



## **Five Tips to Avoid Embezzlement Schemes, Plus One Procedure to Implement**

Embezzlement frequently happens when internal controls are not in place in the business. Employees embezzle money when they have a perceived financial need that can be solved by stealing money from the workplace.

Here are some simple steps you, as a small business owner, can take to avoid being ripped off. They don't require you to become the company bookkeeper (you're too busy for that), but implementing some of them will bring you peace of mind and prevent devastating losses to your company.

- 1.** Sign all checks yourself. This can seem burdensome, but a very common scheme is for an employee to steal checks and forge the employer's signature or alter the payee's name. By signing all company checks yourself (and looking at each one!) you know what's going out and can train yourself to spot suspicious items. You also affirm the important belief among your employees that you are in control of your company's finances!
- 2.** Have the unopened company bank statement come to you personally. Many company owners defer all check writing authority to a bookkeeper or trusted employee and only occasionally review the bank statements. Often the owner is satisfied with looking at a photocopy of the statement! If a dishonest employee has first access to the bank statement, that person can alter the statement to conceal or change stolen or forged checks. By having the bank statement come to you personally, unopened, you have first access to the original documents. You can then provide a photocopy to your bookkeeper and maintain the original statement in a locked drawer, or even at your home.
- 3.** Separate key bookkeeping and payroll duties. The person who balances the accounts should not have the responsibility of writing the checks. The person who writes the checks should not have the responsibility of posting payments. The person who writes the payroll checks should not have the responsibility of handing those checks out to employees. Separating these

- duties can disrupt an embezzlement scheme by denying a dishonest employee the opportunity to steal checks, make payments to a ghost employee, or issuing checks to phony vendors.
4. Review vendor invoices and supplier lists. Vendor schemes involve fraudulent or altered invoices from fictitious suppliers or phony vendors. These occur when a dishonest employee submits invoices personally, or with a confederate, for services or supplies that were either never delivered or whose value is inflated. As the owner, you should periodically review vendor invoices and list of suppliers. Look for suspicious addresses (post office or private mail boxes, residential addresses) and questionable documentation (“homemade” invoices, non-sequential numbers). Fraudulent invoices will often be submitted for supplies or “consulting” services.
  5. Take a vacation! Yes, as a business owner you should take a vacation. But you should also insist your key employees take a vacation, too. Embezzlement schemes require constant attention and maintenance, with frequent alterations to bank records, statements, and check books to hide the fraudulent thefts. Most thefts are exposed inadvertently, when the dishonest employee is unable to come to work for a period of time, and another person uncovers the suspicious entries or paperwork. Sometimes a vendor or customer will call to complain about a payment that was not posted to his or her account, prompting a review by management. If the dishonest employee is forced to take a vacation, there is an opportunity for a fraud to be exposed.

And now for the one thing you need to implement:

1. Do a credit check on your bookkeeper, your CFO, and any other employee who has access to your finances! This should always be done whenever you hire a new staff member who can either write checks or make financial obligations for your company. Simply ask the company who does your employee background screening (you DO use a screening company, don't you?) to pull a pre-employment credit check when they do their screening. This aspect can and should be added to your employment process. If you have questions, contact your attorney or HR representative about the language and the release needed to run the credit report. Once you've obtained the credit report, review it to identify potential problems. For instance, a bookkeeper with a history of foreclosures, credit card charge-offs, delinquent payments, and judgments probably shouldn't be handling your finances! Nobody's perfect, but remember what we said in the beginning: **Employees embezzle money when they have a perceived financial need that can be solved by stealing money from the workplace.** In my hometown, the CFO of a county agency embezzled over a million dollars of taxpayer money to support her on-line gambling habit! She's

now in prison, but the agency has a huge tax bill for unpaid payroll taxes. Talk about a bad day. And do an annual credit check on these employees as well. Make it part of your employment agreement with staffers who handle company funds. Do it, and then review it. People *respect* what you *inspect*.

Now you have them: five key steps to avoid being ripped off by an embezzling employee, and one procedure you can implement to protect yourself on the front end! No one can guarantee you won't be victimized by dishonest workers inside your company, but we can help you install systems to prevent the most common schemes.

Call us at **561-687-8381** or visit us at [www.radioinvestigator.com](http://www.radioinvestigator.com) for more information about preventing fraud and embezzlement at your company.