

NewsMatters

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Protecting Your Company Against Employee Fraud

Employee fraud is something employers should always worry about, but unfortunately it is more prevalent when economic times are hard. Employees who normally would not commit fraud may be tempted to based on financial struggles, so fraud is more serious a threat than ever. Employee theft can have devastating financial consequences, and can even put a company out of business. Luckily, if employers are diligent and take precautionary measures, they can often prevent fraud or catch an employee in the act.

What is Employee Fraud?

There are several types of employee fraud, including the following:

- Embezzling money (often through fraudulent billing schemes)
- Stealing products
- Time theft (using company time to complete personal tasks, taking extra-long breaks, coming in late or leaving early)
- Giving themselves or others unauthorized discounts on products

Prevention Tips

There are many strategies that employers can implement to prevent employee fraud, including the following:

- Regularly review financial statements and bank reconciliations.
- Deposit cash and checks daily.
- Secure your blank checks and signature stamps.
- Distribute finance responsibilities among employees, so that the same person is not collecting receipts, writing deposit slips, maintaining records and writing checks. No one person should have too much power over the company's finances.
- Schedule random audits and periodically hire an outside accountant to review your books.

- Thoroughly screen all incoming employees.
- Insist that accounting personnel take a yearly vacation, so that you can review their records.
- Clearly communicate to all employees that your company has a strict no-tolerance policy for fraud or theft. Be specific as to what constitutes fraud and what the penalty will be.
- Get an insurance policy that covers employee theft and fraud.
- Establish a way for employees to anonymously report fraud by a co-worker.
- Train managers and supervisors to look for and report possible fraud.

Identifying Employee Fraud

Although it is often difficult to identify fraud, the following are some signs to watch out for:

- Employees suddenly living well above their previous financial means
- Employees who are stressed or disgruntled, and who are having financial difficulties
- Those in accounting or upper management (where majority of fraud occurs)
- Employees who frequently work late and don't use their vacation time
- Employees with an unusually close relationship with a vendor or supplier