



Take Steps to Deter Employee Theft in Your Business

Will your business be affected by employee theft? All employers hope the answer to the question above is no; however, most don't realize the opportunities that are available to their employees. When you examine employee theft statistics, the numbers are surprising. According to the U.S. Chamber of Commerce, fifty billion is lost annually due to employee theft and fraud. Seventy-five percent of all employees steal at least once, and half of these steal again and again. The Chamber also reports that one of every three business failures is the direct result of employee theft.

You are at a higher risk of embezzlement if:

- your business deals with a lot of **cash payments**,
- your employees have **inadequate supervision**,
- you have employees with a demonstrated **lack of integrity**,
- you have **inadequate checks and balances** or ignore those that are in place, or
- your staff fails to post financial transactions in a **timely manner**.

There are many factors that motivate employees to steal. Some of the reasons include living beyond one's means, desire for personal gain, close association with customers, feeling challenged to "beat the system", excessive habits and excessive pressures that include financial obligations. Only a few people will not steal under any circumstances. Each and every business, regardless of size, specialty or location, is a potential victim of employee theft and embezzlement. While everyone would like to believe that all our employees are honest, that naivety can endanger the financial stability of your business.

There is no foolproof way to ensure that internal theft will not occur, but you can create an environment where such behavior is deterred, and you can make it clear that there will be consequences for violators. While it is important to have processes in place to detect employee theft, it is better to implement practices that will deter theft. Below is a list of suggestions that could be implemented in a business setting.

Take Steps to Deter Employee Theft in Your Business (Continued)

This list is not all inclusive, but will be a good place to start.

- 1) Route the business checks to a lock box.
- 2) Review cash reports.
- 3) Reconcile checks with deposit statements.
- 4) Review bank and credit card statements.
- 5) Control check signers. Limit the number of check signers. Do not use a signature stamp, and keep the blank checks under lock and key. Do not sign blank checks.
- 6) Watch petty cash. Require a receipt for all petty cash disbursements and reconcile the cash activity. It is best to keep the balance small to limit the risk
- 7) Segregate bookkeeping functions – Do not let the same person process checks and manage the accounts receivable/billing.
- 8) Review the monthly bank statements. The bank statements should go directly to the owner/manager to be opened and reviewed before giving them to the person responsible for reconciling the accounts. This process will allow you to discover any improperly executed checks.
- 9) The person reconciling the bank statements should not have check writing authority or access to checks.
- 10) Know the regular vendors. It is important that the owner/manager knows which vendors regularly provide services and supplies to the business. The business should periodically check the mailing address of the person to whom the check is written against the home addresses of its employees. One option is to have the vendors setup by someone other than the person writing checks.
- 11) Watch for warning signs, such as employees not wanting to take vacations or suddenly showing signs of living beyond their means.
- 12) Have a process that includes the owner/manager for writing off accounts receivable.
- 13) Rotate employee functions. This process will decrease the likelihood of someone covering his/her tracks. Plus cross training has other benefits such as covering unexpected absences and vacation time.
- 14) The owner/manager should review the payroll reports.
- 15) Develop a written policy that explains the consequences of employee theft, no matter how small or petty.

Once controls are implemented they must be monitored, which takes time; however, monitoring should be as routine as the controls themselves and in the end can save the business both time and money. By eliminating opportunities for theft, you will create an environment that encourages employees to be honest. Report any case of employee theft to local law enforcement authorities. Although it may be embarrassing to admit that an employee is stealing, it is imperative to report the crime to protect other businesses that could hire that employee. Reporting these incidences also sends a signal to other employees that stealing is not to be tolerated.

We encourage all businesses to review their current processes and try to identify areas of weakness where theft can occur. In most businesses, particularly those that do not have an annual financial statement audit, it may be prudent to have a certified public accountant conduct an internal control study. CPAs who are experienced with business practices can help you uncover weaknesses and make recommendations to improve internal controls. Implementing checks and balances up front could prevent the hassle, stress and financial problems associated with employee theft.