

Employee Theft – Part Two

Please see part one of this article which discusses the dishonest employee exposure.

Employee Theft Controls

Controls refer to techniques and processes that discourage theft by employees. While controls can't fully eliminate theft; they can certainly help minimize the danger. Further, they may also assist in more quickly discovering and capturing dishonest employees. The most effective controls are those that limit theft opportunities and the use of auditing.

One important control is to thoroughly check new employees. The hiring process must include adequate references that are verified, as well as running background checks (BEFORE HIRING). Hiring workers with criminal backgrounds is a near guarantee that losses will soon occur. Such losses may not be covered since insurance companies usually exclude losses involving employees who have a documented history of dishonest behavior.

Another control is to assign distinct job duties among different employees. Responsibilities for making deposits should not be assigned to the same employees responsible for making account payments. The worker who orders inventory should be different from a worker responsible for receiving property. These workers should be different from the worker who pays for shipments. In small businesses, with few employees, such tasks can be rotated among different workers. This reduces the chance for a dishonest employee to create theft opportunities. Employees will act as checks and balances against crooked activity. Sadly there is still the chance that workers will cooperate with each other to steal property, but collusion is significantly less common than individual acts.

Other important controls involve having proper procedures for handling company check disbursements (such as use of countersignatures, stamping incoming checks "for deposit only) and inventory controls that include accurate recordkeeping (either manual or computerized) to track inventory levels. It also helps to closely monitor ordering procedures, acceptance of credit and separate approval of suppliers. Another way to exert control over possible thefts is to use qualified, independent auditors regularly. Outside auditing can quickly and accurately identify problems.

Regardless the type of business, it is important to recognize that, unfortunately, employees can be a major contributor to business losses. An insurance professional is a good source of expertise for identifying ways to protect against internal losses.

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