Weak economy increases amount of employee theft

By Sally McKenzie, CEO

The stories read like popular fiction. Unfortunately, they are true. The outwardly stable, unquestionably loyal employee commits a crime no one would have expected, least of all her/his employer.

More puzzling is the fact that often this member of the staff doesn’t have a criminal record. In fact, according to the Association of Certified Fraud Examiners (ACFE) in a 2008 report, only 7 percent of those committing fraud have prior convictions and a mere 12 percent have been fired by a former employer as a result of fraud-related conduct.

But what is perhaps most disconcerting is that many of the characteristics that make up this person’s profile would also be the sketch for your “ideal” team member: dedicated, takes very little time off, first to work home and last to leave, will do anything for the office and never any fault is ever put on her/him.

According to the ACFE’s most recent report, U.S. businesses lose an estimated $994 billion in annual revenues to fraud, despite increased emphasis on anti-fraud controls and recent legislation to combat it. If that weren’t troubling enough, the U.S. Chamber of Commerce estimates 75 percent of all employees steal at least once and that half of these steal again and again.

Who are the thieves?

Fraudsters represent all walks of life: CEOs, bank tellers, firefighers, payroll clerks, senators, even Catholic priests. And, in some cases, they are shamelessly brazen. One reported case involved an employee who routinely crossed out the employer’s name on checks written from customers and inserted his own.

In the recent case of the parish priest, he embezzled more than $1 million from two churches. The crime wasn’t exposed until a donor requested a receipt for tax purposes from the church dioceses, which had no record of the donation. However, the contributor had his canceled check. This led to the arrest and conviction of the priest.

No organization or business is immune to employee theft, and health-care businesses, such as dental offices, are among the top three businesses to be victimized by dishonest employees. With the average loss per fraud case among small businesses at $200,000, that kind of financial hit can be huge for small practices, many of which operate very close to the margin.

In this economy, any increase in expenses or reduction in revenue could be catastrophic. More problematic yet, lenders are less likely to extend additional credit these days to cover such a shortfall.

How do they steal?

Dishonest employees are fraudulently writing company checks, skimming revenues and engaging in fraudulent billing. In small operations, such as dental practices, internal controls tend to be lax and accountability slim, providing the ideal environment for employee theft.

Checks, in particular, present a veritable smorgasbord of opportunities for the small-business embezzler. As another thief discovered, it was a relatively simple exercise to write company checks to herself and then destroy the cancelled checks.

Countless fraudsters have discovered the ease of ordering new checks in the business’ name and making them out to themselves. They can steal insurance checks off unclaimed checks using a signature stamp.

In a multitude of other cases, the trusted employee accepts payment from the patient or customer, deletes the transaction on the computer and keeps the payment. Many patients no longer get their cancelled checks, let alone actually look at them.

Then there are the fraudulent billing schemes. These take a bit more effort than your typical check fraud. One small employer was building a new office only to discover by accident that a trusted employee, who just happened to be in charge of paying the bills, had set up a fictitious painting business and was billing the employer for work never done.

Motivation to steal

But what is it that makes the other-wise stellar employee turn to crime? Research indicates there are several inducements that can influence someone’s decision to embezzle, but three factors must be present. This is known as the “fraud triangle.” The employee must have the incentive, the opportunity and the rationalization.

Incentive may be a gambling problem, alcohol or drug addiction or shopping addiction. It can also be motivated by financial struggles through an economic downturn such as we are experiencing now. The person may be disgruntled or is stretched beyond his/her financial means. The employee may be experiencing personal crisis such as a divorce, serious illness or a death in the family. He becomes desper-