

Preventing Employee Theft, Fraud

Employee theft and fraud is a perennial problem for businesses and one rogue employee can do serious damage to the finances of a company — and in many cases put them out of business.

Shockingly, 75% of employees admit to stealing at least once from their employer and employee theft costs U.S. businesses \$50 billion a year, [according to a report](#) by the career planning website Zippia. Whether it's a result of entitlement or just general dishonesty, employee theft comes in many forms and at varying degrees.

Understanding how employees steal

Understanding how theft happens can help you stay one step ahead of the perpetrators. The most common thefts fall into three categories:

Larceny — The stealing of property or cash. This is the easiest to detect because the cash or item usually has already been recorded on the books and adequate controls normally exist.

Skimming — This is the embezzlement of cash before it is recorded on the company's books. It can happen when an employee has the customer pay him/her directly for goods or services. Receivables skimming is when the amount owed is reduced on the books by write-off schemes.

Also, personnel who have expense accounts may submit receipts twice — or inflate their expenses and mileage.

Fraudulent disbursements — This includes billing schemes, payroll schemes, register disbursement schemes, expense reimbursement schemes and check-tampering. Schemes include fake payrolls (paying a person who does not exist) or purchasing fraud (where employees pose as suppliers of goods that don't exist, and then pay themselves or an accomplice).

Preventing crime before it happens

The following steps can offer a measure of protection:

Perform background checks — Make sure you contact previous employers, references and schools and look for signs of any misconduct in terms of stealing or fraud. And consider getting a police report on the applicant.

Consider giving an 'honesty test' — These are standardized, commercially available written tests that are psychological evaluations of an applicant or employee. While many believe these tests weed out people with a propensity to steal, others feel that they are inaccurate and violate privacy and civil rights.

Supervise your employees — Research has shown that businesses with low levels of employee supervision show high rates of employee theft. Keep your eye out for the telltale signs of theft, such as a rise in an employee always wearing new and expensive clothes.

Remember to be extremely careful about making accusations before conducting an investigation — a false accusation can result in a lawsuit against you.

Make it hard to steal — Don't allow only one person to deal with money. Conduct unscheduled inspections or audits of inventory and bookkeeping. Monitor bookkeeping records.

Create a fraud avoidance plan and set rules — Every company needs to develop a fraud avoidance and assessment plan and set the rules for consequences if an employee is caught embezzling money from the business. Proper planning will make sure that all employees know where the company stands regarding employee theft and will give business owners the confidence to handle it properly should it occur.

A plan should include:

- Pre-employment and periodic background investigations.
- Periodic checking and changing of computer passwords.
- Internal and/or external auditors.
- The specific consequences for theft, such as termination and reporting them to authorities.

Insurance

One smart way to protect your finances in case of a large theft or fraud is to have employee dishonesty insurance, which typically covers losses related to:

- Theft
- Safe burglaries
- Embezzlement
- Forgery
- Computer fraud (i.e., hacking, putting a virus on your computer, and using a computer to get customer information)
- Credit card fraud
- Counterfeiting
- Tampering with checks
- Shoplifting
- Fake invoices and receipts.

If you are concerned about employee theft, call us and we can walk you through how an employee dishonesty policy works.

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