

Embezzlement – the crime we hate to admit

You may know about a business that has experienced employee theft or fraud. 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 vendor or payables files on a regular basis? Do you have an outside CPA perform at least an annual review? Any "no" answers? Read on.

What can happen? ~

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

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.
- Use written job descriptions with detailed responsibilities: separate financial duties or rotate these tasks quarterly (this will bring you better cross-training, too).
- Insist on detailed background checks using outside HR professionals.
- Set up an employee tip line – statistics show this can reduce fraud by 50%.
- Maintain a critical attitude about any accounting discrepancies: insist on full explanations; and have an outside accounting professional audit files regularly.
- Have bank and credit card statements delivered to your home address.
- Insist on contractual indemnities in your favor from any outsourced service providers like payroll services.
- Purchase Crime insurance, also known as fidelity or dishonesty coverage.

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.