

Internal Theft Prevention

Virtually all companies suffer losses due to internal theft. It is estimated that 75 - 80% of inventory shrinkage is due to employee theft, while shoplifting accounts for the remainder.

Methods of Theft

- Employees may hide merchandise or goods either on their person or in a handbag, lunch box, backpack or briefcase and take it out at lunch break, smoke break or at the end of their shift.
- Employees may remove equipment or merchandise from the building in the trash and retrieve it later.
- Customers may be overcharged and the employee may pocket the money later on.
- Employees may take incoming cash (bill payments) and fail to credit the customer's account.
- Employees may give employee discounts to friends or family members.
- Employees may consume goods in a store.
- They may provide items free or at a reduced price to co-workers, family members or friends.
- Employees may under ring a sale, collect the full amount from the customer and pocket the difference.
- The employee may overcharge customers and pocket the extra money later on.
- The employee may prepare a fraudulent refund voucher and pocket the money.
- The employee may give a fraudulent refund to an accomplice.
- Employees may ring "no sale" on a cash register, accept cash from a customer for payment and keep the money.
- Payroll and/or personnel employees may falsify records by the use of nonexistent employees or by retaining terminated employees on the payroll.
- Contract maintenance or cleaning personnel may steal goods, materials or office equipment.
- Delivery persons and receiving clerks may falsify records and convert unaccounted merchandise.
- Purchasing agents in collusion with vendors may falsify purchase and payment records.
- Accounts payable personnel may pay fraudulent bills to an account established for their own use.
- Checks may be issued and cashed for returned merchandise not actually returned.
- An employee may take money from a cash register assigned to another employee.
- Employees may intentionally damage goods in order to purchase them at discount prices.
- Employees may duplicate keys and enter the business during closed hours.
- An employee may receive kickbacks from suppliers for invoicing goods above the established price.

Prevention Strategies

- Develop a purchase policy that specifies how employee purchases are to be processed. Employees should not be allowed to process their own sales.

- Provide lockers for employees, and develop a policy stating that employees may not take personal articles such as purses, backpacks, lunch boxes and briefcases into merchandise areas.
- Restrict employees to a single monitored exit, if possible.
- Number refunds and keep control over refund books.
- Develop a policy regarding trash removal. It should indicate when trash should be removed from the building and what is to be done with empty boxes. Transparent trash bags should be used.
- If a contract cleaning company is used, the following questions should be asked:

How long have the custodians worked for the company?

Do they have references from other locations?

Are the custodians bonded?

Do the custodians work alone or with someone else?

Is a supervisor present while custodians are cleaning?

- Perform random checks of employees who arrive early or stay late when there is no need to do so.
- Flatten all trash cartons and boxes and spot check trash containers.
- Do not permit truck drivers to load their own vehicles without inspection.
- Have supervisory personnel conduct periodic truck checks before the vehicle leaves.
- Develop strong audit controls and inventory all supplies, equipment and merchandise regularly.
- Have an effective access management policy:

Have a written and distributed access management and key control policy.

The only basis for the issuance of a key or access card should be job necessity.

An accurate record of issued keys must be maintained and a periodic audit of keys conducted.

Unauthorized loaning or duplicating of keys should be strictly forbidden.

There should be an effective mechanism (holding last paycheck, for example) for retrieving keys from employees who resign, retire or are terminated.

- Have returned merchandise inspected by someone other than the person who made the sale.
- All employees should have identification cards.
- Limit the amount of cash allowed to accumulate in a cash register — make unannounced counts on registers.
- Bookkeepers should not be responsible for shipping and receiving merchandise. Purchasing should not be involved in any aspect of accounts receivable or the receipt of merchandise.
- Managers or supervisors should periodically open and inspect incoming mail.
- All employees should be required to take periodic vacations. This could reveal a trend or practice of employee thefts.
- Companies should have periodic audits by outside auditors.
- All cash book entries should be checked against cash on hand at the end of each day.
- Companies should have strict accountability and routine audit of blank checks, order forms, payment authorizations, vouchers, receipt forms and all other forms which authorize or verify transactions.

- Whenever possible or practical, competitive bids should be sought for the acquisition of goods and services.
- Persons responsible for preparing payroll should not be involved in its distribution.
- The payroll should be periodically audited for irregularities by external auditors.
- In accounts payable, periodic audits should be conducted by external auditors to examine records for any sign of nonexistent vendors, irregularities in receipts or payment authorizations, forgeries, fraud or procedures that could lead to embezzlement.
- Require the giving of register receipts to each customer.
- Receiving, warehousing, and shipping of materials or products should be the responsibility of three different areas.
- Both criminal and prior employment background checks should be conducted for prospective employees.
- All inventory shortages should be immediately and aggressively investigated.

Symptoms of Persons Involved in Internal Theft

There are certain symptoms or characteristics of persons involved in internal theft. They include the following:

- A significant change in spending habits.
- A noticeable increase in the employee's standard of living.
- An unusual devotion to a job or work function.
- An employee with financial responsibilities who does not take earned vacations.
- Employees who object to procedural changes that could lead to closer supervision.
- An employee with financial responsibilities who refuses a promotion or transfer that would alter their current job function.