

A/E RISK REVIEW

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FINANCE INSURANCE, LTD.
Quality Service For Your Insurance Needs

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Everything You Didn't Want to Know About Employee Crime

The following material is provided for informational purposes only. Before taking any action that could have legal or other important consequences, speak with a qualified professional who can provide guidance that considers your own unique circumstances.

It's something employers don't want to have to think about: employee crime. Finding out that trusted, long-term employees have been stealing from the company through embezzlement, fraud or other illegal activities is like taking a sharp blow to the stomach.

But thinking about employee crime is just what employers need to do. It's a widespread problem and one that is growing in size, complexity and stealthiness as businesses become more and more dependent on the Internet and computerized financial programs.

Just how big is the problem? Consider these statistics pulled from a 2014 report from the Association of Certified Fraud Examiners (ACFE):

- The typical organization loses 5% of revenues each year to fraud.
- The median loss caused by fraud was \$145,000.
- 22% of the cases had losses of \$1 million or more.
- It typically takes 18 months to discover fraud is occurring.
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- In approximately 30% of the cases, the perpetrator is committing multiple forms of fraud.
- Small companies tend to suffer a disproportionate amount of large losses.
- The higher the level of the perpetrator's authority, the greater the fraud losses.

Types of Employee Crime and Fraud

The types of employee crime a company is most susceptible to largely depends on the industry it is in. Manufacturers are very susceptible to theft of materials and finished goods, while service company like architectural and engineering firms are most vulnerable to embezzlement and fraud resulting in the loss of financial resources. Geotechs are also vulnerable to theft of their surveying equipment.

Examples of crimes that typically hit A/E and similar service firms include:

- Manipulation of company financial statements
- Falsified billings from perpetrator's shell company
- Check forging or tampering
- Purchasing or sale schemes that funnel funds to the perpetrator's bank account
- Manipulated time records
- Payroll schemes, such as "ghost" employees or falsified wages or withholdings
- Expense reimbursement schemes
- Bribery or illegal gratuities

- Invoice kickbacks
- Bid rigging
- Theft of cash on hand.

According to the ACFE report, 77% of employee fraud were committed by individuals working in accounting, operations, sales, upper management, customer service, purchasing and finance. The vast majority of those caught are first-time offenders: only 5% had been convicted of fraud crimes in the past.

What You Can Do

Fortunately, there are a number of steps employers can take to reduce the likelihood of becoming a victim of employee crimes. While no preventive steps are 100% foolproof, they can make a marked difference in combating employee crime. Consider taking these actions:

Conduct employee education. Make it clear to all employees that the company is alert to the potential of employee crime and has a no-tolerance policy no matter how minor the infraction may seem. An employee-crime awareness training program and other risk management tools may be available from your property and casualty insurer or a local business association.

Institute an employee hotline. Make it easy for employees to anonymously report suspicious activity that may indicate criminal action by their coworkers. The ACFE reports that an employee hotline is the most effective way to detect fraud. Over 40% of all criminal cases against employee-crime perpetrators were the direct result of a tip from a fellow employee or other party.

Consider job redesign. In small companies in particular, employees perform important job functions from start to finish with little if any management involvement or oversight. For instance, one employee may handle all accounts payable and receivable. Look into redesigning job functions so that important financial functions involve two or more individuals, preferably one of them a trusted member of management.

Conduct internal or external audits. Consider having all financial activities audited by internal management or external auditors on a regular basis. Surprise internal audits by managers equipped with formal financial review procedures can be the most effective.

Consider background checks. Conducting background checks on new hires, particularly those with financial responsibilities, may be advisable. But remember, most perpetrators are first-time offenders without a criminal record, and these checks can be costly.

Don't Forget About Insurance

Obviously, it is impossible to totally eliminate the threat of employee crime. That's why companies of all sizes should consider securing insurance to minimize potential losses should theft, embezzlement, fraud or other similar types of crime occur.

Typically called Fidelity and Crime Insurance, this coverage is readily available and reasonably affordable. Smaller firms can often purchase fidelity and crime coverage as part of a commercial package policy, with limits typically up to \$500,000. Larger firms who need higher coverage limits can purchase fidelity and crime coverage as a mono-line policy with limits of \$1 million or more. Mono-line fidelity and crime policies offer greater customization of coverages as well. Fidelity bonds are another option to consider when a client asks for high limits.

When shopping for fidelity and crime insurance through a commercial package policy, look for dedicated limits for employee theft exposure. Also look for policies with multiple insuring agreements that provide fraud protection for exposures such as:

- Forgery
- Counterfeit currency
- Credit card fraud
- Loss of money, securities and other property while on your premises, banking premises or in transit

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- Computer crime, including losses caused by malicious software
 - Funds transfer fraud
 - Reimbursement for claim expenses.

Some policies provide protection of certain fraudulent acts of non-employees as well, such as vendors or board officers and directors. As specialists serving architects, engineers and environmental consultants, we can help you secure fidelity and crime insurance that fits your particular needs.

Never an Easy Discussion

Addressing employee crime with your work force is never easy. But bringing the topic into the light of day is often the first step in reducing the chances of criminal activities taking place in the workplace. When employees know you take a no-tolerance approach to employee crime, are monitoring company finances and encourage co-workers to be vigilant to suspicious activities, you've already decreased the chances of fraud, embezzlement and theft. Secure the added layer of protection that fidelity and crime insurance provides and you've taken a large bite out of the potential losses you could suffer from rogue employees.

Can We Be of Assistance?

We may be able to help you by providing referrals to consultants, and by providing guidance relative to insurance issues, and even to certain preventives, from construction observation through the development and application of sound human resources management policies and procedures. Please call on us for assistance. We're a member of the Professional Liability Agents Network (PLAN). We're here to help.