

Duvall & Associates, Inc.

Taking Care of Business

THE PAIN OF EMPLOYEE EMBEZZLEMENT

"Some laws should be broken from the start...Gonna have to steal" Lucinda Williams

Realistically, most owners grievously abhor bookkeeping and paper-laden administrative tasks.

As a result, owners tend to place excessive administrative responsibilities upon the shoulders of subordinate bookkeepers and office managers. To their utter dismay, these same employees often repay this trusting delegation by embezzling funds from the company.

Depressing is the fact it is not bad people versus good people who steal. It is simply individuals with opportunity - who lack the resolve to resist the temptation. More debilitating yet is the fact such employees often exhibit nearly suicidal tendencies in their excesses.

True story - A controller of a small business issued a \$250,000 company check to himself for use as an immediate down payment on a new family residence. His fraud was discovered days later while he accompanied the owner on a gambling junket in Vegas.

Employee embezzlement situations display amazingly consistent patterns in terms of timing and dollar amounts. Typically, the worker initially dabbles in very small dollars at very interspersed times, later dramatically increasing both amounts and frequency upon determination no one is adequately paying attention to detail.

Fortunately, owners are often presented with numerous trinkets of clues finances are not in line with expectations.

Financial records are often messy and statements not presented on a timely basis. Key financial indicators and trends are not logical and account detail does not match numbers on financial statements. Unexpected cash short-falls. An abundance of tax notices. A key employee experiencing emotional and monetary crises.

To ameliorate the potential impact of employee embezzlement, owners must institute visible layers of internal financial controls. The overall objective is to demonstrate work product is subject to constant supervisory review such that it would require a multi-person conspiracy to successfully perpetrate theft.

Owners should be an active part of the system clearly conveying the image they are paying attention. A healthy segregation of critical duties is essential. Take care with signature stamps. Checks (with relevant invoices attached) should only be signed by carefully monitored personnel. Conduct spot audits and study financial trends and ratios.

Interestingly, an owner's personal integrity is also relevant in this regard. Many workers steal from owners whom they perceive unethical, justifying such actions on the basis "he deserved it".

Embezzlement is not a statistical aberration in the workplace.

Watch your back.

Alan Duvall is a certified public accountant in Dayton. Contact him at Alan@Duvallcpa.com.