficulties*

*Living  
beyond  
means*

*Turning  
down  
promotion  
transfers*

*Avoids  
vacation  
breaks*

*Avoids  
delegation  
of tasks*

*Unusual  
work  
schedule*

## **Strategy #6**

***Create in-house or outsource professional counseling for employees.***



**Gambling or other expensive habits**

**Family illness or other crises**

**Drug and alcohol addictions**

**Financial problems**

**Divorce and major life changes**

**Organizational issues**

A stylized world map showing the continents in a color gradient from light green at the top to dark brown at the bottom. A grid of latitude and longitude lines is overlaid on the map. The text "THANK YOU" is centered in the lower half of the image.

**THANK YOU**