RISK CONTROL BULLETIN

Employee Theft

Causes

Employee theft also referred to as internal theft has been considered the number one cause of business failure in the United States over the past 30 years. The U.S. Department of Commerce estimates that between $5 billion and $20 billion in internal theft losses occur each year. Clearly, internal theft can have devastating effects on your business and the economy as a whole.

Causes can be categorized into or associated with four general areas: Employee Attitude; Management Responsibility; Managerial Dishonesty; and Other Factors.

Employee Attitude

Employee attitude can be affected by dissatisfaction with the job. Individuals may feel justified in stealing as a result of this. An individual may feel that a company is not paying them what they are worth or that they have been passed over for promotion. A person may feel that work conditions are substandard or unsafe. A business may be strong enough to withstand stealing in the eyes of some employees (i.e. "they can afford it" attitude). In many cases, employees don't believe they are hurting any one.

Management Responsibility

Management can be responsible when providing inadequate supervision, ignoring work standards, and assigning low priority to basic security controls. Penalties for internal theft may be rather insignificant resulting in little fear of getting caught.

Managerial Dishonesty

Employees learn from their bosses. Managers establish the norm for employees to follow. Any behavior that conforms to what is perceived to be acceptable will not be considered to be dishonest. A recent study of employee theft losses indicated that long term employees with positions of responsibility are more of a serious loss potential. Those thefts typically involve large sums of money over long periods of time.

Other Factors

Inflation or the threat of downsizing or recession may affect lifestyles and tend to push employees in trying to stretch their paycheck. Bankruptcy or impending mergers may also push an employee into a state of mind where dishonesty seems less of a criminal act. Many of these factors tend to cause employees to lose their sense of loyalty. Gambling debt or the need to pay for expensive drug habits also weigh in as a factor in reducing the level of honesty of an employee. Management should instruct supervisors to be more vigilant when such situations arise.

Warning Signals

There is no fail-safe technique for identifying the dishonest employee. The potential for theft exists in all employees. Efforts therefore should be directed at the mainstream rather than the stereotype. An employee exhibiting a few signals does not mean that you have a criminal on your hands. You are looking for consistency and frequency in a wide range of signals. It still may only be circumstantial.

Too often, the signs are accredited to chance, coincidence, or eccentricity and may be ignored. To successfully detect theft and initiate criminal prosecution, all warning signals must be observed and evaluated. Later, we will introduce and explain warning signals in the areas of merchandise and equipment, theft protection devices, records and documents, personal behavior, employee activities, and customers and outsiders.

Warning Signals

To successfully detect internal theft and initiate prosecution against the criminal, all warning signals must be observed and evaluated. Theft warning signals are apparent from merchandise and equipment, from theft protection devices, from records and documents, from personal behavior, from employee activities and from customers and outsiders.

Signals from Merchandise and Equipment

- Merchandise or materials missing from boxes
- Merchandise in the wrong box
- Merchandise in the trash or unusual places
- Frequent damage to containers or desirable or expensive goods

Signals from Theft Protection Devices

- Signs of forced entry at perimeter doors and windows, such as scratches near locks, damaged doorjambs, broken panels, etc.
- Alarm system wires or contacts broken, damaged or jumped or bypassed
- Truck seals missing
- Frequent false alarms or frequent inability to close premises because the system shows a break somewhere
- Electronic security devices frequently in need of repair and inoperable

Signals from Records and Documents

- Discrepancies between inventory records and physical counts
- Control documents missing or out of sequence
- Unusually high percentage of refunds or credits
- Unexplained alterations of inventory records
- Documents not properly signed or countersigned
- Excessive use of substitute records because originals are "lost"

Signals from Personal Behavior

- Patterns of absenteeism...Monday, Friday, etc.
- Reasons or excuses for absenteeism used are always similar: Family, spouse, car, traffic
- Chronic tardiness
- Long lunches
- Leaving early
- Missing from work station for long periods
- Reduced or erratic work performance or productivity
- Having more money or spending more than earnings could support: Flashes large amounts of cash, buys expensive items, have expensive hobby, always picks up check at restaurant, dresses expensively
- Disgruntled, dislikes boss or company, and complains about being overworked or underpaid
- Never takes time off or vacation, or comes in during vacation or day-off

Signals from Employee Activities

- Coming in too early or staying too late for no good reason
- Habitual carrying of gym bags, shopping bags, etc.
- Habitual wearing of unusual loose fitting clothing
- Presence of employees in an area where they have no legitimate business

Signals from Customers and Outsiders

- Frequent customer complaints
- Unusually friendly relationship among employees and outsiders, such as truck drivers, repair men, trash collectors
- Frequent contact among employees and visitors, especially those visitors who carry shopping bags or other containers
- Presence of outside personnel (telephone repair, building service, salesmen, etc.) in areas where there is no legitimate business or communicating with employees they have no business dealing with
- Many customers always dealing with one employee and refusing to buy from anyone else

These signals are just broad categories to help guide the business owner. Each business will have signals peculiar to their particular environment. They mean nothing unless some action is build into the security plan.

Controlling Internal Theft

All employees have a stake in minimizing theft. In most business, the majority of employees are honest. It must be recognized that there are employees who will steal and it is very difficult to eliminate internal theft completely. Even the honest employee finds it difficult to turn in his fellow worker if they know of instance of theft. The best that can be hoped for is to minimize the impact of internal theft by establishing control strategies. These prevention strategies can be categorized into four areas: Pre-Employment Screening, Procedural Controls, Improving Job Satisfaction, and an Apprehension and Prosecution Policy.

Pre-Employment Screening

This is the most important step. By doing a thorough in-depth check of an applicant's job history and references, management can reduce the exposure to theft while creating an environment of honesty. It is vital to convey to employees that management is concerned with ensuring the highest level of integrity in the workforce. Taking the proper steps in screening employees up front can save a lot of anguish at a later date.

A comprehensive employment application form should be developed that affords the basis for an in-depth exploratory check of the applicant's background. The form should be consistent with federal and state requirements and should include, as a minimum, information about residence, education, job history, and references.

- The applicant's references and previous employers should be checked, either by mail or phone. If the telephone is used, all questions should be direct. Letter inquiries should be designed using "check-off" type questions; not requiring narrative answers, and should include a self-addressed, stamped envelope.
- Depending on the importance or sensitivity of the job, criminal checks and credit checks should be performed on prospective employees. The Fair Credit Reporting Act provides general guidelines that employers must follow when obtaining credit reports. Employers should be familiar with federal and state laws relating to employee screening.
- A list of questions should be developed to be asked during the job interview, with the intention of providing insight into the person's character.

Procedural Controls

These controls are designed to limit the opportunity for theft by making it more difficult to accomplish. Obtaining the agreement of the employees is important. Without their agreement and understanding, there may be damaging effects on morale.

- Employers should develop a set of written security procedures that also outline the company's policy for dealing with an employee caught stealing.
- A copy of security procedures, as well as other company policies, should be provided to each employee; a signed statement of its receipt should be obtained.
- A notice should be posted, in a conspicuous location, stating that dishonesty will not be tolerated and that all offenders will be dismissed.
- Responsibilities and functions should be separated so that no one employee has control over all parts of a given transaction.
- Workflow should be organized so that the work of one employee acts as a check on that of another.
- Check employees who arrive early and stay late when there is no need to do so.

- Cashiers should be made responsible for their own cash drawers.
- Cashiers should be required to provide customers with a sales receipt for each transaction.
- Employers should have a policy that all voids and over rings must be approved by a manager.
- All employee purchases should be rung up and checked out by a manager.
- Cashiers should be instructed to immediately replace register receipt tapes when they run out.

Improving Job Satisfaction

One of the accepted causes of internal theft stems from low job satisfaction. By satisfying this need you not only begin to evolve a strategy for controlling internal theft, you also make an impact on other causes of loss, notably waste and carelessness.

- By means of an employee relations policy, employees should know that management is generally concerned with their problems.
- Communication between management and employees should be established and maintained.
- Employee training should be developed to improve job skills and open the way for advancement.
- Employers should regularly review salaries, wages, and benefits to insure that compensation programs are competitive with those of other companies in the area.
- Management should establish a suggestion box, and take into consideration what employees have to say.
- Regular staff meetings should be held and employees given the opportunity to air their concerns and grievances.
- It is important to avoid creating a police-state atmosphere wherein employees feel that they are being spied upon. An atmosphere of suspicion and mistrust will only aggravate a theft problem.

Apprehension and Prosecution

The fear of being caught, dismissed, and possible prosecution with threat of jail term is undeniably effective as a control strategy. Dishonest employees must be prosecuted to the full extent of the law. Where warranted, strong positive action must be taken. It pays for itself in terms of a recognized deterrent.

- Management should uphold company policies regarding employee thefts, judging every employee by the same objective criteria. Failure to take decisive action or failure to be consistent can have an adverse effect on successful prosecution and the attitude of employees in the future.
- When an employee is suspected of internal theft, local policy should be consulted. Employers should be familiar with the evidence that is required and the procedures that should be followed.

Employers should seek professional legal consultation when establishing a prosecution policy.

Conclusion

Internal theft can seriously affect the economic stability of a business. Management needs to implement policies to control internal theft. Businesses that have a good employee selection program, inform employees that stealing will not be tolerated, and establish control strategies to detect employee theft, usually have lower levels of dishonesty.

Beware of "theft contamination." Once dishonesty gains a foot hold in a business, it can spread.

To be effective in reducing the potential for internal theft, the four control strategies outlined must be integrated into a comprehensive prevention program that gives consideration to an employee's morale and legal rights.

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