



INTERNAL THEFT

The Silent Crime Against Business

Dale Zetocha

Small Business Management Specialist

Internal theft is an almost invisible crime against small business and is estimated to cost owners more than the crimes of shoplifting, burglary and robbery combined. The Department of Commerce estimates that 75 to 80 percent of retail shortages are the result of employee theft. No type of business is immune from this threat, and no type of merchandise, cash or equipment goes untouched.

The FBI defines internal theft as "the unlawful taking, carrying, leading or riding away of property from the possession of another." Internal theft usually involves stealing goods without paying for them, paying only a fraction of the sales price, bypassing the recording function of the register and pocketing the cash, or some form of collusion with a friend or another employee.

Because internal theft is usually not observed and is often hard to detect, businessmen tend to label the loss as inventory shortage and proceed without determining if that shortage is a result of shoplifting or internal theft. Cash shortages can be explained away as a robbery, and a burglary investigation may find much more missing than what the burglar took.

Internal theft can be subtle. It takes its toll in installments, often in small amounts - a box of stationery, a package of meat, a bottle of shampoo, a ream of paper, a transistor radio, a cassette tape, and even personally bartering with a friend for services rendered by the business. The yearly total of lost revenue to individual businesses is estimated to be over \$20 billion nationally.

Insurance companies estimate that 30 percent of all business failures are directly attributable to internal theft. It is estimated that nearly half of all retail businesses will experience employee theft.

Employees steal in numerous ways as indicated by the following list:

- Writing checks to nonexistent companies and personally cashing the checks
- Making fraudulent (unpermitted) refunds or merchandise discounts to friends, relatives or other employees
- Billing customers below the actual amount or adding the subtotal from a previous order to the next larger sale and pocketing the cash
- Increasing the amount on checks after they've been signed (requires collusion with suppliers)
- Taking items on weekends or evenings by unsuspecting employees with keys
- Failing to ring up cash sales and pocketing the cash
- Collecting past due accounts and still reporting them as uncollectible.
- Taking merchandise before it is entered into inventory
- Distorting bank deposit totals
- Using a fictitious employee to pad the payroll or colluding with outsiders to pad other records
- Bypassing the recording function of the cash register.

A variety of techniques are used by employees. Some indications of possible internal dishonesty around the cash register include the following behaviors:

- Daily overages or shortages involving your terminals
- An unusual number of voids or errors by employees ringing transactions
- A significant number of "no-sales" or other transactions which open the terminal for reasons other than a sale
- Employees frequently "volunteering" to come in on their own time or staying late to count cash
- Frequent "mistakes" in making change

- Constantly “forgetting” to give customers their receipts
- Employees who always have their purse or a bag by the terminal or always wear clothing with large loose pockets
- Evidence of “record-keeping” (keeping track of the money in the terminal)
- Nervous/suspicious behavior (i.e. rapid and constant eye movement, keeping track of where other employees or supervisors are, hands in and out of pockets, sudden halting movements, etc.)
- Employees who frequently violate seemingly basic and unimportant policies
- Employees avoiding established controls (i.e. employee exits, package check)
- Employees in non-sales areas when off-duty
- A specific employee regularly “punched-in” when a shortage occurs.

Examine Potential Employees

Preventing internal theft is always preferable to correcting an existing problem. Many small business owners do not perform as adequate and thorough a background investigation of potential employees as is possible. Although federal and state guidelines stipulate what information can and cannot be used, suggestions from the Consumer Protection Act governing employment can be followed.

1. Prior employment as far back as possible.
2. Credit references and credit checks with the local credit bureau. Is the prospective employee’s debt load manageable with the salary offered, or could the employee become overpowered by personal economic pressures?
3. Personal references. While it is assumed that potential employees will list only those individuals they expect will give them an excellent reference, you can obtain helpful information by asking carefully phrased questions as to the applicant’s lifestyle and general characteristics.

Information that **cannot** be gathered and used in the employment selection process include:

- Bankruptcy dating back beyond seven years
- Records of arrest, indictments or convictions where the release or parole dates back beyond seven years
- Legal suits and judgments, paid tax liens, and collection of accounts dating back beyond seven years
- Prior name, if name has been changed
- Birthplace if outside the U.S.
- Age, unless job related
- Religion, church, pastor or religious holidays observed
- Race or color (you cannot require a photograph)
- Citizenship or residence of spouse or parents
- Membership in an organization that is specific to a race, religion or national origin.

Information that **can** be required includes:

- Name and address
- Listing of complaints and indictments for any crime during the last seven years and under what name
- Age information, **only** if it is needed for occupational qualification or to comply with state and federal minimum age laws
- Citizenship information
- Academic and vocational schooling history
- Work experience - type and references
- Names of persons to be notified in case of accident (name, address, and relationship)
- Military experience
- Membership in organizations that do not disclose race, religion or national origin
- Information about membership in an organization advocating the overthrow of the U.S. Government
- Sex, only where it constitutes a qualification for the job
- Certain working hours and days (ask if this could cause any problem).

Be sure application forms are thoroughly completed and any omissions are questioned. Verify all information (especially references) contained in the application. Conduct in-depth interviews with prospective employees. If an applicant is suited for the job, a background check should be completed, especially for key positions. Include the signing of a waiver for this purpose as a part of employment.

Scrutinize Current Employees

Crime prevention professionals working with the National Institute of Law Enforcement Assistance Administration cite several employee characteristics that may help employers identify potential or actual employee thieves.

The Conspicuous Consumer - This employee dresses, drives or travels above his means. His habits are noticeably extravagant, and well above the lifestyle that can be supported on salary alone.

The Financially Irresponsible Employee - An employee who cannot come to grips with economic conditions, and whose creditors are frequently calling you as an employment reference, is a real risk.

The Alcohol Abuser - Not only may this person steal to support the habit, but productivity, costly monetary errors, and damage to your property also warrant your suspicion.

The Drug Addict - An employee can rarely earn enough money from a salary to support a costly drug habit. If you suspect an employee of heavy drug use, you may be able to request urinalysis as a condition

of continued employment. Consult your attorney to determine if you have any contractual agreements (such as union contracts or employment contracts) that would prohibit urinalysis. Drug usage has been shown to have such a high correlation with employee theft that some firms require urinalysis of all prospective employees. (A recent study reported by the National Institute of Law Enforcement and Criminal Justice indicated that 70 percent of employable men and women between 18 and 30 years of age have used marijuana or other illegal drugs. While the vast majority are not addicted, it does point out the widespread use.)

The Moonlighting Employee - Merchandise, supplies, tools and equipment may be taken from the primary employer to use for other jobs and opportunities.

Other activities that should be monitored include compulsive gambling, persistent borrowing, bad check writing and consistently requesting advances.

The previously mentioned behaviors are not conclusive evidence that an employee is a thief. But, they are characteristics that alert the business owner/manager to be watchful of employee behavior.

Critical Analysis of Store Operations

An employer may be indirectly responsible for employee theft. Do you make it easy for your employees to steal? Here is a check list that will help you answer that question.

- | | Yes | No |
|--|-----|-----|
| 1. Do you fully check employees' references? | ___ | ___ |
| 2. Do you conduct frequent inventories? | ___ | ___ |
| 3. Do you know your stock turnover accurately enough to detect loss within one week of occurrence? | ___ | ___ |
| 4. Do you inventory and log in new shipments of merchandise on arrival? | ___ | ___ |
| 5. Do you spot-check employee purchases to determine if they have been properly charged or paid for? | ___ | ___ |
| 6. Do you provide separate cash drawers for each employee/cashier? | ___ | ___ |
| 7. Do you conduct surprise cash checks of cash registers? | ___ | ___ |
| 8. Do you periodically check accountability of equipment assigned to employees? | ___ | ___ |
| 9. Do you require employees to surrender keys when they leave the establishment? | ___ | ___ |

10. Do you use keys that cannot be duplicated locally - those that can only be duplicated by an authorized manufacturers' distributor or the manufacturer itself? ___ ___
11. Would you prosecute an employee who was involved in theft? ___ ___
12. Do your employees know your stand on prosecution? ___ ___

If you answered "yes" to all of the above questions, you are practicing good crime prevention techniques. If you answered "no" to any of them, it may pay to reexamine that part of your business practice.

Employee Theft Prevention

If you are going to make a serious effort to prevent and control internal theft, a first step might be to make all employees aware that you are concerned and are going to take steps to control any potential dishonest acts by employees. Explain that the majority of the employees themselves are victimized just as the owner is, since internal theft creates a strain on overhead budgets and consequently on salary increases.

Encourage employees to join you in your attempts to thwart internal theft. You may want to establish a suggestion box and offer a monthly or quarterly monetary award for the best anti-theft technique suggested. Work **with** employees to avoid a police-state atmosphere that could cause suspicion and mistrust, and may intensify the problem.

Develop a set of written procedures for handling each type of transaction. Include employees' written acknowledgments that they know and understand them. Let everyone know your policy on employee theft. Make clear what disciplinary action will result and stick with it.

Inventory control is a sound management practice and an excellent deterrent to employee theft. Supplies, equipment and merchandise should be inventoried and checked with records. Know and monitor the inventory turnover. Related policies and controls include:

- Do not allow employees to ring up or bag their own purchases.
- Provide a separate room or control area where employees' coats, packages and purses can be stored during working hours.
- Establish a firm price and discount policy - all credits and returns should be approved by you or your manager.
- Never allow employees to take or purchase damaged merchandise at a reduced rate without permission.
- Inspect the trash area regularly, including the inside of the dumpster and/or trash cans.
- Involve more than one person in your merchandise delivery procedures.

Handling of money is a particularly sensitive area. The cash register allows the employee direct access to the cash. Establish specific written policies and procedures and allow no deviation from them. Be especially careful in setting a good example for employees to follow. Some of the policies and procedures to be addressed with cashiers and other employees include:

- **The method you want sales recorded and entered in the cash register.**
- **Each sale is to be rung up in sequence and for the exact amount. This will prevent ringing up two or three sales - a process which allows pocketing the cash from exact change sales.**
- **Close the register or cash drawer after each transaction. This prevents making change without ringing up a sale. It also deters short change attempts.**
- **Provide customers with a sales receipt. This prevents pocketing the cash from an exact change sale, as well as under-ringing a sale.**
- **Call out the price of each item as entered. This serves three purposes: 1) It reassures the customer of receiving correct price, 2) it prevents carelessness, and 3) it makes it more difficult to under-ring without being caught.**
- **Involve at least two people for transactions other than sales.**
- **Demand justification each time the terminal is opened for transactions other than sales.**
- **Involve a second, or third, employee in cash counting and verification procedures.**
- **Conduct surprise audits of cash registers and other procedures and policies with immediate correction of discrepancies, if possible.**
- **Involve more than one person in writing cash vouchers or paying bills.**
- **Insist that voids or over-rings above a certain amount must be approved and signed by you or your manager.**
- **Involve more than one person in opening and closing procedures.**
- **Insist that cashiers do not ring up their own purchases or those of their own family.**

If you regularly receive money in the mail, the person who opens the mail should not have access to your record keeping system. Keep these functions separate to try to prevent any wrongdoing.

Have a strict policy that all disbursements be made by a check and supported by a voucher or receipt.

If you allow credit, have a policy that requires your prior approval. This will prevent fictitious names and addresses to cover employee theft.

Prosecution Policy

The owner and or manager should thoroughly investigate questionable circumstances involving company money, merchandise or property by interviewing all employees involved. Research indicates that 90 percent of all employees involved in internal theft are merely dismissed from their employment.

Research also indicates that prosecution is one of the best deterrents to employee theft. If you suspect an employee of stealing, contact the police department and your attorney. They will indicate the type of information you need to gather to make the case stick. Prosecute those individuals apprehended with clear-cut evidence of crime. This will help to deter other employees from stealing. Be prepared for a lengthy, costly court battle; however, the court cost may be small in relationship to the dollars walking out the door with employees each evening.

Summary

The Department of Commerce estimates that 75 to 80 percent of retail shortages are the result of employee theft. Up to 30 percent of all business failures are directly attributable to this internal theft.

Preventing the problem of internal theft is even better than trying to correct an existing problem. Careful selection of employees, preventive policies and procedures, and strict adherence to these policies and procedures can help prevent employee theft. Seek legal advice or expert assistance when appropriate.

Information for this publication was adapted in part from "Internal Theft - The Silent Crime" by Wanda Leonard, Extension Service, University of Nebraska as taken from materials distributed by the National Institute of Law Enforcement and Criminal Justice, the Law Enforcement Assistance Administration and the U.S. Department of Justice.