Steven M. Ellard, CPA
Guiding clients toward financial success.

It's your business

preventing EMPLOYEE theft

Employee theft happens frequently enough for it to be a concern of every business. It makes no difference whether your business is a one-employee medical office or a forty-employee retail outlet. Absentee business owners should be even more alert to the problem of employee theft.

Protect your business

Busy managers find it easy to turn the recordkeeping over to a qualified employee. Don't do so without proper controls and constant review.

Consider these examples of the methods by which employees have been known to steal from their employers:

- Opening a checking account in a nearby community under the same name as the employee's company.
- Overpaying payroll taxes or large suppliers and asking for refunds which are then deposited in the employee's new company account.
- Convincing the employer that the independent accountant is an expensive luxury which the company can do without now that the employee is available to do financial statements.
- Soliciting the help of a supplier's employee, then overpaying the supplier and sharing the overpayment.
- Opening a checking account with the same name as the employer's major suppliers and then paying invoices twice. The first payment is sent to the supplier, and the second is deposited in the employee's "extra supplier account."

Some small businesses have paid a high price to learn about employee theft. Don't be lulled into thinking it could never happen in your business.

Learn to spot employee theft

Fraud most often develops over a period of time and will sometimes involve employees with outstanding track records. What would cause a long-term, trusted employee to go bad? Watch for employees who are under new pressures such as:

- Unusually large medical bills.
- Living beyond their financial means.
- Excessive use of alcohol or drugs.
- Large investment losses.
- Excessive gambling.

Also watch for a growing disregard for the company in favor of personal gain.

Identify problem areas

What circumstances in your company makes fraud or embezzlement easy? Small companies find it especially hard to segregate duties of employees. That can increase the chance of losses to the company. Watch for these problem areas:

- Inadequate accounting records.
- Too many related transactions handled by the same person.
- Too close a relationship between your staff and staff members of your suppliers.
- An employee who takes very brief vacations or no vacations at all.

Take steps to prevent employee theft

Many businesses have too few employees to provide for proper segregation of the duties. If one employee is allowed to handle too many functions, such as paying bills, collecting receivables, preparing payroll reports, handling petty cash, and making bank deposits, the company is wide open to fraud.

If you're a small business owner, you should stay close enough to the business transactions to be able to spot unusual problems with the receivables, payables, refunds, etc. Ask questions about accounts receivable balances from time to time. Insist on being the first one to open the bank statement. This gives you the opportunity to spot unusual checks, odd vendor names, etc.

Open all incoming mail from customers and vendors. This allows you to see customer complaints and adjustments to account balances.

If you pay your vendors by invoice, always pay on the same color of the vendor's invoice. This should eliminate the possibility of paying the same invoice twice, once on the pink copy and once on the yellow copy. Indicate the date of payment on paid invoices.

Set up internal controls

Have your accountant review your business and set up internal controls. This is the process of segregating duties to help minimize the possibility of fraud and creating safeguards to help prevent unintentional mistakes.

Various types of insurance against employee theft are available. If an employee circumvents the control system, insurance may help reduce the loss.

Protect company information

Employees can steal more than money and property. They can also steal "proprietary information," such as customer lists, business plans, and trade secrets. To protect your business against this kind of theft, consider the following:

- Have all employees sign nondisclosure agreements. If appropriate, ask consultants, suppliers, and customers for the same type of agreement. This is a complex legal area, so have a qualified attorney draft the necessary documents.
- Clearly mark what information is sensitive.
- Restrict access to confidential documents, whether they're stored on computer disks or in filing cabinets.
- Place shredders in convenient locations, and instruct employees to shred all unneeded documents and photocopies.
- Instruct employees how to handle inquiries for business information, especially on the telephone.

Your business is especially vulnerable to the theft of proprietary information when an employee leaves. Plan to handle departing employees very carefully and, if you have advance notice, consult your attorney beforehand.

If you'd like assistance in setting up reasonable internal controls to guard against employee theft in your business, contact our office. We're here to help.

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