

You may know about a business that's experienced employee theft or fraud. But many owners feel foolish and prefer not to talk about it.

American businesses lose \$50 billion annually to employee dishonesty: that's \$9 per employee per day. And small businesses are much more vulnerable because they can't afford sophisticated audit and detection tools used by larger firms.

What's your level of risk?

Do you have different people requesting, preparing and signing checks? Do you receive bank and credit card statements unopened and reconcile them yourself? Do you count inventory and review payables files on a regular basis?

Any "no" answers? Read on.

What do you have to lose?

Unfortunately, many firms feel inventory shrinkage is a cost of doing business today. The bad guys hope they can take advantage of you. Your losses can come from cash, inventory, raw materials and other assets, business credit cards, checking and transfer accounts, pension and retirement plans.

What can happen?

Schemes include bid rigging and kickbacks, payments to fake vendors or for non-existent services, salary checks payable (and mailed) to "ghost" employees, forgery of company checks, and computer fraud transferring funds from your bank account.

The culprit is almost always a trusted employee who says he'll "handle everything" so the mundane accounting, for example, is not a burden on you, the business owner. These people are often in management positions and sometimes

in cahoots with a vendor to create fictitious invoices. Losses can take place over months or years, amount to considerable sums and are not easy to detect. The American Management Association says 75% go unnoticed, and 20% of business failures come from employee dishonesty. Many losses are never reported because business owners are too embarrassed.

Prevention – what can you do?

Here's a checklist to beef up your loss prevention and mitigation strategies.

- Set the tone for running a clean shop at the top – don't just pay lip service to ethics.
- Be visible in your management oversight. Discuss the cost of fraud to businesses and jobs with employees. Check inventory regularly. Make sure vendor and customer files are legitimate. Personally handle customer billing complaints.
- Deliver paychecks yourself from time to time and make sure all those people getting paid really work for you!
- Have bank and credit card statements delivered to your home address.
- Insist on detailed background checks using outside HR professionals for anyone handling money or involved in purchasing.
- Use written job descriptions with detailed responsibilities.
- Separate financial duties or rotate these tasks quarterly (this will bring you better cross-training too). The biggest mistake is having the same person write the checks and reconcile the bank statements. Don't sign blank checks or leave check stock unprotected.

- Maintain a critical attitude about any accounting discrepancies: insist on full explanations and consider further background checks if any employee is perceived to be living beyond his or her means.
- Set up an employee tip line – statistics show this can reduce fraud by 50%. And then prosecute! Don't cover up! Let everyone know you're serious, even if it's embarrassing. Of course, you need to be careful about investigating losses and accusing someone before you're really sure: you could be sued for defamation or false arrest.
- Insist on contractual indemnities in your favor from any outsourced service providers (payroll services, contract bookkeepers, pension advisors, etc.) whose employees could make "mistakes" with your accounts.
- Purchase Crime insurance, also known as fidelity or dishonesty coverage. This can protect you from losses not covered in most business insurance policies like: dishonest or criminal acts by employees or others, theft of cash or inventory, forgery of checks or credit cards, computer fraud and funds transfer fraud.

Well-designed internal financial controls and the right insurance coverage can go a long way to protecting your assets and avoiding a messy, costly and embarrassing problem.

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