



TWO MORE EFFECTIVE WAYS TO PREVENT FRAUD

Kenneth Lay and Jeffrey Skilling have been convicted of their crimes while at the helm of Enron. Lengthy jail terms appear likely for both.

While these are significant events in the battle against organizational fraud, the war must persevere as long as human greed, at times, overcomes human integrity. Thus, fraud prevention continues to demand our full attention and best efforts.

Undoubtedly, and as we have discussed previously, the most cost effective way to deal with fraud is by preventing it from occurring in the first place. A number of studies have established that once an organization has been defrauded it is unlikely to recover its losses. The median recovery is only 20% of the original loss, and almost 40% of victim organizations recover nothing at all. This is the case even when criminal and/or civil actions are pursued.

In April, we addressed two of the most successful ways of preventing fraud, the unequivocal ethical tone at the top of an organization and an anonymous tip program. Two more ways of preventing fraud that have been proven successful are internal accounting controls and background checks.

Internal accounting controls are measures put in place to, among other things, safeguard against fraud, waste, and inefficiency, promote accuracy and reliability of accounting information, and encourage compliance with company policy. To be effective, internal controls must not only be well thought out and uncompromisingly implemented, they must never be intentionally circumvented. One of the most significant fraud risks is management override of internal controls.

Background checks should be conducted prior to hiring all new or returning employees. Current employees should also undergo periodic checks. Credit reports and arrest, criminal, and civil checks are all advantageous and easily obtainable.



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