

**Four Tips on Preventing Fraud and/or Employee Theft**  
*How to monitor employees without harming the relationship*

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Of course you want to like your employees and you want to trust them. So make it easy for them to resist any temptation to commit fraud and/or employee theft.

While the [Association of Certified Fraud Examiners<sup>\(1\)</sup>](#) estimates that 5% of revenues worldwide are lost to fraud - by employees, your company doesn't need to be one of them. Here are four tips on preventing fraud and/or employee theft:

**1. Be Aware of Fraud**

Know the types of fraud that exist and are particularly vulnerable to your company. Don't ignore potential problems. Segregation of duties concerning financial matters is a must. Have one person record customer payments and another person prepare the deposit and another one take the deposit to the bank. Have a different person prepare the payable checks from the one who signs the checks and another one who reconciles the bank accounts.

**2. Keep Employees Informed**

Decide what policies and procedures you need for your specific operation and how they can be implemented with internal controls. Employees need to know what's expected of them – not just their physical job duties. Bring employees up-to-date about how important they are in preventing fraud. They need to feel a part of the search for taking preventive measures. Explain in detail what is expected of them and why. Let them know specifically what will not be tolerated. Make them a part of the process. Let them know what specific steps to take if they are concerned about actions they believe are incorrect.

### **3. Establish Internal Controls**

Put internal controls in place to prevent fraud. If everyone is aware of the controls then they won't be alarmed to think that they are being "checked up on". Never assume they are a good person and therefore will not take advantage. Small amounts of time or items stolen can often lead to much larger diverting of funds for personal use.

Once you've established internal controls, be sure to follow through with monitoring internal controls, as you've stated that you would. Employees are very aware when you say one thing and do another.

### **4. Know your Employees**

- Invest time asking questions to get to know them. Discover some ways they may be having personal financial difficulty, thereby being prone to inappropriate decisions.
- Do not display anything that would suggest that you are suspicious of them. Make them feel important and confident.
- Employees likely to commit fraud are often the most likeable, volunteering to work long hours, including weekends and taking on tasks of others. They often refuse to take vacation, not wanting anyone to discover what they are doing.
- Never assume employees are "okay". Be aware of things that are bothering them. Don't just think "it's too bad, they just have to live with it". Disgruntled employees can easily lead to theft.

Treat employees with respect to instill confidence and loyalty, but always be mindful of the delicate balance between boss and friend.

Please reach out to [marketing@coverrossiter.com](mailto:marketing@coverrossiter.com) if you would like a consultation about how to detect and prevent fraud in your organization. If you suspect fraud is occurring in your business, Cover & Rossiter can assist you with the forensic accounting needed to uncover it.

<sup>(1)</sup> Accounting Today "Organizations lose 5 percent of revenue to fraud every year", by Michael Cohn, April 17, 2020

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