



'Tis The Season ... For Stealing

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There is a direct correlation between tight financial times and the probability of your business suffering a loss due to employee theft. Whether the catalyst is the economic recession making it harder for employees to make ends meet or the upcoming holiday season putting pressure on the family budget, your company is at risk.

The median loss for private companies is \$278,000 according to the Association of Certified Fraud Examiners (ACFE). **Isn't my company too small to be a target?** The reported median loss for businesses with less than 100 employees was \$200,000, which is actually higher than the median loss of \$175,000 for all public, private and governmental entities.

So how do I know if my company is at risk? Employee theft tends to occur in situations where the worker is having financial difficulties (34%), has the opportunity and access (29% were in the accounting department), and believes that the chance of detection is low (detection time for cash related thefts were between 17 – 30 months).

My accountant has been with us for 10 years, doesn't that mean my company is safe? 52% of perpetrators worked for the company for at least 5 years, so length of service was not a factor. However, the longer the worker was employed, the larger the reported loss. Employees holding a position for 6 – 10 years stole an average of \$261,000 from their employer. More than 58% of perpetrators were over the age of 40 and the majority (36%) were between 41 – 50 years old. 87% were first time offenders or had not been previously charged or convicted with a fraud related offense, so background checks only have limited effectiveness.

So what should I look for? Billings to fictitious vendors, check tampering (forgery or alterations), cash related thefts, and payroll frauds (payments to fictitious employees) are most commonly seen in small businesses.

So how can I protect my company? The key to deterring employee theft is good internal controls. The problem some businesses face is the lack of enough personnel to make implementing the controls possible, as well as the costs associated with those controls. Surprise audits are the most effective tool for deterring and detecting employee theft, but how many companies can afford to keep an internal auditor on payroll?

After discovering employee theft, 78% of companies modified their anti-fraud controls. **So what was the most effective change in controls?** The ACFE found that companies offering an anonymous hotline for employees, vendors, and

customers **reduced the median loss by 67% and improved detection time by 50%**. This is consistent with their finding that the majority of initial fraud detections (46%) came from tips.

A hotline sounds like an effective, low-maintenance, and easy-to-implement control, but is it affordable? Adding an anonymous hotline is probably one of the most inexpensive controls a company can put in place. Depending on the number of employees and the level of secondary support services your company needs, hotline subscription services are approximately \$600 annually for a company of 100 employees.

What can I expect from a hotline provider? Basic services include accepting reports through a variety of mediums (telephone, email, fax, and web-based reporting), daily incident notifications to an unlimited number of recipients, and web-based case management software. Higher-end vendors may provide incident notifications within minutes of the report (instead of the same business day) and offer additional wrap-around services to supplement a company's existing vendor network. Such specialized services include psychology and behavioral science services, research and due diligence services, investigations and consulting, and education and training services for management and employees.

How do I get started? You and your auditing team know your company's needs best. Work together to determine what services will be most beneficial and what areas of your resource network need strengthening.

Still not sure who to call? Call us. We can help by making referrals, evaluating your internal controls, assessing your needs, and assisting with the implementation process.

Sources:

1. Association of Certified Fraud Examiners; *2008 Report to the Nation on Occupational Fraud & Abuse*
2. Lighthouse Services, Inc.; www.Lighthouse-Services.com
3. Business Controls, Inc.; www.MySafeWorkplace.com

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