Employee Theft, Prevention and A Bit of Cure
By Sheila May, CPA

Employee theft comes in as many forms as you can imagine. One in four employees who has committed fraud against their employer has been with the company more than ten years. An employee has unprecedented insight into the workings of a business, particularly a small business and is able to notice all the weaknesses inherent in a procedure. For example, an employee may notice the bookkeeper leaves the desk drawer unlocked during their lunch where the checkbook is unattended. An employee may notice a certain manager signs invoices in an absent minded way planting the seed for a scheme of overstated orders.

What to do? With theft, there are three things that can be done, two before and one after the fact.

1. Prevention: Come up with policies and procedures that involve two people or a separation of responsibility. A bookkeeper can write the checks and a manager can sign the checks. Keep cash locked up, signature stamps, and checks locked up.

2. Detection: Make sure someone who cares sees the results of the detailed financial activity. Even spot checking the day-to-day activity can reveal errors, if there are any. The accountant can reconcile amounts spent on different line items, cash drawers can be reconciled at the end of the day, and the president/owner can ask to receive bank statements.

3. Insurance: Get employee dishonesty insurance. This insurance protects the employer from financial loss due to the fraudulent activities of an employee or group of employees. The loss can be the result of the employee's theft of money, securities, or other property of the employer. An employer is protected from theft by its employees and covered losses due to burglary and destruction.