E:

Employees are ripping off their employers all the time. At least that’s what statistics and anecdotes tell us. The Association of Certified Fraud Examiners estimates that employee theft makes five percent of gross revenue disappear every year. The US Department of Commerce reports that one out of three business failures can be traced back to employee theft and other employee crimes. Certainly not every employee is a thief. And many employers never encounter a thief on their staff. However, the consequences of employee theft are so severe, that it’s prudent practice to manage your business with an awareness of the nature of the problem, the warning signs to watch out for, and the practical preventative measures to take.

**FORMS OF THEFT**

There are three kinds of employee theft that you should look out for. Larceny is the outright stealing of property or cash. In your aesthetics practice, this might be the retail products that vanish or the Botox vials that seem to constantly run short. Skimming involves the embezzlement of cash before it ever gets recorded in your books. A patient pays for a facial in cash, and it never gets entered into your financial software. Lastly, there could be phony disbursements. The office manager who submits payroll and gives himself unwarranted overtime hours or fudges with the vacation and sick pay records. It might be the bookkeeper who pays bills to fake vendors and cashes the checks or the staff member who pads her expense report with inflated or bogus amounts. Whether it’s the outright pocketing of cash and products or the inflated and artificial expenses you pay out, these acts of employee theft will hurt your bottom line.

Many victimized employers wonder why their trusted staff members become thieves. Often the simplest explanation is that they need the money. They have family problems—expensive medical bills, big alimony payments, etc.—that you don’t know about. They might have a drug or gambling problem that they hide successfully. Unbeknownst to you, employees might be living beyond their means. Other employees steal for revenge. They feel overworked and under-appreciated. “Underpaid! Underpaid!” The way their brains do the math, they “deserve the money.” And finally, some employees will steal for no other reason than to see if they can get away with it. They’re thrill-seekers, and your petty cash happens to be their latest adrenaline fix.

There are some typical embezzlement behaviors you should pay attention to. It’s an odd thing to admit, but the thief often looks like the highly dedicated employee.

"There are some practical, common sense prevention measures you can take. You should regularly and periodically audit your high-risk areas."

---

**DO THIS NOW**

If you suspect an employee is stealing from your practice, make sure you take the time to gather the facts before confronting the employee. This may include contacting your attorney to discuss protocols and next steps.
Statistics tell us that the person stealing from his/her employer is likely to be a longer tenured employee and in a position of power. These two traits give the thief awareness of your vulnerabilities and the ability to exploit them. This “dedicated” employee may never take a vacation and never calls in sick. This employee will not delegate work when overloaded. This employee prefers to work unsupervised, and often comes in early or stays late. S/he takes a lot of work home. This employee is extremely protective about his/her workspace. Behind this mask of hard working and loyal employee, the thief requires all these work habits to operate the fraud.

Knowing that most hard working and loyal employees are actually hard working and loyal, how do you spot the thief? First and foremost, financial records go missing. Your bookkeeper can’t produce the bank statements or the credit card statements when you ask for them. Your practice manager can’t produce the paid bills she’s responsible for paying. Your admin assistant can’t produce the receipts that support his expense reports. In all cases, there is in inability for you to verify a piece of financial information with independent supporting documents. You might also see a sudden and unexplained rise in debt. Your credit card company calls to tell you have exceeded your credit limit, and you don’t know how that happened. A vendor notifies you of a large outstanding balance that doesn’t make sense. You may also want to pay attention to complaints about staff members. Your clients, your vendors, and your other employees may all be lodging complaints about the same person. It doesn’t mean they’re a thief, but it should make you suspicious. Lastly, you can enlist the aid of an accounting professional to root out suspicious activity in your general ledger.

**PREVENTION STRATEGIES**

There are some practical common sense prevention measures you can take. You should regularly and periodically audit your high-risk areas. When you take a physical inventory of the products or the Botox, is everything where it’s supposed to be? Do the receipts support the expense reports? Do daily sales reports reconcile with the bank deposits? Is all the petty cash accounted for? Do the hours on the paychecks tie out to the hours in the timekeeping system? You should also pay attention to your staff and any behaviors that seem abnormal. Does your modestly paid receptionist wear expensive designer clothes and drive a fancy luxury car? Has the mild-mannered bookkeeper suddenly become irritable and defensive when you ask reasonable questions? Has your practice manager started to come in at the crack of dawn every day, stay late after hours, and you haven’t increased her workload? Of course these kinds of unusual behaviors do not automatically mean there’s a thief in your midst. But they should make you suspicious.

When trying to protect yourself from employee theft, you should also consider asking your accounting firm to come in and assess your internal financial controls. There are many time tested bookkeeping and cash management practices that your accounting firm can recommend. For example, more than one person should deal with money. One person takes money from clients while another prepares the bank deposit and still another takes the deposit to the bank. One person should be in charge of money coming into your practice while another is in charge of paying the bills and another is in charge of payroll. You should have tight control of your check stock, and every check number should be accounted for. Your accounting firm is likely to tell you that all of these ways of behaving around your firm’s finances help you create a work environment that promotes trust while simultaneously verifying that trust.

Returning to our statistics though, we know that despite all these prudent measures, some employers will still find themselves victimized. What should you do if that employer turns out to be you? Trust your gut and investigate. Before confronting the employee, take time to gather the facts. Take time to make copies of documents and backups of the data. You should contact an attorney; you will want an attorney who understands criminal law and employment law. Both areas of law will come into play when you confront the employee. And when you confront the employee, have someone else present. Ideally, the attorney would be present. In all scenarios, you want someone else in the room to protect you from a “he said/she said” confrontation. Your attorney should prepare a signed admission of guilt to protect you from being sued for wrongful termination. Lastly, you should ask for restitution even though it is likely that the money is long gone. If you seek enforceable restitution, you should be prepared to contact the police and press formal charges.

**BOTTOM LINE**

All practices should take precautions to guard against fraudulent behaviors and adopt common sense preventative measures.