

EMBEZZLEMENT... HOW TO PREVENT IT. WHAT TO DO WHEN IT HAPPENS.

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Embezzlement is a crime of broken trust that can severely damage your company's reputation, morale, and bottom line. Here are some simple steps you can take to prevent and detect employee theft and comply with laws related to obstruction of justice.

Set the tone.

Management must set a good example of fair and honest business practices. Fudging numbers or playing fast and loose with company money breeds a culture of ambivalence and gives employees a rationale for dishonesty.

Establish a corporate code of ethics.

Such a code clearly states that management will not tolerate unlawful behavior and spells out the consequences for non-compliance.

Create a fair and open environment.

Employees often strike back at perceived workplace injustice and may commit embezzlement to right what they see as unreasonable or unfair treatment. Build a rapport with your employees, allow them an opportunity to voice complaints, and provide a forum to share information about what's going on in the company.

Conduct background checks.

Check references and ask former employers if an applicant is eligible for rehire. Include questions related to any crimes or convictions as allowed by law. Continue the process after hiring with a credit bureau check and annual reviews. More sensitive employment levels, such as those responsible for information technology should be subject to stringent checks. Be sure to apply the same protocols to any temporary contract employees.

Institute checks and balances.

Check the work of every employee particularly those who should check monthly bank statements and returned checks. Don't let the same person handle accounts payable, account balancing, and bank statement. Require approval for making additions to payroll and for expenditure over a set amount.

Encourage whistleblowers.

Provide hotlines or other means of anonymous communication.

Legal Lines

Legal Issues for Nonprofits

Mandate vacations.

Forcing each employee to take at least a weeklong vacation every year can deter embezzlement since embezzlers will find it hard to keep up their ruse while absent. Many times embezzlement is discovered when an employee who deals with company or public money is suddenly taken away from the office.

Avoid blank checks.

Never sign blank checks and don't leave unsigned checks in an unsecure place-especially if you'll be away from your workplace.

Perform an annual external audit.

Hire an outside firm to conduct your company's audit. They know how to spot things that can slip through the everyday shuffle.

Purchase fidelity insurance.

Let your employees know that the insurance is a "better safe than sorry" policy and does not connote mistrust on your part.

Finally if you suspect embezzlement control your work environment. It's imperative to preserve evidence by not tainting it or losing the chain of custody. Consult with your attorney right away to get advice on how to investigate the matter how to segregate the evidence in such a way as to minimize intrusion into regular business, and whether to call in law enforcement. If your attorney advises you to involve the police, seizure of evidence and interviews will probably be disruptive in the short term. But reporting will pay off in deterrence, restitution, and recovery. Covering up embezzlement can lead to criminal liability.

What to look for

Awareness is key to preventing and detecting embezzlement. Watch out for~

- Employees with personal or financial problems (especially gambling or substance abuse)
- Employees who are hostile to management
- "Indispensable" employees who never take vacation
- A sudden upscale in an employee's lifestyle
- Unusual debt write-offs
- Inventory shortages
- An increase in reported expenses
- Slow collections

*This publication is intended to provide general information, and is not a substitute for legal advice.
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