



TRUST BUT VERIFY – PREVENTING ACTS OF DISHONESTY

By Randy Boss, CRA

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Many organizations rely on a trusted group of employees and never think they need more robust controls to protect the organization's financial assets. Unfortunately, employee theft is a risk that cannot be ignored. The National White Collar Crime Center estimates global losses due to employee theft at \$3.7 trillion. Employee theft accounts for an estimated 30-50 percent of business failures.

Remember the phrase President Reagan used frequently (and learned to say in Russian) as he and Russian President Mikhail Gorbachev engaged in arms control negotiations in the 1980s – “Trust but verify.”

Here are some warning signs to watch for, and practical steps you can take, to apply the “trust but verify” approach in your organization:

Warning signs:

- An employee refuses to take vacation time (often they are afraid that the theft will be detected while they are absent.)
- An employee continually works overtime
- An employee wants to take work home
- Excessive personal spending, such as a new car or trips, by an employee whose income cannot support this kind of spending
- Petty cash disappears
- Employees have personal vendor relationships (watch out for employees who often lunch with vendors, or who are related to hired contractors)
- Office supplies are depleted at an unusually high rate

Knowing the signs of employee theft will not completely prevent offenses. Here are some proactive prevention steps:

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- Deposit funds daily and reconcile monthly. Loose cash is too tempting, and reconciling the bank statement each month helps catch any irregularities early. Keep track of all petty cash. Money in a cash drawer can be too attractive to some employees. Require that all petty cash transactions have a petty cash slip or log to support them, and require two signatures on petty cash refill checks.
- Give employees separate financial duties, using a system of checks and balances. For example, the employee who writes the checks should not be the employee who signs the checks or reconciles the bank statements.
- Manage by walking around: Let employees know that management is keeping an eye on what goes on in the office. Don't search employee lockers or personal items; just be alert to changes or unusual activity.
- Make sure appropriate paperwork supports employee travel and other expenses.
- Have and promote an anonymous, confidential way to report potential fraud, ethical breaches and other concerns inside your organization. Fewer than 20 percent of organizations have such a system.
- Conduct a thorough background check on prospective employees. If a current employee is being considered for a different position that will involve handling money, conduct a criminal background check and obtain a credit report on that employee. *(Editor's note: VIS members are entitled to a substantial discount through our partnership with Verified Volunteers – www.verifiedvolunteers.com.)*
- Conduct code of conduct training as part of employee orientation. A code of conduct sets standards and establishes expectations for employee behavior in the workplace.
- Obtain insurance coverage for employee theft. *(Editor's note: VIS offers a policy covering thefts by employees or volunteers.)*