

# Protecting Your Business from EMPLOYEE THEFT

By Judith Woods

**O**f all the thoughts that come to mind when one hears the word “disaster,” employee theft is typically not one of them. Yet, for anyone who has experienced this kind of deception, the word disaster says it all — especially considering the devastating effects that it has on the self-esteem of its victims. Sympathy abounds when a business suffers a fire, natural disaster or fatality. But when someone from within steals from the company, it can leave many feeling like they’ve just been admitted into the “fool of the month” club.

In the U.S. alone, employee theft (also known as occupational fraud) can carry a huge price tag of more than \$994 billion. The schemes range from corruption and fraudulent billing, to asset misappropriation. While these types of crimes aren’t necessarily complicated, they are menacing, stealthy and potentially devastating.

## A Story of Crime

Ted Williams, the owner/president of a large family-owned business in southern Georgia, had become suspicious of his much-trusted bookkeeper, Margaret. Williams had always liked his bookkeeper. She was a dedicated, well-liked employee who had worked with the company for nearly two years. Margaret had even come highly recommended by the former bookkeeper before he left the company for a new job. She had shown superior performance in meeting goals, had great customer service skills and had an excellent relationship with fellow employees.

It wasn’t until Margaret began showing odd behavior that Williams became suspicious. Her attendance changed at work. She began working at night and on the weekends when the

office was relatively empty. She started displaying serious control issues and an unwillingness to share duties. Her attitude also changed as she began acting in a defensive and suspicious manner.

“Changes in behavior were the first indicators that something was wrong,” Williams noted. “I tried to find other clues but couldn’t find anything on my own. I just couldn’t shake that gnawing feeling, my gut kept telling me to dig deeper. I had no idea how deep the problem would go.” It was at that time Williams decided to hire an internal auditor. Williams didn’t let his bookkeeper know about the new auditor until his first day on the job. “If there was anything going on, I didn’t want to give anyone the chance to ‘cover their tracks’ so to speak.”

It didn’t take long for the reality of the situation to be revealed. As the audit was getting underway, the bookkeeper walked into the president’s office and through tear-stained eyes, confessed to stealing nearly \$25,000. It was an accountant friend of Williams who took the case further. “That isn’t all of it,” he said. “If she admitted to taking \$25,000, you’d better believe it’s probably double that amount.”

An internal review exposed the truth. Margaret had been “cooking the books” for more than a year. All those late nights and weekend hours she’d been putting in were to create a set of “dummy books” to cover her embezzlement schemes — and the schemes were plentiful. She had ordered a credit card, under the company name, and had the card and all the statements mailed directly to her house. No one had any idea that the credit card even existed.

She stole checks to pay the bills and either wrote them out to herself or directly to the credit card company. She then forged the president’s name or used the correspondence stamp as an official signature. She had created the “dummy books” to hide all of the missing money. The review also showed that many bills had not been paid and late notices were hidden.

The bookkeeper also failed to send in three months of the staff’s retirement payments, took cash from meetings and seminars, reported those projects had lost money and showed those losses in the false books she’d created. She had taken the money from a number of health insurance payments, paid the bill



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several weeks late, and used the second copy of the bill as the original.

After the review was complete, the grand total of stolen funds amounted to approximately \$49,000, nearly double the amount she originally confessed to stealing — just as Williams' accountant friend had predicted. Fearing bad press, the company chose not to press charges. However, the ex-bookkeeper has since paid back the entire stolen amount.

The problem here is that this company thought they were protected. "I would hear stories on the news about employees

embezzling money, I just never thought it could happen to me," Williams said. "I thought I had systems in place to keep anything like this from happening. I was wrong!" The company did have a separate accountant who reviewed the books from time to time. They also had external auditors come in to handle the reconciliation. In this case, the thief was able to get away with her scheme by creating an extra set of false books. The moral of this story is — follow gut instincts and when you think you've covered all of your bases, cover them again.

## Occupational Fraud and Abuse

According to the 2008 Report to the Nation on Occupational Fraud and Abuse, a study conducted by the Association of Certified Fraud Examiners, embezzlement schemes like the one just mentioned are both frequent and incredibly costly. The study shows that on average, companies lose about seven percent of their gross revenues to many forms of fraud and abuse. Unbelievably, if multiplied by the gross domestic product of the U.S., that sum would