



## Corporate Exposure: Corporate Theft (Part 2)

Harry P. Mirijanian

In our last column we talked about some of the ways companies could establish controls that could reduce the risk of corporate theft. This month, we continue with other means of thwarting this growing problem.

### Security guards

Many organizations employ on-site security guards as a means of protecting the workplace. Not surprisingly, there is a wide range of results accompanying this sort of protection. Some security services do a good job hiring and training their staff and provide a reasonable level of service. Others, however, have a difficult time finding individuals—particularly when trying to fill the graveyard shift. Sometimes, they merely hire a warm body (regardless of past experiences).

If you choose to retain any sort of guard service, be certain at minimum they provide you with a certificate of insurance that states appropriate limits of coverage. In addition, we advocate that guards be required to punch time clocks throughout their tours. This serves two purposes: You have a record of their tours, and you have a guarantee that they are actually surveying all designated areas rather than staying put in one place all night long.

### Internal controls

You should give careful consideration to internal controls along with all the external ones. Begin with the hiring process. We strongly advocate extensive back-

ground checks that include drug and alcohol reviews. The obvious benefits that background checks provide include screening out any applicants who have questionable histories. Background checks can also identify those applicants who suffer or have suffered from substance abuse problems. Individuals who have an addiction problem are more likely to steal to support their habits.

Another value of background checks is that they help you attain maximum insurance coverage. Employees with prior criminal theft records that are hired by your company may not be covered by your policy. The carrier's argument is that you should have known that the individual had a criminal record and that you took no steps to keep that individual out of temptation's way.

Another internal control simply involves identifying and knowing your workforce. In other words, a company with low turnover is more secure than one where turnover is high. High turnover often breeds opportunities for theft. Managers should be watchful for warning signs. For example, be suspicious when an employee suddenly buys an expensive car, takes expensive vacations, or wears expensive clothing and jewelry. Make sure any investigation you conduct is as diplomatic as possible.

Further, let us once and for all recognize that the more trusted the employee, the greater the possibility that they can position themselves to steal from the company. We have encountered this situation countless times. Company management is often shocked when it discovers that a well-trusted, long-term employee has stolen. You need to develop strict policies that are applicable to all employees, regardless of seniority or position. Failure to implement these policies on a consistent basis could also give rise to a discrimination lawsuit if it can be proven that only

certain employees appear to be held accountable. There have been discrimination claims resulting from a company's requiring only certain employees to secure two signatures on an expense report or billing approval. Internal practices should always be in writing to help facilitate auditing, which can be done by your internal department or an outside auditor. For example, no single person should handle any financial transaction from beginning to end if possible. Records should be maintained of all transactions requiring several sign-offs and approvals. Invoices should be marked so that they cannot be duplicated and processed more than once. We have seen situations in which the same bill was processed several times and the additional checks were intercepted by an employee.

Obviously, any checks made payable to your organization should be stamped "For Deposit Only" immediately upon receipt. All cash disbursements should require duplicate receipts that are sequentially numbered. Petty cash programs should require that the recipient sign off on all payments and receive a receipt. Avoid situations that could lead to fraud. For example, a petty cash reimbursement for \$50 could be forged to read \$150, so that the person issuing payment could pay them \$50 out and pocket the other \$100.

Next month's column will offer additional guidelines and offer a wrap-up of this potentially costly problem. ■

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