

THE TRUTH ABOUT Employee DISHONESTY

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Each year, employee dishonesty claims are steadily increasing and beginning to gain the attention of many companies.



In March 2009, the Association of Certified Fraud Examiners surveyed 500 fraud examiners and found that more than half agreed that employee theft had increased from early 2008. The following year they discovered an overwhelming growth in employee fraud cases – a staggering 173%. Another report by Marquet International Ltd. delved deeper to uncover that fraud cases, on average, are in progress for 4-1/2 years before discovery. This study concluded that 2010 was “a banner year for employee theft in the United States.”¹

The recent increase in offenses can be linked to a number of causes – the recession could be to blame for pushing employees to find other means to make ends meet, while technological advancements may have made it exponentially easier for staff to commit fraud. Regardless of the cause, all businesses are susceptible to internal fraud. Small and private businesses are at an elevated risk, as owners tend to be more trusting of their smaller employee base and security measures are generally less strict. Given the uptick in employee-driven crime, it is important for every business owner to evaluate current trends and become familiar with effective prevention methods.

Types of Employee Fraud

Business owners need to be aware of the various types of staff-related fraud to which they are vulnerable. Employee dishonesty (also referred to as employee fraud) can occur against the employer (first party), or employees can steal or commit fraud against their customers (third party). While every company is susceptible to one or both forms of employee fraud, they all have opportunities to protect themselves with appropriate insurance coverage. The standard employee dishonesty policy includes first party theft. Third party theft is usually available, but oftentimes must be requested. The majority of policies no longer include a conviction or prosecution clause, both of which require the alleged employee to be convicted or prosecuted for the crime before coverage is triggered.

Prevention and Detection

Employee theft is an unfortunate reality of running a business, but it can be detected and prevented by following a number of steps. There are several significant areas of company operations that present opportunities to detect and prevent fraud, including:

Hiring practices

- Screening procedures should be both consistent and thorough.
- Background checks, credit checks and/or drug tests should be required, especially for those handling money.
- An applicant’s credentials should be checked to ensure they match those listed on their resumes.
- Information on employee applications should be reviewed for accuracy and verified as up-to-date.
- Always contact references and previous employers.

Accounting and related inter-office tasks

- Office funds, company checks, accounts, inventory, etc. should be available to a limited, trusted number of people and each person should have a separate job. The more people with access to these finances, the greater the opportunity for employee theft. However, you do not want to limit staff in this area too much. Having only one or two people in charge of office funds increases a company’s vulnerability to theft and embezzlement as well.
- Detailed records should always be maintained and organized files containing all receipts, invoices, bills, payroll checks, etc. should be kept.

Inventory

- Inventory for office supplies or inter-office stores should be kept and checked often. Remember, employee fraud occurs during all hours of the day. Lock inter-office doors at night and keep track of outside employees coming in and out at all times.
- Install surveillance cameras.
- Security systems are a necessity for all businesses, no matter the size or location.

Data

- Require complex passwords for all computer systems and update them regularly. Assign each employee a unique password for secure programs in order to keep track of who is logging in to which programs and why.

- Monitor suspicious e-mail activity. If someone is consistently mailing document attachments to an e-mail address unrelated to the company, ensure that IT is keeping tabs.
- Paper files should be locked at all times.

Payroll time cards

- Time card “padding” is one of the most common offenses. This occurs when employees add hours to receive overtime payment. It is critical to keep an eye on the clock and take note of what time your employees arrive and leave.

After the Crime?

There are several courses of action that must typically occur when employee theft is discovered. The insurance carrier must be notified as soon as possible following the discovery of a loss or a situation that could potentially result in a loss. Some carriers’ policy forms also require that law enforcement authorities be contacted if there is reason to believe that any loss involves a violation of the law. Other action items include:

- Submission to an examination under oath at the employer’s request and a signed statement of answers.
- Production of all pertinent records for employer examination.
- A detailed, sworn proof of loss provided to the carrier within 120 days.
- Cooperation with the carrier in the investigation and settlement of any claim.

When there is a loss to a third party (an employee stealing from a client), the employee who stole the client’s property must be identified under most crime forms. Additionally, the items stolen must be identified and there must be some evidence and a description of what was stolen. Evidence can be in the form of a receipt or pictures of the stolen items.

Fighting Fraud

Obtaining adequate fraud protection and taking preventative measures may protect your company from various forms of employee fraud. While it is essential to trust employees, it is equally important to be aware and keep a watchful eye on day-to-day operations. If workers are aware that their behavior is being monitored, they are less likely to commit a crime. Should a crime occur, a properly structured insurance policy could save your company from financial ruin. Practice preventive steps and contact your insurance agent to ensure your company is protected.

¹ “A White Collar Fraud Study of Major Embezzlement Cases Active in the U.S. in 2010.” *The 2010 Marquet Report on Embezzlement*. January 11, 2011. Accessed on November 8, 2011 at www.marquetinternational.com/pdf/the_2010_marquet_report_on_embezzlement.pdf

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