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How to guard against employee theft

The Business Journals by Karen Ott Mayer

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Each and every day, theft occurs.

Ironically, it may be more is happening in the workplace rather than on the streets. Studies by the Department of Commerce, **American Management Association** and other organizations estimate that employees steal about \$400 million per week from their unknowing employers.

Since the era of fraud erupted with Enron, WorldCom and HealthSouth corruption, the issue of corruption has been front and center.

"At that point in time, there were 39 cases of fraud," says [Ralph Summerford](#), founder and owner of [Forensic/Strategic Solutions PC](#) in Birmingham, Ala., and the 2010 recipient of the Donald R. Cressey, the highest award given annually by the **Association of Certified Fraud Examiners**.

Allan Bachman, education manager for the [Association of Certified Fraud Examiners](#), says that fraud is different than theft in that it is hidden.

"If 50 percent of cases are uncovered, we still don't know what percent are still covered," says Bachman.

In his 30-year career, Bachman has investigated everything from a stolen VCR to millions of missing dollars.

"The thief could be a church secretary or a college professor who has been faking travel expenses," says Bachman.

The reasons people steal is still a mystery, although certain behaviors remain constant.

"We know need, opportunity and rational play a big part," Summerford says. "It's a gambling mentality. Someone thinks they could just borrow some money and it always starts small. When they don't get caught, they continue."

Before becoming an attorney 20 years ago, [Terrence Shulman](#) was a thief. "I stole from employers," he says.

Today, Shulman holds a master's degree in Social Work, has appeared on Oprah and The Today Show and founded in 2004 [The Shulman Center for Compulsive Theft, Spending & Hoarding](#).

"Theft is a big problem at all levels of a company," Shulman says. "The rationalization is that it isn't stealing because people feel entitled."

Shulman confirms what others believe.

"Fraud or theft starts a little a time," he says. "And often, the person feels stressed over a real problem like medical bills or debt."

Shulman also observes companies that demonstrate very bad human practices, failing to pay attention to employees and get to know them.

"Be aware of your star employee who may be highly charming but also a sociopath," says Shulman.

Communication remains a critical component to eliminating theft.

"Don't assume people know that theft is wrong because our values of honesty/dishonest are crumbling. Take the elephant out of the closet — talk about theft," he says.

Shulman reports that theft is addictive and companies need to send clear messages that crimes will be prosecuted.

"Stealing is an emotional disturbance and the stakes are high," he says. "If you are stealing, know that you are going to get caught."

Summerford says over half of fraud is discovered through tips or complaints.

Ironically, many times the theft is quite apparent if leaders would just pay closer attention.

"I can't tell you how many times we start looking for indicators and when we ask questions, leaders are always surprised," he says.

For example, Summerford points out an employee who makes \$50,000 but has a new home with a pool, a boat and takes exotic trips.

"We ask, 'Have you thought how this person is paying for all of this?' And the response is usually, 'We never thought about it,' " he says.

According to Bachman, companies need to cultivate a culture of prosecution.

"Companies need to start by saying we're not going to stand for this," he says. "Most companies let the person go quietly for either image or public relations reasons."

He recommends organizations file civil claims, and when warranted, criminal charges.

Summerford says the No. 1 reason he observes for fraud is the lack of segregation of duties and the need for some type of checks and balances.

Creating oversight can be a simple matter, from having bank reconciliations mailed to an owner's home instead of to the office where they can be intercepted to maintaining a hands-on management style.

Bachman agrees.

"Verify jobs are being done right," he says. "Sometimes, if one person isn't doing a required task, it leaves opportunity for someone else down the line to take advantage of the inefficiency. Like Reagan said, 'trust and verify' and maintain oversight."

Furthermore, he frequently lectures about the need to question auditors.

"We have the tools to catch the Bernie Madoffs of the world, but auditors aren't using the data analytics they are required to use," he says.

Increasingly, auditors are being held accountable in civil cases for failure to detect fraud.

"Question auditors," Summerford says. "Ask not only if they have data analytic software but if they are using it. Many are now being sued for not detecting fraud earlier."

Tips:

1. Watch the most trusted employees
2. Create a culture of oversight, checks and balances
3. Question auditors about practices