

Protecting Your Business from Embezzlement



Why it Happens

- Personal Financial Pressure
- Vices
- Grievances

A family business is complicated and not exempt!

Motive + Opportunity + Rationalization
= F R A U D

Some Motives ?

Any Opportunities?

How do they Rationalize ?

Division of Duties

- No one person should have control of any one accounting process, nor should one employee handle all aspects of a transaction.
- If one employee writes checks, another should reconcile the bank account.
- Switch duties every month. Switching duties allows everyone to cross-train and keeps one person from retaining total control of a critical process.

Managing by Walking Around

- Make periodic unannounced trips around your office or factory.
- Let your employees know that you will be doing this; keep an eye on what's going on. Sometimes, just knowing that the boss is watching will keep some people from taking what they shouldn't.
- If someone expresses resentment against your watchfulness, you might want to ask yourself why this person is so resentful — is it because he or she has something to hide?

Require Vacations and Time Off

- Employees who don't want to take vacations appear loyal, but there might be another reason. Check each employee's work when he/she is gone.

Don't Allow Staff Members to Take Work Home

- Both from a compensation and wage laws standpoint, and from the standpoint of monitoring activities, it is not a good idea to allow people to work at home.

Deposit Daily

- Make no exceptions. Include as much detail as possible about checks and other deposit items.

Backup Records Daily

- Don't allow the employee who is doing the accounting to do the backup. This is another check against theft.
- Don't allow one employee to be able to destroy your data. Take a backup off site.

Keep Track of Petty Cash

- If your business has a cash drawer, reconcile it daily in the same way as a bank account. People who embezzle usually start by taking small amounts, often from petty cash. Watching over these small transactions can help keep the big ones from happening.
- Don't blur the lines with petty cash and company credit cards. They are for business.

Keep Unused Checks in a Lock Box

- Verify all check numbers, including voided ones. Don't allow someone the opportunity to take a "void" check and write it to him or herself.

Check ALL Employee References Before Hiring

- You can also do a search on convictions (not charges), and don't hire if you have questions.

Run Monthly Financial Statements

- Use **monthly financial statements** as an internal-control check. Review receivables, payables, and expenses. Watch for unusual amounts.
- Take inventory on a regular basis. Make notice of shortages. Talk to staff.

Don't Hesitate to Call the Police

- If you think someone is stealing from you, call the police. If you wait, you not only make it more difficult for the police, you also condone the activity, and you may find it harder to prosecute.

Too Much Trouble?

- These practices may seem like a lot of work, but once they are set in place, you will find them easy to administer. If you get into the habit of practicing embezzlement prevention, you should find they result in less theft and embezzlement from employees.