



Private Edge Knowledge Bank

Employee Infidelity – Stock and cash losses

CRIME

This fraud involves the theft of stock and/or cash by an employee and, in many ways, is a straight forward form of fraud. It is, however, often difficult to perpetrate as companies with a lot of stock or cash are usually very conscious of the need to protect it.

In simple cases any employee who misappropriates cash or stock is normally quickly discovered and, consequently, the theft may not result in a significant loss to the company. It is long-running frauds that tend to be substantial; they usually involve the employee manipulating stock or other accounting records to conceal the thefts.

What types of businesses are commonly affected by cash theft?

Any business that generates cash sales / receipts is particularly at risk. If your business handles large amounts of cash, you are probably very aware of the possible risks associated with this.

Businesses that commonly experience thefts of this type include hotels, companies in the hospitality and entertainment sectors and charities.

In addition, any company that holds petty cash balances or uses cash in any other area of its business is vulnerable to theft. Although petty cash balances can be small, if these are misappropriated over a long period of time the amounts involved can become substantial.

What types of business are commonly affected by stock thefts?

In short, any business that holds stock. This includes retailers and manufacturers. Goods such as metals, raw materials and foodstuffs can be particularly vulnerable to theft due to their homogenous nature and the associated ease of selling these items; however, with the ever growing popularity of websites such as eBay, many different types of goods, particularly electrical items or components, can now turn a profit for a fraudster

Who within a company is likely to perpetrate a cash / stock theft?

Simply put, any employee has the potential to misappropriate cash or goods. The difficult element for fraudsters is avoiding detection.

Large losses often involve the input of employees with access to both accounting and stock management systems. Fraudsters who have this access can sometimes steal from companies for several years without detection.

With respect to stock thefts specifically, we commonly see warehouse staff, staff processing refunds, office staff that have the ability to divert stock deliveries and delivery drivers as the perpetrators.

With respect to cash thefts, this often involves accounting staff or employees receiving cash for sales.

How can we identify this type of fraud?

Identifying the theft of cash and stock can be difficult especially if accounting or stock records have been manipulated. Further, the theft of cash can be problematic to identify where an employee has taken cash before it has been recorded as any counting or reconciliation of cash will not identify that anything is amiss.

This type of fraud often comes to light following a report made by a whistleblower – often a colleague of the fraudster who has noticed that person acting suspiciously or has been asked to assist or conceal something.

A key resource in identifying and quantifying this type of theft, however, is the analysis of margins. Sudden changes in margins or poor performance of one division or location compared to others can indicate that something is amiss. As well as unexplained poor margins, it should be noted that companies can suddenly experience improved margins where new controls are brought in which prevent the fraud.

Further, regular and thorough stocktakes or cash counts, including surprise counts, undertaken by individuals independent to the employees who normally handle the stock or cash can help to identify anomalies.

Regular reconciliations of cash and stock are also important tools in identifying theft. If these do not highlight any discrepancies, it should be remembered that it is possible that the accounting records have been manipulated. For this reason, it is also important to review accounting nominal codes for unusual activity.

It may also be possible to catch employees “red handed” by conducting searches of employees leaving premises.

How can we prevent the theft of stock and cash by employees?

Prevention is certainly easier than detection. If employees are not given the opportunity to steal cash and stock, they are much less likely to try.

Physical controls are clearly helpful. For example suitable safes for cash with controlled employee access and the secure storage of all stock. In addition, clear and well maintained records supported by stocktakes and detailed cash records are important.

The segregation of duties and dual control are also key. For example:

- Cash should be counted with two staff members present and appropriate documentation supporting the count should evidence both employees' participation.
- Stocktakes should be evidenced by a second individual.
- Where possibly avoidable, employees should not be left alone on premises.
- Deliveries should ideally be conducted with two employees present.

CCTV can also act as a powerful preventative tool (as well as assisting with the identification of any theft).

In some instances, physical searches of employees or vehicles leaving the premises may be appropriate.

Consideration should also be given to reducing the level of cash handled by companies. Customers are now more willing to pay via bank transfer / bank card and should be encouraged to do so. Equally, most suppliers will accept payment other than in cash.

Finally, given the importance of whistleblowers in the identification of this type of fraud a clear whistleblowing policy is also recommended.

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