



## Employee Fraud Prevention

🔗 risk management human resources fraud protection

**Summary:** Employee financial crime can happen even in small businesses, such as community financial institutions. We provide some important reminders.

Did you know that a Stanford study has found that the body has changed and that the average normal body temperature for someone is 97.5 degrees Fahrenheit vs. the accepted 98.6 degrees? Fever prevention protocols may be changing, if this becomes widely accepted. Today though, we talk about another kind of prevention -- employee fraud prevention.

As businesses with tight-knit staff, community financial institutions (CFIs) find it especially upsetting when they discover that one of their employees is dishonest. Like any other business though, CFIs need to take practical steps to prevent employee crime.

As a term, embezzlement happens when someone in a position of trust steals from a company. It can take many forms, including forging checks, cashing customer checks, faking vendor payments, padding customer bills, or stealing customers' debit or credit card data, to name a few.

Larger companies contain more people and often more layers of bureaucracy, so it might seem logical that big companies would see more embezzlement. Yet, a 2016 global fraud study found that businesses with fewer than 100 employees had the same median theft level as much larger firms. It shows everyone has room to improve.

To prevent employee financial fraud, be sure to separate responsibilities and oversight. One person should not be in charge of both performing transactions and keeping those transaction records. One employee should write checks and make deposits and withdrawals. The other should check that amounts, endorsements, and payees are correct. It may be obvious, but neither should have the authority to do the other's job.

Also, consider requiring multiple signatures for larger payments. Develop a list of approved vendors and monitor purchase orders and payments diligently.

Expect and enforce transparent, ethical behavior. It's fine to enjoy a casual business environment, but be clear that you expect honesty from every employee. Also, be sure to follow through with consequences, if you find a problem. Just as bigger crimes follow smaller ones, more serious misdeeds are more likely to occur in an atmosphere that doesn't enforce even small missteps.

Of course, the key up front is to hire carefully. A thorough background check can turn up credit problems or a criminal record. An employment law attorney can advise on the law around different kinds of background checks in your area.

The most surprising advice? Make vacation time mandatory. Embezzlers need to cover their tracks, so they come in early, work late, and skip time off. It's much more likely that someone else will notice fraud when the embezzler is out of the office.

While most of you know your employees well, it only takes one person to cause an issue. For additional information, check out the article, [Be on the Lookout for Occupational Fraud](#). You will also want to check procedures and operational responsibilities routinely, to sidestep any avoidable employee fraud.

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