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How to Prevent Employees from Stealing from Your Business



Mar 05, 2010 - It was a crisp spring morning in 2003 when Jay Myers' learned that his Memphis-based business, Interactive Solutions, was about to go under. The reason? His finance manager had stolen more than \$257,000 from the business over the prior year – money the business, which sells high-tech audio and visual equipment, couldn't afford to lose. Myers says the damage could have

even been worse if he hadn't coincidentally read a story about a case of employee embezzlement the night before, which spurred him to check his bank statements – something he hadn't personally done in months. And what he found was that his employee had set up herself and her daughter, the company's receptionist, as vendors in his accounts payable system. Then, she had simply started cutting checks whenever she wanted – something that Myers still can't believe he didn't catch onto.

"I'm a numbers guy, so I still kick myself every day for missing what she was doing," says Myers, who wrote a book about his experience, *Keep Swinging*. "I could have prevented this."

The sad truth is that employee fraud and embezzlement events – defined as "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets" – happen at businesses every day, to the tune of almost \$1 trillion a year in the U.S. alone, according to a report issued by the Association of Certified Fraud Examiners in

2008. Private companies are particularly hit hard, losing a median of \$278,000 a year. Even more chilling, perhaps, is that most perpetrators of fraud have no criminal history and had never been punished at work.

The reason most employees steal is simply for their own financial gain, says Arnette Heintze, founder and CEO of Hillard Heintze, a Chicago company that specializes in helping companies protect themselves from workplace violence and financial fraud. And the most prolific thieves tend to be those employees that have been at the company the longest – someone who knows the company’s processes well enough to take advantage of them. “I would submit that given the economic hardships folks are facing these days, financial losses from fraud over the past year or two will be higher than ever,” says Heintze, who as a former U.S. Secret Service agent, investigated financial crimes on behalf of the U.S. government.

So what factors cause these otherwise normal, law-abiding persons, to commit fraud?

The best and most widely accepted model for explaining why “good people” commit fraud is the *Fraud Triangle*, says Heintze. This is a model developed by Dr. Donald Cressey, a criminologist whose research focuses on embezzlers, people he calls “trust violators.” According to Cressey, three factors must be present at one time for an ordinary person to commit fraud:

1. **Pressure or motive:** The need to pay bills, a drug or gambling habit, or a need to meet productivity targets at work.
2. **Opportunity:** The occasion and positioning to commit a fraud without being discovered.
3. **Rationalization:** The logic and mindset that allows embezzlers to believe that their fraudulent act is justifiable.

Given the challenge presented by embezzlers, especially to small businesses, Heintze offers the following tips to try and head off fraud before it strikes your company:

Tip No. 1: Identify potential risks, threats and vulnerabilities – and the potential costs of fraud.

The risks of fraud can depend on many factors – some of them perhaps unique to your business. Get to know these well and how to address them. Also, be aware of your potential losses as well as other costs, such as the legal settlement costs, financial restatement costs, increased insurance rates and operational costs for

remediation – let alone the direct and indirect financial impacts to operations, customer retention and reputation.

*Tip No. 2: **Know your people.***

Background screening is a critical best practice in fraud prevention at any time – but particularly during periods of economic turmoil. Don't just make screening a standard part of the employment process. Push further and take special care to (1) define the scope of the background investigation and (2) adopt an effective decision-making process that accounts for the investigative findings on a consistent and fair basis. Another tip is to conduct periodic updates and post-employment financial background checks, from time to time, especially for key insiders.

*Tip No. 3: **Make leadership, values and awareness top corporate priorities.***

Sticks work. But carrots are sometimes more effective. That means fostering positive attitudes about security throughout the company. Support and empower your employees to report suspicious activity or incidents. Pay attention to your employees and how they feel about their jobs. Be attentive to changing behavior – such as someone's public spending habits – which is one of the key "leading indicators" of potential issues. And lead the charge with passion and consistency in creating a true "culture of security."

Fortunately for Myers and his company, he caught his employee red-handed before it was too late. By employing the services of certified fraud examiner and enlisting the state's prosecuting attorney to pursue his case in court, Myers was able to both recoup some of the stolen money and send his employee away to jail. More importantly, he's changed how he hires and inserted checks and balances, which he calls "trust and verify," into the company's internal processes to help ensure that no employee ever puts his company at risk again.

[http://www.openforum.com/idea-hub/topics/managing/article/how-to-prevent-employees-from-stealing-your-business-darren-dahl?sorttype=newest\\$sourcepage=1&postguid=229b1692-d028-4af6-ad44-f9c3a74ab5f8&p](http://www.openforum.com/idea-hub/topics/managing/article/how-to-prevent-employees-from-stealing-your-business-darren-dahl?sorttype=newest$sourcepage=1&postguid=229b1692-d028-4af6-ad44-f9c3a74ab5f8&p)