

Executive Briefing



Leader's Guide to Managing Workplace Fraud, Theft and Violence

Profiles  International[®]

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Org  Commit
People who power your bottom line.

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Fraud, Theft and Workplace Violence

Introduction

“

95%

of companies are **victims of theft**

10%

of companies **discover they are victims of theft**

”

Fraud, theft & workplace violence impacting your bottom line?

Of all the reasons that businesses fail in today's market, challenges such as competition, financial mismanagement, leadership failure and disconnection from consumers are sure to top the list. A less commonly recognized factor is the costly challenge of managing fraud, theft and workplace violence.

Employee fraud is on the rise, soaring from \$400 billion in lost revenue for U.S. businesses in 1996 to over \$600 billion in 2003. While many organizations have implemented background checks as a requirement for employment, the majority of employees who steal—68.6 %, according to Association of Certified Fraud Examiners—have no prior criminal record.

A study conducted by the University of Florida estimates that employee theft is the cause of about 48% of inventory shrinkage in business. That's equal to more than \$15 billion per year. The study goes on to estimate that the average loss cost per employee is in excess of \$1,300, which is significantly higher than the cost normally attached to individual incidents of shoplifting, which is just over \$207. Consequently, businesses are forced to spend a great deal of time, effort and money on loss prevention.

Even more disturbing, violence in today's workplace accounts for more than \$60 billion in lost productivity each year according to the Bureau of Labor Statistics. The Justice Department reports that one-sixth of all violent crimes in the U.S. occur in the workplace.

This executive briefing will help you:

- Define the problem
- Highlight scenarios and identify bottom-line impact
- Explore prevention steps & best practices
- Examine effective solutions and tools

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1. Defining the Problem—Fraud in the Workplace

What is fraud?

In the simplest terms, **fraud occurs when someone knowingly lies to obtain benefit or advantage, or to cause some benefit that is due to be denied.** A recent report from American Data Bank shows that up to 30% of employment applications contain false information.

The Record on Workplace Fraud

- 18:** Number of months before the average fraud scheme is detected anonymous letter
- 85:** Percentage of worst frauds committed by insiders on the payroll
- 55:** Percentage of perpetrators who are managers, up from 33% in recent years
- 30:** Percentage of business failures due primarily to employee theft
- 27:** Percentage of employees who say they feel comfortable reporting fraud on a confidential hotline managed by people outside the company
- 20:** Percentage of employees who feel comfortable reporting fraud in an
- 44:** Percentage of workers who say their companies could do more to reduce fraud
- 60:** Percentage of companies with staff trained to deal with fraud and ethics-related issues, up from 30% in 2000
- \$60,000:** Median loss when managers and executives are involved in fraud

TYPE OF CHECK & RESULT	INDUSTRY					
	Manufacturing	Health Services	Food Services and Stores	Business Services	Transportation	Retail
Criminal Hit Record	5%	6%	8%	4%	5%	7%
False Information on Resume	42%	49%	54%	48%	89%	49%
Credit Record with Negative History	37%	40%	51%	33%	28%	36%
Workers Compensation	14%	6%	14%	1%	12%	7%

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2. Fraud—The High Cost of Stretching the Truth

That little white lie could actually be a crime

Vetting fraudulent resumes is a growing challenge for HR professionals.

Applicants often consider resume fraud to be nothing more than a little white lie, but the reality is that fraud can cost companies millions. In fact, falsifying employment materials is illegal in some states. Because of economic repercussions, vetting through fraudulent resumes is a growing challenge for HR professionals.

CBS reported that, according to experts, three out of ten people lie on their resumes. In a tight economy in which the Congressional Budget Office predicts unemployment to hold around 10%, more job seekers will be desperate enough to stretch the truth.

A couple of the well-publicized resume fraud cases include:

- Notre Dame Football coach George O’Leary lost his job in 2001—mere days after taking the post—when it was revealed that there were serious inaccuracies on his resume, including a master’s degree from a non-existent institution.
- Marilee Jones was dean of admissions at MIT for 28 years, until it was discovered that she had falsified educational information. Jones was forced to resign.

Statistics and estimates from human resources studies indicate that between 15 and 40% of all resumes contain an intentional misrepresentation. Common misrepresentations include falsifying educational credentials and intentionally skipping over questions, or lying in response to questions about criminal backgrounds or legal offenses.



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3. Fraud—Invest in Investigation



Go above & beyond to ensure that your candidate is who he says he is

All organizations should raise their levels of skepticism.

Companies that are serious about preventing and identifying resume fraud simply must invest in developing HR staff, or they should outsource assessments and background checks. All organizations should raise their levels of skepticism, look for inconsistencies and demand thorough verification from job candidates.

Suggestions from a *Wall Street Journal* article “How to Spot Resume Fraud”:

1. Confirm the circumstances of every change in employment—voluntary or involuntary—with a candidate’s previous employers.
2. Don’t restrict yourself to calling only the references provided by a candidate. Seek additional references, such as former colleagues, supervisors or direct reports.
3. Don’t assume that candidates provided by an executive search firm are well-vetted.

“
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4. Theft—More Serious Than Most Business Leaders Realize

Wrong is wrong is wrong

Regardless of the line of work, the fact is that people take things when they have no right to. Theft is the wrongful taking of another's property without consent. It presents a problem for all organizations whether they are corporations, limited liability companies, partnerships or nonprofits. Regardless of the line of work, the fact is that people take things when they have no right to. Worse yet, they take things they have a professional obligation to protect.

Several truths that may be surprising

Very few first-time thefts involve large amounts. But once the thief realizes how easy it is to take \$100, he'll take \$200 the next time, then \$500, and so on. By the time he or she is caught, each individual theft can be thousands of dollars or more. Many people in leadership positions are surprised to find out that most theft is perpetrated by well-educated males in senior executive positions (61 %).

Theft most commonly occurs when there is:

1. A perception that the crime won't be noticed
2. An opportunity to commit theft
3. The rationalization that the company "owes" the perpetrator more than he is compensated

Employee Theft Statistics:

- The FBI calls employee theft "the fastest growing crime in America."
- The U.S. Chamber of Commerce estimates that 75% of employees steal from the workplace and that most do so repeatedly.
- One-third of all U.S. corporate bankruptcies are caused directly by employee theft.
- The Boston Globe and Denver Post newspapers recently reported that U.S. companies lose nearly \$400 billion per year in lost productivity due to "time theft," or loafing.



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5. Theft—Keep It From Derailing Your Business

Prevention steps & best practices



Step 1 - Set the Example

Start by creating a work environment that defines and reinforces anti-theft behavior. Owners and senior managers lead the way by clearly communicating to employees, customers and vendors that the company is committed to honesty and ethically sound decisions. If leaders cut corners or shade the truth, there is no reason to believe those who follow will behave differently.



Step 2 - Write Clear Policy

Establish clear, written policies for all procedures and processes. Include an Ethics Policy that specifies how the company defines theft and the actions management will take when it is discovered. Make sure all employees have a copy of the policies so that no one can claim ignorance later. Then enforce the policies fairly and consistently.



Step 3 - Check Backgrounds

Make a background check and pre-hire assessment a routine part of the hiring process for all employees. Check vendors' dealings with other companies before approving them. Require references and check them.



Step 4 - Set up a system of internal controls

Segregate duties such as making deposits and reconciling statements, approving and paying invoices, authorizing and signing checks, keeping payroll records and writing payroll checks, and receiving payments and posting them to accounts receivable. Monitor controls and their effectiveness, and have an outside CPA review them annually. Make unannounced spot checks periodically.



Step 5 - Increase the perception of detection

The single most effective way to prevent theft is to make clear that it will not go undetected. Cross-train employees to cover vacations and illness, and make all the internal controls visible.

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6. Violence in the Workplace—One-Sixth of All Violent Crimes in the U.S.



What is workplace violence?

Workplace violence refers to acts that originate from employees or employers, and that threaten employers and/or other employees. Homicide is now the third-highest work-related cause of death in the United States. The U.S. Bureau of Labor Statistics reports that homicide was the leading cause of death for women at work, accounting for 42 percent of on-the-job fatalities. The Justice Department reports that one-sixth of all violent crimes in the United States occur in the workplace.

Yet more than 70% of U.S. businesses have no policy or formal program to address workplace violence, according to Kim Wells, executive director of the Corporate Alliance to End Partner Violence.

Types of workplace violence:

1. **Employer-directed:** violence against workplace authority (supervisor, manager, director).
2. **Domestic-directed:** partner or would-be partner engages in violence against his/her partner or romantic interest.
3. **Property-directed:** acts against property owned by the company or employer.
4. **Commercial-directed:** an employee participates in events that damage the company or organization (can include theft of money or property).

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7. Violence—Scope and Magnitude



No organization is immune from the threat of violence in the workplace

In most cases, a person's work ethic, reliability, integrity and attitudes toward substance abuse and theft are an integral part of his natural behaviors and work-related values. There are often signs early on in the employee life cycle showing a propensity toward theft, questionable ethics and violent behaviors. Signs can be easily overlooked if you don't know what to look for. Proactive measures can reduce the likelihood of a tragedy and reduce the risk to your organization and employees.

Workplace violence can be caused by economic, societal, psychological and organizational issues. Changes at work such as department or company reorganizations, layoffs, new technology, mergers, recessions and unemployment can elevate stress to an unhealthy level. Workplace violence is more likely to occur in high-stress environments.

Workplace violence is more likely to occur in these situations:

- When staffing is too low, forcing employees to work alone or with inadequate co-worker support
- When workers are not trained to recognize potentially violent situations, or when there are too few safety measures in the workplace
- When leaders are unable to assess and determine which employees may exhibit violent or aggressive behavior
- When there is a lack of support from employers, managers and leaders
- When there is a prevalent attitude that "violence will never happen here"

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8. Violence—Top Warning Signs



Did you know...

Profiles Performance Indicator measures an individual's motivational intensity and behaviors related to productivity, quality of work, initiative, teamwork, problem solving, and adapting to change, as well as response to conflict, stress and frustration.

Is there a way to see it coming?

A recent study by The Workplace Violence Research institute **showed that in most instances of workplace violence the suspect exhibited multiple warning indicators** that included the following:

- ⌋ Increased use of alcohol and/or illegal drugs
- ⌋ Unexplained increase in absenteeism
- ⌋ Noticeable decrease in attention to appearance and hygiene
- ⌋ Depression and withdrawal
- ⌋ Explosive outbursts of anger or rage without provocation
- ⌋ Threats or verbal abuse to co-workers and supervisors
- ⌋ Noticeably unstable emotional responses including suicidal remarks
- ⌋ Paranoid behavior or increased mood swings
- ⌋ Talk of a plan to "solve all problems"
- ⌋ Resistance and over-reaction to changes in procedures
- ⌋ Increase of unsolicited comments about firearms and other dangerous weapons
- ⌋ Empathy with individuals committing violence
- ⌋ Repeated violations of company policies
- ⌋ Escalation of domestic problems
- ⌋ Large financial withdrawals from his/her account in the company's credit union

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9. Violence—Preparation and Prevention



8 Benefits of Workplace Violence Preparation & Prevention

1. Risk reduction
2. Improved employee morale
3. Enhanced supervisory skills
4. Early identification of issues
5. Business cost reduction
6. Improved ability to resolve conflicts
7. Reduced legal liability
8. OSHA compliance

Employees deserve a safe place to work; many state governments mandate it

Companies who do not take preventive measures open themselves up to liability and costly litigation. Establishing companywide policies, procedures and awareness training is a proven way to stop workplace violence.

During post-incident investigations, employees and co-workers stated that they observed one or more warning signs but considered them insignificant or just strange behavior. Unfortunately, these employees had not been briefed on how to recognize symptoms of potentially violent behavior, nor had they been instructed about how to report such information.

Even one incident classified as violence in your organization will result in:

- Public relations challenges
- Insurance claims
- Legal liability
- OSHA, EEOC, and Fair Employment Act Issues
- Possible ADA issues (some violent mental disabilities are protected by the ADA)

Six Keys to Establishing a Safe Workplace:

1. Make health and wellness part of the organizational culture
2. Take good security measures
3. Conduct continuing employee evaluations
4. Establish a confidential company hotline
5. Conduct a yearly review of all procedures
6. Develop a safe termination process

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10. Summary



It is impossible to completely avoid fraud, theft and violence, but it is possible to improve certain aspects of the work environment. Employee screening, consistent and purposeful onboarding practices, and development of an intentional organizational culture can result in:

- Reduced liability/cost for your organization
- Improved engagement
- Increased productivity
- Strong overall employee morale

Help your employees and ultimately your organizations by:

1. Defining fraud, theft and workplace violence so that everyone in the organization is aware of symptoms and how to identify them
2. Establishing clear policies and procedures, and providing safe and reliable reporting processes
3. Communicating those policies and procedures regularly to all employees, as well as to contractors and vendors
4. Assessing all candidates in order to learn their basic work-related values, and to gain insight into an applicant's work ethic, reliability, integrity, propensity for substance abuse and attitudes toward theft
5. Assessing current employees in order to gain insight into their thinking and reasoning styles and relevant behavioral traits, and to understand how an individual's personality could affect his fit with his manager, coworkers and team, and his job performance
6. Using consistent, in-depth and objective insight provided by Profiles solutions to help managers motivate and coach employees, as well as resolve post-hire conflict and performance issues