

Financial Fraud Investigations, L.L.C.

Employee Fraud

The following information was obtained through a variety of different resources. The purpose of this information is to make you, the small business entrepreneur (companies employing 100 or fewer employees), more aware of potential frauds that can be committed against your company. Fraud is expensive and at times it can consume much of your time. By spending a little time and money up front may save your company a great deal of time and money in the future by not incurring huge legal fees due to lawsuits.

Prior to hiring any employees for your business, you need to decide what consequences will befall an employee caught embezzling goods and/or services from your company. This fraud policy should be a written policy so that each and every new employee receives a copy at the time they are hired by you. I strongly suggest you consider prosecuting a dishonest employee to the fullest extent of the law. This sends a clear message that any employee involved in stealing from you could receive jail time along with fines and restitution. This policy should also extend to shoplifters as well if this applies to your business.

If your business accepts cash as payment for goods and/or services, then it is imperative you have a background check performed on potential employees that you will entrust with your hard earned assets. Our firm can assist you with acquiring background and reference checks on potential employees. No business owner wants to hire someone who practices embezzling for a side job at the owner's expense.

Do's & Don'ts: Protecting Your Business Against Employee Fraud

The Do's

DO deposit your cash & checks daily. Go to your financial institution at different times of the day. Do not announce to your employees where & when you are going. Try to place your gross receipts inside a pocket or purse. By going to your bank at different times each day will make it more difficult for potentials criminals to see any type of pattern or know where you are going. If possible, go to a different bank branch if another one is not too far out of your way. The object here is to be unpredictable in case someone is watching your daily routine.

DO secure your blank checks & signature stamps. I would recommend against using signature stamps if at all possible. Once a signature stamp gets into the wrong hands, life can become miserable. As an additional security measure, I recommend you sign legal documents, including checks, with a blue colored ink, preferably using number 207 ink.

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This pen & ink can be found in most office supply stores. The number 207 ink bleeds into the paper and makes it more difficult for someone to “wash” or alter your checks.

DO require two signatures on checks over a certain dollar amount. Depending on your business activity, a \$1,000 limit may be appropriate. If this dollar limitation becomes too cumbersome because of your business activity, by all means increase the dollar amount to say \$2,500 or \$5,000. Again, this is a business decision you need to make based on your needs.

DO regularly review your bank reconciliations & check endorsements. You are looking for checks that have been outstanding for more than 30 days. Most businesses do not hold onto gross receipts for a long period. Most businesses deposit their receipts daily. Weekly deposits should be the longest holding period. Therefore, these checks should clear your bank in a short time.

DO distribute responsibilities among employees so that a different employee collects receipts, makes out deposit slips, reviews bank statements & writes checks. This may not always be possible due to staffing limitations. Use common sense and be watchful.

DO periodically have an individual hand out payroll checks & confirm that absent employees are in fact actual employees. Do this unannounced because this will catch a fraudster off guard. This is particularly true if you have employees working off site or at different locations. Ghost employees can drain your company assets very quickly.

DO periodically compare payroll employees with employee records. This should be done at least twice a year.

DO periodically open your own mail & compare payments received with bank deposits. Another suggestion is to rent a post office box & monitor who is in charge of the keys. The post office box keys should contain the wording, “DO NOT DUPLICATE”. No locksmith will duplicate these keys unless the individual making the request is employed by the United States Post Office. You may want your accounts receivable payments to go directly to your company’s post office box. The purpose for this is so you can narrow down who may be altering customer checks or not recording the payments properly. This is another reason for having limited access to your business mail. Whom ever you decide should have access to the company’s post office box, have that individual sign a receipt for the post office key they are given. Also, the employee should also be signing on the same statement that under no uncertain terms are they to **LOAN** this key to anyone. In addition, should they loose or misplace the post office box key they are to notify you, the owner, immediately. These procedures assign responsibility to one party.

DO carefully monitor a new employee who is responsible for purchasing inventory or other assets. You want to make certain this individual is purchasing items at competitive prices. I have witnessed some businesses where pennies matter because of an extremely large volume of business.

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DO review billing error complaints from your customers. You should not be receiving too many complaints. If you are, someone needs to be re-trained & observed closely. Several complaints should alert you to a potential problem such as embezzlement.

DO require that original invoices be kept in the files. No exceptions to this procedure. Lack of record documentation or organization can also be a fraud indicator.

DO maintain & monitor a list of property that is subject to theft. Serial numbers should also be recorded along with dates & place of purchase. Should you ever have a theft or fire, this list will assist you in reconstructing your loss. I recommend you keep a copy of this list at your residence providing you do not work out of your home.

DO make an appointment with your insurance agent to make certain **ALL** your inventory & assets are covered for fire, flood and theft. If some of your employees are responsible for handling or securing large sums of cash, you may want them to be bonded in case of a theft. If an employee cannot be bonded, then chances are they have a criminal record. Discuss employee bonding with your insurance agent.

DO review your financial statements on a monthly or quarterly basis. If you do not understand the financial statements, you should have your accountant sit down with you and go over them in depth. After all, you are paying to have these statements prepared. Know what they mean. Remember, accounting is known as the language of business.

DON'Ts

DON'T sign blank bank checks for any reason. If you are going to be away from your office, make arrangements to pay an invoice when you return from a leave of absence. Never sign a check while you are on the telephone or distracted for some other reason. If your office assistant waits until you are preoccupied to have you sign checks, then this is also a fraud indicator. This method is used by employees who embezzle from businesses.

DON'T allow transfers between bank accounts without verification. Too many bank transfers may be a fraud indicator. Watch these transfers carefully & make certain the funds are transferred to the proper account.

DON'T sign bank checks without reviewing & canceling paid invoices. Never be rushed to perform this duty. Plan on performing this task when your business activity is on the slow side.

DON'T sign bank checks for new vendors without verifying their name & association with your company. (This is another common way for embezzlements to occur).

DON'T hire employees without checking references. If you get one negative comment, then do not hire this individual. It will not be worth the aggravation in the future. Hire someone who has great references.

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DON'T allow accounting personnel to work longer than one year without taking a vacation two consecutive weeks in a row. If this person is up to no good, then the two week absence should bring to light any accounting irregularities. Do not leave any accounting work to be done by this employee when the accounting employee is absent from the office. Have their accounting duties done by someone else during their absence.

Embezzlement Warning Signs

Employee theft is something that no business owner wants to experience. Unfortunately, the culprit is often a trusted company employee who has never complained about working overtime & without vacations. If you notice a combination of the following warning signs, it will be well worth your while to start investigating.

- There is an unusual drop in your profits.
- Your financial records are in disarray or unorganized.
- There are unexplained changes in your accounting records.
- There is an unusually large or numerous credits to a particular customer's account.
- An employee comes to the office very early, or works late at night or on the weekends. This employee also refuses to take an annual vacation. If they do take a vacation, they ask that their work be left for them to do upon their return.
- An employee's standard of living changes to a degree that is inexplicable based on their salary. This includes gambling on a regular basis. Maybe this employee is driving a vehicle that is beyond their financial wherewithal. The employee recently purchased a new residence in an area where they cannot afford to live based on their salary. Purchases of expensive jewelry and vacations to exotic locations are other signs to be on the lookout for.
- Business records are missing from the files.
- Bank deposits are delayed being deposited.
- Customers frequently complaining about already having paid an invoice.
- There are too many increases in past due accounts receivable.
- Check amounts are altered.

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- Duplicate payments are made.
- Bank reconciliations have too many outstanding checks.
- Too many payments are being made to individuals with the same name or address.
- Vendors' addresses are the same as an employee's address.
- Bank reconciliations are late. Some of the canceled checks are missing.
- Accounts receivable & accounts payable do not balance.
- The petty cash fund is disappearing.
- Large inventory items are being stolen.

The above-referenced material lists fraud indicators that should alert you that you may have a serious problem on your hands. The only way to dispel your suspicions is to engage our firm to prove or disprove the allegations of fraud. Fraudulent schemes can be ongoing for many years & will continue until the perpetrator or perpetrators are brought to justice. Our firm is very capable of working closely with law enforcement agencies & prosecutors in order to get this matter resolved to your satisfaction. To schedule an appointment, please contact us at 248.349.8380. Thank you for your consideration.