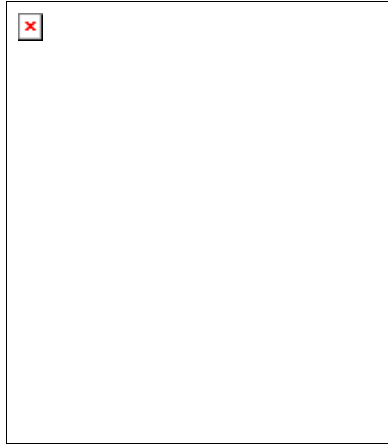


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## How To Deter Employee Embezzlement



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by **Melissa Nicefaro**

Most crimes are crimes of opportunity. The intent might not be there originally, but once opportunity presents itself, temptation can tip the scales. Maybe your employee has gotten into financial trouble. Maybe he or she has a sick family member and bills are piling up. Many employees who commit fraud have financial problems such as a bad gambling debt, a drug addiction or significant spending problems.

Employee embezzlement poses an enormous threat for companies large and small.

Publicly traded companies are required by the Sarbanes-Oxley Act to maintain an anonymous fraud telephone hotline.

When setting up this hotline, it is important to keep in mind who is running the hotline, since you certainly wouldn't want a person who might be involved with the fraud to be accepting tips, anonymous or not. It is often more beneficial to offer a hotline that is run by an outside services such as a fraud examiner who works at a certified public accountancy.

A hotline is an ideal tool for any individual to leave a tip or voice a concern. For the mid-sized to large-company owner, a hotline adds an extra layer of comfort that you are providing resources to protect your assets.

According to the Association of Certified Fraud Examiners, organizations that offer a hotline cut their fraud losses in half on average. A hotline is an inexpensive service with an annual fee based on size of workforce.

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The individual running the hotline will take in tips, sort through them and then report the information to the appropriate people within the organization or even outside the organization. These appropriate people could be management or attorneys, but remember - there is strength in numbers. There should be several individuals receiving the information that embezzlement has been or is occurring, just in case the person receiving the information may be involved. Under ideal circumstances, this information will travel from the hotline to an independent source outside of the company.

Prevention and deterrence is key. It is important to have a strong system of internal control. To accomplish this, a certified public accountant firm with certified fraud examiners is recommended. He or she will go in and evaluate a company's internal control structure, recommend changes and create a new and highly effective structure, even if there is one in place.

A small business might have just one person performing all accounting tasks. In such a case it may be quite difficult and costly to segregate duties. In such a company, a sole bookkeeper will write checks, make deposits and reconciling the bank accounts. The lack of segregation of duties presents more opportunity to commit fraud.

Certified fraud examiners and accountants agree that it is best to have different individuals handling different financial tasks, but if there are only two or three employees at a small business, the cost to segregate duties may be prohibitive. Many non-profit organizations, for example, have only a few people in the administrative area and it simply doesn't make sense for them to go out and spend \$35,000 on a new individual to offset the fraud opportunity. In this case, a business or organization needs to be creative. This small business can still have an ideal internal control system.

Something very simple and inexpensive that every business owner can do to add another layer of protection against embezzlement is to keep his or her eyes open. Pay attention and ask questions. If a small-business owner has one bookkeeper who issues checks and reconciles a bank account, it is recommended that the company owner has the bank statement mailed directly to his or her own home. The statement can be reviewed and compared. Since many who commit fraud embezzle in small amounts - \$200 here, \$300 there - it is a good idea to make sure the actual payees are correct and that nothing at all raises a red flag.

The process of receiving the bank statement in the privacy of the owner's own home sends a message to the bookkeeper that a watchful eye is being kept on the business. One thing that deters fraud from occurring in the first place is when that employee has a very high level of assurance that he or she will get caught.

Just the presence of someone asking questions on a month-to-month basis sends a strong message and leaves less room for opportunity. This is one of the most cost-effective ways of deterring embezzlement.