

Business Members Best Practices

Minimize Employee Dishonesty Losses

Most employers trust their employees to be honest and trustworthy – no one purposely hires a thief. However, in 2010, the National Retail Federation reported that employee theft is on the rise according to national statistics and company surveys. Additionally, the American Society of Employers reported that businesses lose 20% of every dollar to employee theft!

Employee dishonesty ranges from stealing supplies and tools to embezzling money. The first step in minimizing exposure to these losses is to know who you are hiring; due diligence during the hiring process is critical.

Establishing internal controls can deter employee dishonesty by providing a reasonable level of prevention and placing accountability if a loss occurs. Internal controls help protect weak employees from temptation and innocent employees from suspicion. Some common fraud schemes include:

- Skimming – when cash is stolen from a business before it’s entered into the records.
- Larceny – when cash is stolen after it’s been entered, but before it’s deposited into an account.
- Check altering – stealing funds by altering a legitimately issued check drawn on your business’s account.
- Expenses reimbursement schemes – submitting payment on a fraudulent invoice or submitting payment for invoices for personal purchases.
- Payroll schemes – inflating hours or adding a “ghost” employee to the payroll.

Risk Mitigation Tips

Good practices to reduce the risk of employee dishonesty:

- Currency supplies should be kept under the exclusive control of a responsible party (key with them at all times).
- Petty cash should be under dual control and counted weekly to ensure accuracy.
- Expenses should be reviewed by a next-level supervisor. Itemized receipts with an explanation of expense should be submitted.
- Make sure all deposits in transit clear the following month. Additionally, outstanding checks should clear in a timely manner.
- Conduct fraud awareness and ethics training for all employees and encourage them to report any questionable activity.
- Create a fraud policy setting the tone from management and stressing zero tolerance. Have employees sign it annually and include it in their personnel file.

Minimize the risk by doing thorough research about applicants before they’re hired:

- Conduct a criminal background check.
- Contact previous employers.
- Contact references.
- Conduct a credit check.