

Embezzlement on the Rise – Are You Protected?

A TYPICAL organization will lose an estimated 5% of its revenues every year due to fraud, according to a study by the Association of Certified Fraud Examiners.

The median loss among organizations both large and small is \$140,000 per occurrence, and more than 20% of embezzlement losses are more than \$1 million.

With those staggering numbers in mind, if you have not already done so, you need to take steps to reduce the possibility of employee theft – and also make sure you are adequately covered if they do steal from you.

Small firms are especially susceptible to employee embezzlement. These problems are often seen in cash-heavy businesses, or those with large inventories.

Firms that are most susceptible are the ones with owners who don't have oversight of financial processes, who place too much trust in employees and who have no internal controls.

Most common types of fraud

- **Credit card/account fraud** – The fraudulent or unauthorized creation and/or use of company credit card or credit accounts.
- **Forged/unauthorized check** – Company checks are forged or issued without authorization by the perpetrator.
- **Fraudulent reimbursement schemes** – Expense report fraud and other bogus submissions for reimbursement.
- **Inventory/equipment theft** – Physical corporate assets are stolen and sold or used by the employee.
- **Payroll shenanigans** – Manipulation of the payroll systems in order for the perpetrator to draw additional income.
- **Theft/conversion of cash receipts** – Theft of cash or checks.
- **Unauthorized electronic fund transfers** – This includes wire transfers and other fund transfers to an outside account.
- **Vendor fraud** – The employee creates a bogus vendor to misappropriate funds or a real vendor colludes with the perpetrator to siphon funds from the company.

How to thwart embezzlers

Camico Mutual Insurance Company recommends educating employees on the detrimental effects of internal fraud on the organization.

Also, if you implement a regular review of bank and credit card statements, you'll have a better chance of catching a thief. Company owners should look at cleared transactions to determine the legitimacy of payees, including examining actual cancelled checks.

Also, it's easy for transactions to be changed in the accounting system after the fact. An ill-intentioned bookkeeper could use this tactic to cover up their tracks. If you feel you do not have the time or expertise to oversee your finance department, you should contract with a qualified CPA to perform these checks and balances.

There are also inexpensive physical barriers that should be used to deter criminal activity. To protect cash, you can buy a \$200 drop-slot safe to securely keep the night's deposit until it is taken to the bank.

Similarly, security cameras deter misbehavior and can be the source of valuable evidence in case an incident occurs.

Securing coverage

Finally, you should consider taking out a crime insurance policy.

Most business insurance policies either exclude or provide only nominal amounts of coverage for loss of money and securities, as well as employee-dishonesty exposures.

But a crime insurance policy protects against loss of money, securities or inventory resulting from crime.

Common crime insurance claims include employee dishonesty, embezzlement, forgery, robbery, safe burglary, computer fraud, wire-transfer fraud and counterfeiting.

Call us to discuss whether a crime policy is right for your company. ❖

