

# Preventing Employee Dishonesty & Crime Losses

## Employee/Volunteer Recommendations:

One of the most basic steps in preventing employee/volunteer theft is to not hire staff who have stolen previously. Before hiring anyone, you should conduct a background check to find out as much as you can about their previous experience with employers and law enforcement. Background checks should be completed on any employee or volunteer who will have constant access to cash, checks, credit card numbers, or any other items that are easily stolen. Before hiring, check as many of the following resources as possible:



- Past Employment Verification/Reference Checks  
Even though most employers will only verify position and dates of employment, you can usually tell by their tone of voice what they think of the employee. Also, ask the previous employers whether the applicant is eligible for rehire.
- Background Checks/Criminal Conviction Checks  
Background checks on employees and volunteers handling funds is one of the most important prevention tools you can use. Most public records services (such as Nexis or ChoicePoint) have criminal conviction records for almost every large county in the U.S. If not, you may go to the courthouse and search the criminal conviction records in the criminal courts division of the employee's county of residence (or other counties in which he or she previously resided).
- Drug Screening  
Many organizations are now conducting drug screenings for potential hires, as well as current employees. People who are frequent drug users can be more prone to theft or fraud.
- Education and Certification Verification  
It is recommended that you verify a person's education. Also, if the person claims to have a license or other certification, call the issuing organization for verification. It is not that unusual for someone to claim a certification or license that has actually been revoked, due to a disciplinary action. Most licensing or certification organizations, including the Association of Certified Fraud Examiners, will tell you if any disciplinary action has been taken against a particular member.
- Get the Consent of the Candidate  
Numerous federal and state laws, such as the Fair Credit Reporting Act, govern the gathering and use of information for pre-employment purposes. Many of these laws require that you obtain written consent from the candidate before gaining some types of information. It is important to obtain a signed authorization and release from a potential candidate, along with their employment application.

## Policies and Procedures that Help Deter Fraud:

In addition to preventing employee/volunteer theft, developing anti-fraud programs can be one of the most important things that you can do for your organization.

- Perception of Detection  
Employees and volunteers who perceive that they will be caught engaging in occupational theft and abuse are less likely to commit it. Increasing the perception of detection may well be the most effective fraud prevention method. Internal controls, for example, do little good in forestalling theft and fraud if their presence is not known by those tempted to steal. This means letting employees, managers, and executives know that managers are actively seeking out information concerning internal theft.



# Risk Alert

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### Contact us:

#### We're here to help:

Should you have any questions regarding this risk alert, please contact your local agent or our office at  
T: 800.407.2027

#### Pre Litigation Program:

Did you know that the CIAW offers Pre-Litigation assistance at no cost? Contact your local agent or visit [www.ciaw.us](http://www.ciaw.us) for more details.

- Proactive Programs

Becoming proactive in your anti-theft efforts can be one of the most effective steps that you can take to prevent fraud. Some of the programs cost very little, while others require a cost commitment, although most anti-fraud programs will more than pay for themselves.

- Employee Education

Every organization should have some mechanism to educate managers, executives, board members, employees, and volunteers about employee theft. This can be done as a part of employee/volunteer orientation, or it can be accomplished through memorandums, policies, training programs, and other intra-agency communication methods. The goal is to make others within the organization your eyes and ears.

Any educational efforts should be positive and non-accusatory. It should be emphasized that illegal conduct in any form eventually costs everyone in the organization through lost profits, adverse publicity, decreased morale, and productivity.

- Auditing for Fraud

Developing audits that focus on high-risk areas for fraud is something that many organizations have found to be effective in their anti-fraud program. Not only have they identified fraud, but fraud decreased in subsequent audits. Some good locations for fraud audits are:

- Expense reports
- Payroll
- Purchasing
- Sales
- Accounts Receivable
- Customer complaints
- Cash
- Suspense accounts

- Surprise Audits Where Possible

A proactive fraud policy involves using the technique of surprise audits, as much as possible. Surprise audits also have a significant deterrent effect, as well.

- Conduct Frequent Physical Inventories

Pilferage is one of the most common forms of internal loss. Reconcile sales to inventory on a quarterly basis, or at least annually, with the help of a third party. Conduct surprise inventories.

- Enforcement of Mandatory Vacations and Job Rotation

Many internal frauds require manual intervention, and are, therefore discovered when the perpetrator is away on vacation. The enforcement of mandatory vacations will aid in the prevention of some frauds. Some frauds are also detected during the perpetrator's unexpected absences or illness, because they require continuous and manual intervention.

- Management/Board Oversight

It is most common for employees/volunteers who steal to use the proceeds for lifestyle improvements. Some examples include more expensive cars, extravagant vacations, expensive clothing, new or remodeled homes, expensive recreational property, and outside investments. Managers or Board Members should be educated to be observant to these signs.

- Open-Door Policies

If employees and volunteers are free to voice their concerns, managers will be more able to help alleviate any issues before they become acute.

- Employee Support Programs

Many progressive organizations have realized the benefit of employee support programs. Some kinds of support programs include alcohol and drug assistance, and counseling for gambling or financial difficulties.

- Monitoring/Reporting Systems

Another key part of an anti-fraud program is having a reporting system for employees and agents of the organization to report criminal conduct. Confidential hotlines are one of the best ways for an organization to monitor compliance. The organization should actively encourage any employee with information to come forward. The employee can come forward and provide information anonymously and without fear of recrimination for good faith reporting. The report should not need to be made to one's immediate superior.



- Separate Bookkeeping Functions

Misapplication of payments can lead to embezzlement. Do not allow the same person who processes checks also manage the accounts receivable records.

- Personally Approve Bookkeeping Adjustments

Approve any adjustments to the books, no matter how slight—even adjustments to correct an error.

- Control Check Signers

Limit the number of signatories to a manager and one or two highly trusted assistants/staff. Keep blank checks under lock and key.

- Review Monthly Bank Statements

Instruct your bank to send the monthly statement directly to a trusted manager. Review the statement before passing it on to your bookkeeper. This review allows you to spot any improperly executed checks.

- Tighten Up On Petty Cash

Allow only one or two trusted employees/volunteers to disburse petty cash. Require that a receipt and a signed voucher be submitted for all petty cash disbursements.

- Separate Buying and Bookkeeping

To maintain a system of checks and balances, assign ordering and payment responsibilities to different employees/volunteers.

- Watch Company Credit Cards and Gas Cards

Require all credit/gas cards be signed out and all credit card expenses be authorized by a purchase order.

- Document All Expense Reports

Require strict documentation for all reimbursable expenses incurred by employees/volunteers. Subject every expense account voucher to a pre-audit review procedure before payment.

- Have a Third Party Refund Policy

Issue refunds only upon the approval of a third party, preferably a trusted assistant.

- Cash Counting and Safekeeping

If the organization handles cash regularly, it is important to have two or more people counting cash together and signing verification slips. It is recommended to store cash in sealed, tamper-proof bags until it can be deposited. If necessary, the organization could also use a locked drop safe for employees or volunteers to deposit what they have collected during their work day.

