

FIGHTING THE ENEMY WITHIN

Taking steps to help arrest employee theft, which rises in a recession, can save a company millions

It's no secret these days that money is tight all around, the economy is still faltering, and workers and management alike are feeling the pinch. What may be less obvious is the fact that white-collar crime is on the march.

Theft and fraud in the workplace — perpetrated by both employees and the companies they work for — are rising steadily, and the experts are citing today's tough financial climate as the cause.

How big is the problem? According to nationally recognized Employee Theft Solutions, the FBI considers employee theft to be the fastest-growing crime in the United States. Various security experts estimate that up to 30% of employees steal, and another 60% would steal if they could get away with it. The Association of Certified Fraud Examiners estimates that the typical business will lose an average of 6% of revenue from employee theft — and technological advances actually compound this problem; employees frequently are more knowledgeable than their managers about the intricacies and nuances of company software.

The ACFE Report to the Nation on Occupational Fraud and Abuse indicates that small businesses suffer disproportionate losses. In fact, a recent U.S. Chamber of Commerce survey reports that a third of business bankruptcies occur because of employee theft, which can take many forms. Various strains of this epidemic include "shrinkage," or the loss of items from inventory; "sweethearting," or the granting of discounts to friends for items purchased; "embezzlement," or the conversion of company checks or cash for personal use; "Ponzi" schemes (essentially home-grown Madoff plans); "identity theft," or the transfer of customer identifiers for employee profit; and "the former employee turned competitor."



EMPLOYMENT LAW

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Stepping up the game

Nailing down the company assets can be tough, particularly when computer equipment is involved. As a practical matter, here are some steps even tightly controlled employers can take to help head off dishonest employees at the pass:

■ **Model "top-down" ethics.** Nothing undermines employee values faster than the impression that management bends the rules when it's profitable. Encourage both your top supervisors and your employees to follow established policies and procedures and to act in the organization's best interest.

■ **Conduct background checks, no exceptions.** Your pre-employment background checks should include criminal and civil histories; driver's license checks for numerous or serious violations; verification of educational degrees; and verification of positions, length of employment and reasons for leaving.

■ **Create clear, consistent and comprehensive employee theft policies.** Without clearly established definitions and policies, one person's "theft" may be another's reimbursement, offset, advance or loan. Theft can be difficult to prove because it takes "intent" to steal. A clearer definition: "The unauthorized removal of the tangible and intangible assets."

■ **Close the gate.** Establish a system of routine checks, balances and oversights for key processes — and revisit longstanding

practices to make sure they're still effective.

■ **Call in an outsider.** You may be too close to existing employees to clearly see potential problems. If so, think about garnering the perspective of an external accountant or theft consultant.

■ **Just say no.** Some of the more troubling cases of employee theft occur when workers find themselves in desperate financial straits as the result of substance abuse issues. If you don't have a policy, create a procedure for screening workers for the misuse of drugs or alcohol.

■ **Implement an anonymous reporting system.** Provide a confidential system for employees, vendors and customers to anonymously report any violations of policies and procedures.

■ **Perform irregular audits.** Most organizations conduct regular audits — but random, unannounced financial and fraud assessments can help identify new vulnerabilities and measure the effectiveness of existing controls.

■ **Investigate every incident.** A thorough and prompt investigation of policy and procedure violations, allegations of fraud or warning signs will give you the facts you need to make informed decisions and reduce losses. Remind everyone that such investigations are confidential; make those involved sign confidentially agreements; and preserve affected business records, witness statements, physical evidence and/or videos.

Even the most tightly controlled company stands to benefit from reviewing existing anti-theft measures and tightening the safety net. The payoff? A dramatic reduction in employee theft — and the protection of your bottom line.

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