

MITIGATING THE RISK OF EMPLOYEE THEFT

By: [Christopher S. Pobieglo](#)

When it comes to measuring the effects of employee theft, the numbers vary from study to study. One thing we can agree on is that **employee theft costs business owners, and ultimately consumers, millions of dollars a year in losses.**

For small business owners, employee theft can be a fatal blow and put an end to their business. For larger corporations, it can have an equally undesirable outcome. In Alaska alone, we saw several prolific cases of embezzlement and employee theft this year, each case involving employees who embezzled corporate funds.

The employee who does steal frequently justifies it to themselves and in many cases doesn't believe what they are doing is that bad. In many cases, they rationalize it as "borrowing money" with the intent of paying it back, but rarely does that happen.

Conventional wisdom says that most employee theft can be prevented by solid hiring practices that include background checks and aptitude tests. While these may provide some value, the reality is that most employees who steal wouldn't have set off any alarms in the initial employee hiring process.

Employee theft is often carried out by long-time employees, who have gained a degree of trust and responsibility, understand the inner workings of the business, and most importantly, understand how to get away with it. Few employees are going to steal if they believe there is anything more than a miniscule chance of getting caught.
Employee theft is a crime of opportunity.

So we know employee theft occurs; we know it can drive a business under, and we know it's frequently the employee you wouldn't expect who does it, so the question becomes, *what do we do about it?*

The first line of defense is to identify and acknowledge the risk is there, then design strategies aimed at mitigating that risk. Those strategies may include duo responsibility, where no single employee is left on their own without a check and balance. Make sure the same person doing the bank deposits isn't also reconciling the bank statements. Require your employees at minimum take one consecutive week off of work each year, allowing you the opportunity to audit their desk and their work. Make it clear to your employees what the expectations are, and what the repercussions are of employee theft. Finally, consider transferring this risk through an insurance policy.

When looking at insurance policies, it's important to read the forms and understand what coverage you are and aren't getting. A policy may exclude theft of client property, and if you're in the business of holding property for your clients, you may want to negotiate that exclusion out of your policy and have that coverage. Crime policies or fidelity bonds are not issued on standard ISO (Insurance Services Offices) forms, and instead are generally manuscripted by the carriers, which only increases the need to read your policies and proposals to understand what you are getting.

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Finally, understand what triggers coverage. Some of the products may contain a conviction clause, which basically means the employee has to be convicted in a court of law before the claim payout is triggered. Others may not. In either case, know what the trigger for coverage is.

In most cases, crime policies or fidelity bonds can be purchased for a relatively cheap premium. It's not a major expense for most businesses and will likely only represent a fraction of your overall insurance costs, but it's also one of the coverages most commonly bypassed by business owners trying to keep insurance costs in check.

Just because you may have the moral and ethical foundation that would prevent you from ever stealing from an employer, doesn't mean your employees do. Take the appropriate steps to mitigate this risk, discuss crime/employee dishonesty coverage with your broker, so you're comfortable understanding the policy, and put the appropriate checks and balances in place through vigilant loss control efforts. Your balance sheet will thank you in the long run.



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Write David W. Weatherholt at David@Waconsult.com