

LOSS PREVENTION

Employee Dishonesty

Many businesses start out as small family organizations with the owner and partners handling all aspects of business operations. The larger a business grows, the more difficult it is for its owners to handle all day-to-day paperwork, including the accounting records.

Over time, as a business grows, additional employees are hired to help with the increased workload. Such employees usually are not partners or family members that have a vested interest in the business.

While the vast majority of employees are honest, many employees will steal as a result of:

- Access to money/securities: All employees that handle money, bank transactions or stock receiving/shipping.
- Need for money: While we all need money to pay bills, those with excessive debt due to addictions like gambling, drugs, alcohol or even shopping may have pressures to pay bills that they cannot afford.
- Little fear of getting caught: Employees feel that it is easy to steal and very unlikely that they will get caught if no one is checking.

An employee, who has access to your money and a strong need for extra cash combined with little fear of getting caught, will steal from you.

We see an increasing number of employee theft claims which may be partially attributed to the downturn in the economy but most can be prevented if adequate controls are put into place.

Controls:

- Ensure that there are always two different employees that enter receivables and make payments.
- Never allow one person to handle all money transactions without someone else checking transactions regularly and auditing annually.
- Require two signatures on all cheques (don't pre-sign cheques when you are away).

- Check bank transactions regularly and have an annual audit.

On-line Banking:

More companies are using on-line banking systems to pay bills. Payable customers are set up with the bank so that the company accountant can make bill payments on-line. Unfortunately, it has been discovered that some systems allow anyone with an access code to add additional payable customers/accounts and make payments and transfers. This means that the accountant or even one partner could make unauthorized payments or transfers out of the company accounts.

New bank systems and some payroll systems now utilize a 10 digit access code for all authorized employees along with a digit key fob that changes codes every few minutes. The system has pre-set thresholds in place to restrict the accountant and/or a single partner from setting new accounts or making payments above the threshold without confirmation from one of the other authorized persons.

Check with your bank to ensure that you have these safeguards in place.

Payroll Systems:

Ensure that similar controls and restrictions are in place for your payroll system so that an employee cannot set up fictitious employees in your system.

There have been cases when non-existent employees have been added to the system with pay cheques paid automatically to a bank account belonging to the bookkeeper.

Check your payroll records regularly to confirm that the information is correct. If you do not know all your staff, have your supervisors or managers check the list as well.

