

# Tips for Avoiding Embezzlement

By Phillip Parrot

Embezzlement is a major national problem. Association of Certified Fraud Examiners (the "Association") estimated that 660 Billion of revenues will be lost in 2004 as a result of occupational fraud and abuse.<sup>1</sup> The average organization will lose over 6% of annual revenues to fraud. In 2002, the Association estimated the average loss per employee was about \$4,500, or over \$12 per day per employee.<sup>2</sup>

Professional practices are particularly vulnerable. The owners are the producers of revenue; they have little time for financial management and do not enjoy it. Their personal goals include helping people, not catching crooks. The practices generally are small, with fewer administrative employees doing more tasks than other types of businesses.

What can employees and managers of professional practices do? First, they can be aware, and especially sensitive to the fact that it is the most trusted employee that can do the most damage. Remember, embezzlers use trust and friendship as weapons. They like to make persons raising questions feel confused or stupid. Other possible steps include the following:

1. Set the tone at the top – owners who cheat on taxes or expense reports set a tone of dishonesty that can permeate the office.
2. Regularly review all bank statements and checks. Just looking at the bank statements deters fraud.
3. Regularly check with the bank (and other area banks) to make sure no secret deposit or loan accounts are open.
4. Periodically get the mail yourself – you might be surprised what you find. Make sure all employees know you are going to do so.
5. Have a written employment policy that defines inappropriate financial behavior and spells out the consequences (Ward claimed he had authority to pay personal expenses – a claim it was difficult to refute).
6. Run a criminal background check on each employee. Consider a deeper background check employees having any control over money or bank accounts.
7. Make employees involved in any accounting function take regular vacation. Many schemes have been detected while an employee was away and unable to manipulate records.
8. Develop a system of checks and balances on the authority of even the most senior owners/employees (e.g., limited check writing, borrowing and lending authority, review and approval of all expense reimbursements by another person).
9. Obtain an employee fidelity bond.
10. Treat unusual transactions with suspicion. Do not accept answers that do not make sense.
11. Report embezzlement to the authorities (and protect the next practice!)

Embezzlement is a serious and costly problem. It hits thinly capitalized professional practices especially hard. It can be limited, and even prevented, but it requires vigilance and discipline on the part of the practice

---

<sup>1</sup> 2004 Report to the Nation: Occupational Fraud and Abuse, Association of Certified Fraud Examiners (2004)

<sup>2</sup> 2002 Report to the Nation: Occupational Fraud and Abuse, Association of Certified Fraud Examiners (2004)