

How To Prevent Employee Theft

The right people and the right procedures are the keys to employee theft prevention.

by Joseph Wells

Before hiring, conduct a background check to find out what you can about a potential employee's previous experience with employers and law enforcement. It is always a good practice to check the background of any employee who will have access to cash, checks, credit card numbers, or any other items that are easily stolen. Before hiring, consider the following:

■ **Past Employment Verification:** Even though most only verify position and dates of employment, you can tell by the tone of voice of the previous employer what they think of the employee. Ask if the applicant is eligible for rehire.

■ **Criminal Conviction Checks:** Most public records services have criminal conviction records for almost every large county in the United States. If not, go to the courthouse, and search the criminal conviction records in the criminal courts division of the employee's county of residence.

■ **Drug Screening:** Many companies conduct drug screenings. People who are frequent drug users can be more prone to theft or fraud.

■ **Reference Checks:** Very few employers call references. Most assume that an applicant wouldn't provide a bad reference. Many times applicants will list important-sounding individuals as references hoping that you won't call. Applicants incorrectly assume that a former supervisor or coworker will provide a good reference.

■ **Education & Certification Verification:** Verify education. If the applicant claims a license or other certification, call the issuing organization to verify. It is not unusual for the certification or license to be revoked due to a disciplinary action.

Policies, Procedures That Help Deter Fraud

Developing antifraud programs can be one of the most important things that you can do for your business. Prevention is always cheaper than recovering losses:

■ **Perception Of Detection:** Employees who perceive they will be caught in occupational fraud are less likely to commit it. Increasing the perception of detection may be the most effective prevention method. Let employees, managers, and executives know that managers are actively seeking out information on internal theft.

■ **Employee Education:** Educate managers, executives, and employees about fraud. This can be part of an employee orientation, memoranda, training programs, or other intracompany communication.

■ **Auditing For Fraud:** Develop audits focused on high-risk areas. Fraud will decrease in subsequent audits. Focus on expense reports, payroll, purchasing, accounts receivable, and customer complaints.

■ **Surprise Audits:** Many fraud perpetrators know when auditors are coming and have time to alter, destroy, or misplace records and other evidence. A proactive

fraud policy involves surprise audits.

■ **Management Oversight:** It is common for employees who steal to use the proceeds for lifestyle improvements. Some examples are cars, vacations, clothing, or new/remodeled homes. Managers should be observant.

■ **Minimize Employee Pressures:** Pressure, such as financial hardship or family problems, can be especially difficult to detect. Take steps to assist an employee who might be having a difficult time.

■ **Employee Support Programs:** Support programs include alcohol and drug assistance, and counseling for gambling, abortion, marital problems, and financial difficulties.

■ **Management Climate:** If the management style is objective rather than subjective, then employees will not manufacture or imagine performance criteria. Management that is perceived to be dishonest will beget dishonest employees.

■ **Monitoring Systems:** Use a reporting system for employees to report criminal conduct. Confidential hotlines can monitor compliance.

■ **Reporting Programs:** Employees should know where to report suspicious, unethical, or illegal behavior. Fraud, waste, and abuse occur in nearly all companies; such conduct costs jobs and profits. Actively encourage employees with information to come forward anonymously and without fear of recrimination for good-faith reporting.

■ **Hotlines:** Hotlines are a very effective reporting mechanism. However, most hotline reports do not result in fraud cases. Published reports indicate that about 5% of hotline calls result in serious allegations. With careful screening and proper handling, spurious complaints can be effectively weeded out.

■ **Rewards:** Some reward for information that leads to the recovery of merchandise, property, or money. Others offer rewards upon the conviction of the person(s) involved. If using a reward policy, strict criteria should establish reward payments, and such policies should be reviewed and approved by counsel. Studies indicate rewards should not exceed a few thousand dollars. Crime Stoppers recommends rewards not exceeding \$1,000. ■

This article was excerpted with permission from a piece written by **Joseph Wells**, founder and chairman of The Association of Certified Fraud Examiners (ACFE).