



## Human Resources: Hire Education -- A Proactive Approach to Deterring Employee Fraud

### Don't underestimate your chances of being defrauded by an employee

Small businesses are highly susceptible to employee fraud. The extent of damage suffered by a company when fraud occurs depends on its ability to replenish cash through operations. However, due to the limited resources that made the company vulnerable to fraud in the first place, many never recover. All employers should take a proactive approach to deterring fraud by focusing on its source: people.

Most businesses underestimate their chances of being defrauded. For instance, recent fraud surveys reveal that 12 percent of white-collar criminals are repeat offenders. They go from job to job, ripping off companies at every stop. What's worse, this statistic is grossly understated because most white-collar criminals are never reported to the authorities. Furthermore, business owners should be cautious about overly relying on traditional advisers to notify them about potential fraudsters. For example, if an employer's CPA has knowledge of a prospective employee who committed fraud at a previous job, the CPA is precluded from divulging this information. Doing so would be a violation of current professional standards.

Here are some easy-to-implement policy areas that can help your business address the risk of employee fraud.

**Background Check** - Performing a background check can be an inexpensive, yet valuable tool to deter fraud. Two effective online criminal background check databases you can use are the [Michigan Department of Corrections OTIS \(Offender Tracking Information System\)](#) and the [Michigan State Police ICHAT \(Internet Criminal History Access Tool\)](#). Each can assist you in identifying past convictions of a potential employee.

**Employee Reference Verification** - All employers should check a potential employee's references. Keep in mind, however, that most organizations will not provide a positive or negative reference about the employee. Note any chronological gaps in the applicant's work history and determine the reason for the gap. Gaps that represent omitted employment should be further investigated. If the job has especially high risk, consider bonding the employee. The surety bond process performs more detailed reference verification of the employee and can reveal other potential problems.

**Company Handbook** - When properly designed and enforced, an employee handbook can be a very potent tool in fraud deterrence. Such handbooks should define the employee's role in the company and establish high expectations for appropriate behavior. The company's zero tolerance policy regarding illicit employee conduct should be clearly linked to consequences, including possible probation and termination.

**Human Resource Attorney** - Employers should also consider consulting a human resources attorney. These attorneys will help employers understand the legal boundaries of employment and hiring practices. Knowing your rights as an employer and the rights of the employee will allow you to act decisively and legally when employee wrongdoing is expected.

Employment-related matters should be referred to an experienced attorney to avoid inadvertently violating employment laws or regulations.

*This article was written for Tips4Biz by Harry Cendrowski, CPA, president of [Cendrowski Corporate Advisors](#) in Bloomfield Hills, a Gold-level member of the Detroit Regional Chamber.*