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An ounce of fraud prevention is worth a pound of cure

Highlights

- Preventing fraud is more efficient than detecting and investigating fraud after it happens.
- Increasing employee awareness about fraud goes a long way toward prevention.
- November 15-21 is Fraud Awareness and Prevention Week in the State of Minnesota.

Agency leaders use three methods for fighting fraud. They are: fraud prevention, fraud detection, and fraud investigation. It is likely that your agency uses a combination of all three approaches.

Fraud prevention is the most efficient and effective means for fighting fraud. It is a proactive approach intended to stop frauds from ever being committed, before any money or assets go missing.

Fraud detection is the second most efficient use of fraud fighting resources. All agencies expend some resources on fraud detection activities, such as account reconciliations and management reviews. These control activities both deter fraudulent activity and identify fraud after it has occurred. Using this approach alone, however, is less desirable than fraud prevention because detection occurs after the funds “have left the building” and because, once something suspicious is detected, an expensive investigation typically follows.

Finally, fraud investigation, if used alone, is the most inefficient and ineffective way to fight fraud. It takes place after a fraud has happened and the assets are gone. It is a reactionary approach, and often results in severe business disruption, damaged reputations, and a leadership team focused more on crisis management than the organization’s mission.

Perhaps the single most effective fraud prevention technique is increasing staff awareness about the risks fraud presents and the resulting negative impact to individual employees, the agency, and the state as a whole. Each employee needs to know that fighting fraud is part of his or her everyday job responsibilities. Specifically, all employees must be on the lookout for unusual or suspicious activities and report those

activities when spotted.

Anti-fraud, ethics, and code of conduct policies and procedures are essential for management to outline employees’ fraud prevention responsibilities and to serve as resources for employees when confronted with ethical or suspicious event questions or dilemmas. These resources must specifically identify the communication channels for employees to use if they become aware of fraud or other suspicious activities, and to inform potential whistleblowers of state and federal anti-retaliation protections.

Providing periodic fraud-related training is also important. Training routinely reminds employees of their fraud prevention responsibilities and the communication channels available to report suspect activities. It also provides information about the psychology of fraudsters, common fraud schemes, red flag indicators of fraud, and the internal control activities implemented by management to prevent and detect fraud.

Governor Dayton has [formally proclaimed](#) the week of November 15-21 as “Fraud Awareness and Prevention Week in the State of Minnesota.” This week is dedicated to raising awareness about fraud and educating employees about fraud prevention, detection and reporting techniques.

Suggested Action Steps: Senior leaders should support fraud awareness and prevention activities in their respective agencies. All employees should plan to attend a fraud awareness brown bag training session or take advantage of other training opportunities offered during fraud awareness week. It is important for all of us to learn more about fraud, its causes and effects, and what we can do individually and collectively to help prevent fraud in the State of Minnesota. For more information, go to mn.gov/nofraud.

If you have questions, please contact Mike Thone at Mike.Thone@state.mn.us or 651-201-8132.