


The Employer's Guide to Detecting and Preventing Employee Theft

A man in a dark suit and tie is sitting at a desk, looking thoughtful with his hands clasped. On the desk in front of him are several stacks of US dollar bills, a smartphone, a tablet, a keyboard, and a mouse. The background is a solid orange color.

You Can't Afford Employee Theft

According to the ACFE's Report to the Nations, the typical organization loses five per cent of its annual revenue to fraud, translating to a potential total loss of nearly \$4 trillion worldwide.

Perpetrators often displayed warning signs of fraud, such as living beyond their means and experiencing financial difficulties.

Employee fraud can mean the end of business for some companies, a significant loss to others and a blow to the reputation for all. Your company can't afford to ignore risk factors. The following guide provides practical tips for deterring, preventing and detecting employee theft so that you don't become one of the statistics.

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Smart Hiring

Pre-screen applicants by conducting criminal record and other background checks to spot any red flags of fraud before you hire someone.

In addition, look into more obvious yet seldom-checked information that can tip you off to a dishonest applicant. Use the following extra checks to screen out applicants and potentially prevent theft:

- Confirm name and address
- Confirm educational qualifications
- Check membership in professional organizations
- Confirm employment history
- Check financial status or perform a credit check (if it's legal in your state)
- Confirm directorships held and any disqualifications
- Perform a media and internet search

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Training and Education

Write strong anti-fraud and theft policies for your organization. Make sure the consequences for violating these policies are clearly laid out and understood by all employees. Apply the policies universally to send the message that theft of any type or size won't be tolerated.

Additionally, provide all employees with training on these policies and procedures. Ensure they are aware of the tools and techniques to report suspected fraud. During training sessions, explain to employees why it's important to report, including the consequences fraud and theft have on the company.

Make sure employees sign a form stating that they have read the policies and received training on them, and that they understand them. Your company name is riding on the backs of your employees; they are your ambassadors and your best line of defense against fraud. Let them know that.

Robust Reporting System

According to the ACFE report, anonymous tips were the most common and effective means of internal fraud detection. And, employees are speaking up more frequently now that these mechanisms are in place. Most employees are honest and loyal to their organization, so they don't appreciate their coworkers committing theft or fraud.

Set up a secure, private reporting system or hotline that offers employees a range of reporting options. Include a dedicated email address, phone number and webform, with the option to remain anonymous. Anonymous hotlines allow employees to look out for the best interests of the company without fear of reprisal.

i-Sight case management software allows you to track these tips as they come in and keeps all details in one place as you carry out your employee theft investigation.

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Positive Work Environment

A positive work environment encourages employees to follow established policies and procedures and act in the best interests of the company.

When a company has written job descriptions, clear organizational structure, comprehensive policies and procedures, open lines of communication between management and employees, and positive employee recognition, employees feel valued and loyal. Employees who feel they're paid fairly and treated well are less likely to steal from their employer than those who don't.

Develop mutual respect between employer and employees. Encourage managers to establish an open door policy. The physical act of leaving your office door open during times when you're able to meet with employees makes it easier for employees to communicate with you and makes them feel that their input is welcome. Give employees time to speak with you and don't play favorites.

Internal Security Policies

Establish and assess the fraud and theft prevention tools that you have put in place, making sure that they meet laws and regulations. Check that expenses are accurately documented and anti-theft and fraud training programs are up-to-date with best practices. Monitor the workplace to ensure that employees are following policies and procedures. Putting in place the following three controls will help to reduce the opportunity for fraud:

- **Separation of duties:** No employee should be responsible for carrying out all steps of a financial transaction (i.e. writing and signing checks).
- **Access controls:** Access to physical and financial assets and information, as well as accounting systems, should be restricted to authorized employees.
- **Authorization controls:** Develop and implement policies to determine how financial transactions are initiated, authorized, recorded and reviewed. Internal controls will reduce opportunities for fraud.

Audits

Conduct scheduled and random financial and accounting audits. When employees are aware that there will be random checks of their areas, they're more likely to be honest. It reinforces the culture of accountability in the company. Also, they will not feel singled out when it's their turn for an audit.

In addition, conduct regular audits of the security measures in the previous slide. This will help you uncover the weak points in your business that are putting you at risk of employee theft and fraud.

Pay Attention to Change

A key preventative technique is to be aware of changes in employee behavior. Look for sudden changes in mood, productivity, working hours, tardiness and focus. There could be multiple reasons behind an employee's changing behavior, such as mental or physical illness, family conflicts, debt or a partner losing their job. You may want to monitor these changes in case something happens down the road, but don't accuse the employee of any wrongdoing.

Foster an atmosphere of understanding and openness with employees. This will make them feel comfortable enough with management that they can disclose if they're having financial or other difficulties that could make them vulnerable.

Consistent Investigation

It's best to investigate, or at least make an inquiry into, every incident of theft or fraud reported through your hotline. In order to address issues quickly and show your commitment to preventing employee theft, action must be taken immediately.

The faster you look into the incident and can resolve it, the less risk of repeat problems or escalation into a major issue that could tarnish the reputation of your company. Fraud schemes often go on for months or even years and involve multiple people. So if you ignore a tip because it seems too small to investigate, remember that it could be just the tip of the iceberg.

Tone from the Top

To prevent fraud and theft, everyone in the organization needs to be on board.

Leadership must make it clear to employees that theft and fraud aren't permitted. Policies should be backed up with training but, most importantly, they need to be backed up by the actions of those at the top.

Employees need to believe that management is serious about preventing fraud and theft, which means that everyone should be held to the same standards regardless of job title. Management should demonstrate ethical behavior and support anti-fraud policies openly. Leading by example also means following these policies to the letter, and being accountable for violations the same way a lower-level employee would.

Continuous Improvement

Continuously look for ways to improve anti-fraud and theft policies and procedures. Fraud prevention is an ongoing, dynamic process that requires ongoing evaluation and improvement.

Stay up-to-date on changes to financial and accounting laws and regulations. Read up on new trends, technologies and best practices in workplace fraud prevention. Integrate these changes into company policies and employee training.

Develop a training schedule in order to train new employees, as well as current employees, to continue demonstrating your commitment to an honest, open workplace. Communicate regularly with employees (especially when you change policies) and stick to audit plans.

If you cancel or cut back on any of the established fraud control measures, employees will notice and it could send the message that you have lost your focus on the prevention of workplace theft and fraud.

Better Case Management Software, Better Fraud Investigations



With a focus on investigative case management solutions and over 20 years of successful implementations, i-Sight is the global leader in configurable case management software for workplace fraud investigations.

Improve your investigation skills and your career.

As thought leaders in the fraud investigations space, i-Sight publishes helpful eBooks, guides, cheat sheets and templates and offers free monthly webinars on topics related to fraud, ethics and compliance, investigations and more.

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