

Prevent Loss from Theft and Fraud

by Patrick Phillips and Bryan Malatesta, CPA

**“ . . . it takes approximately \$20 in sales
to offset every \$1 lost to theft.”**

John Case, CPP

In this article, you'll learn ways to . . .

- Prevent employee theft.
- Prevent shoplifting.
- Prevent check fraud.
- Prevent credit card fraud.

Jason and Lila had been very successful in their sports shop near a popular ski area. They sold and rented ski equipment throughout the winter, catered to cyclists and hikers in the summer and autumn, and sold a range of sports equipment throughout the year.

Their success had prompted them to open a second, then third store, each in areas about an hour from the flagship location. Jason and Lila had quickly stretched themselves to the limit and relied on their managers and an old friend, Lucas, who handled all the finances for them.

Their only complaint to the staff was the casual way they handled checks and credit cards. People would come from across the country to ski. The sales staff would accept large out-of-state checks, which was strictly against policy. Their response: they didn't want to lose the sale. Twice they uncovered fraudulent credit card use, which, fortunately, was caught by an alert cashier.

The first sign of trouble was in the second store, which suddenly had a discrepancy in the inventory. They did a careful review of the store layout and saw that some high-end fishing reels costing between \$500 and \$1,200 were in an unlocked cabinet that was in a blind spot.

A minor rearrangement of the store, and firm instructions to keep the cabinet locked, solved that problem. However, a much more serious one was discovered.

In reviewing the invoices and payments for the fishing gear, they found puzzling inconsistencies and amounts that didn't match. They brought in their CPA who combed through the records.

The Justice Department reports that insider theft is growing at 15% annually.²

She discovered that Lucas had skillfully hidden his bogus payments to a "vendor," during the height of the pre-season when large checks to ski equipment vendors wouldn't be noticed. Confronted with the evidence, he confessed, was fired and charged with embezzlement.

Prevent employee theft.

Surveys have shown that if employees can justify the reasons for theft in their own minds, they have no problem stealing. And when they notice an opportunity to steal, they'll take it.¹

Why employees steal. . .

There are many reasons employees steal. Here are some common justifications. . .

- "I'm underpaid. I'm taking what I deserve."
- "Everybody does it. Anyway, the company can write it off."
- "The company is making a lot of money and I deserve some if it."
- "They don't even pay attention. They'll never notice."

Hire carefully. Many small businesses never bother to check references. Be sure you do. Also run background checks yourself (inexpensive online searches) or hire a service. Employees at every level steal from their companies.

Build the perception that they'll get caught if they steal. Talk about theft prevention openly.

Educate yourself and your managers. There's an entire site devoted to employee theft – www.employeetheft.com – with information by nationally known employee theft expert, John Case, CPP.

Dividing responsibility can thwart embezzlement. . .

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". . . it is estimated that 95 percent of all businesses experience employee theft and management is seldom aware of the actual extent of losses or even the existence of theft."¹
John Case, CPP

Perhaps the most damaging theft from a business is embezzlement. It can go on for years before being discovered. By then, the damage is so severe, it can put the company out of business.

According to Prosecuting Attorney, Daniel T. Satterberg, based in Seattle Washington, “The most frequent employee theft is committed by the one trusted person assigned to handle all the finances of a small business.”³

He adds the most common employee theft occurs when that one trusted person takes high or extra paychecks, or writes checks to himself or herself, to “cash,” to personal creditors, to an accomplice, or to a phantom creditor that is actually the individual.

The best prevention is to make sure that “one trusted person” doesn’t have complete control over all facets of the finances. Watch for unusual indicators such as increasing receivables.

That may mean incoming checks have been diverted by a thief, rather than deposited and entered into the books properly.

You or your CPA should check all statements and checks from the bank to spot discrepancies, forgeries and checks that have been altered.

And, sign every check yourself. Don’t pre-sign blank checks.

For a good summary of preventive measures, read “How to Prevent Employee Theft” online at the SCORE® site – www.score.org. Type the article title in the search box.

Prevent shoplifting

According to the National Association for Shoplifting Prevention – NASP. . .

- More than \$13 billion worth of goods are stolen from retailers annually, or \$35 million per day.⁴
- There are approximately 27 million shoplifters (or 1 in 11 people) in our nation today. More than 10 million people have been caught shoplifting in the last five years.⁴

You can't tell a shoplifter by appearance as people in every age group – from children to teens to seniors – and every economic level, up to and including wealthy celebrities, have been caught shoplifting.

There are a variety of reasons people steal from retail stores, ranging from need, to compulsion, to the thrill of it.

And there are good reasons why a person prone to shoplift will be reluctant to do so.

Two key elements are vigilance and visibility. Make an obvious effort to convince shoppers they are being observed. Install cameras (or fake cameras), domes that house cameras, mirrors to see into corners. . . and alert your clerks to watch what goes in and leaves fitting rooms.

The National Association for Shoplifting Prevention – www.shopliftingprevention.org – has many excellent resources and links on their site.

Prevent check fraud

Some simple steps that you formalize into a policy for employees can dramatically reduce problems with bad checks.

Make it a practice to follow these basics. . .

- Refuse checks without numbers or from newly opened accounts with low numbers.
- Decline out-of-town or out-of-state checks.
- Never accept second-party checks.
- Ask for a photo ID. The address should be a street address, not a post office box, and match the one on the check. Compare the signatures.
- Write information such as the driver's license number, birth date, etc., on the back of the check.
- Don't accept pre-signed checks. The customer should sign the check in your presence.
- As a policy, have the employee initial the back of the check. This can be helpful if the check is returned, and the clerk can recall anything

about the customer.

- Post your policy about check acceptance in plain sight.
- Be wary of a customer who distracts or rushes the employee.
- If a check doesn't have a phone number, be sure to get one. Verify that it's operational and belongs to the individual writing the check.
- Be suspicious of a loose check not in a checkbook as well as a customer that doesn't bother to record the check in a register.
- Look at the appearance of the check to see if it might have been altered or printed on a home computer. Signs include no perforation on the top, glossy paper, smeared or irregular routing numbers on the bottom of the check, misalignment of type or faint type.
- Consider a check verification service if you don't use one already.

Prevent Credit Card Fraud

Your first line of defense against credit card fraud is to develop a strong policy for your employees to follow. Educate them on the signs of credit card fraud.

Here are some behaviors that may signal a stolen card is being used in your store. . .

- Purchasing of a lot of high priced items.
- Using a brand new card.
- Carrying the card in a pocket, rather than a wallet or purse.
- Trying to convince you to not swipe the card, pretending the card is damaged in some way.
- Asking what the floor limit is and making one or more purchases under that amount.
- Rushing to make purchases before closing time.

- Appearing to not be selecting merchandise, but grabbing products randomly.

The U.S. Chamber of Commerce suggests that when accepting MasterCard® or Visa® cards, you pay attention to security features such as holograms⁵. They should be crisp, clear and three dimensional.

Make a policy that includes these steps. . .

- As with checks, ask for and compare the information and signature on the photo ID with the credit card. And, of course, check to make sure the person standing in front of you is pictured on the photo ID.
- Examine the card itself to see if it has been re-embossed or the signature panel has been changed, erased, covered with tape or some other sign of tampering.
- Call for authorization.
- Compare the card number with a hot list of stolen cards.

Take steps to protect your customers from identity theft. . .

As a merchant, you want to protect your customers' ID and credit card information.

- Don't allow employees to have camera phones at the cashier's desk. They can easily snap a shot of a credit card, front and back.
- In restaurants, watch the wait staff carefully to make sure they aren't concealing a "skimmer" hand-held electronic device to capture information from the card.
- Be careful that paperwork for, as an example, a furniture order doesn't reveal full personal information of your customer. Protecting your customer from identity theft should be a priority.

Key points to remember. . .

- Stop giving people so much credit for being honest.
- Put systems in place to prevent theft in your business.

- Make it obvious to employees and customers that you're watching. Carefully.

¹ "Employee Theft: The Profit Killer," John Case, CPP, www.retailindustry.about.com

² Source: "Battefield Statistics," Corporate Combat, www.corporatecombat.com

³ Fraud Prevention Information, www.metrokc.gov/proatty/fraud/employee.htm

⁴ "Shoplifting Statistics," National Association for Shoplifting Prevention, www.shoplifting.org.

⁵ "Prevent Credit Card Fraud: Tips to Protect Your Business," www.uschamber.com