



RISK NOTE

SUBJECT: Employee Dishonesty – An Inside Job

It started off small. A homecare worker and a forgetful elderly patient who would never miss the few dollars taken from her purse. When several weeks passed with the theft going undiscovered, the employee grew more confident. Soon it was a regular habit to augment her weekly income with money from the patient's purse or take a few items from the bottom of the jewellery box. It wasn't long before other members of the homecare worker's caseload were being similarly victimized.

When the deceit was finally uncovered, the worker admitted to over \$5,000 in stolen money and property. Experience tells us that this might be only a fraction of the total losses as often trusted employees carry on for years before they are caught and many thefts are never reported.

This is just one example of how a dishonest employee can affect the success of an organization. No organization is immune and it is prudent for all employers to be aware of the risks so they can be effectively managed. Prevention is the key. However, if you suspect an employee of dishonesty or fraud it is important to report the theft promptly to the claims department so that the investigation is not jeopardized.

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When employees steal from the company

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Employees embezzle from organizations for many reasons— gambling debts, an expensive lifestyle, shopping addiction, blackmail. Some even feel they must augment an inadequate income by pilfering from the employer.

And the methods can be as varied as the motivations:

- A payroll supervisor uses her computer expertise to manipulate temporary employee data so that tax rebates from source deductions go into her personal bank accounts.

- A shop teacher at a high school uses building materials and other board of education resources in his private construction business, and sells class-built projects and excess building materials for his own profit.
- A financial manager uses the company's cash, petty cash, credit card and vendor accounts for personal purchases.

Luis Copat, a surety and fidelity specialist with Crawford Adjusters Canada's Technical Services division, discussed some of the complex issues relating to fidelity losses at a recent seminar.

Risk management and loss control

Employers may not be able to prevent all such theft, but they can make it harder for staff to steal, and thereby minimize the chance of having to file a fidelity claim.

The most fundamental risk management strategy is to make sure that employees are treated with respect and fairness, and are adequately paid so that they do not feel compelled to steal. Management should set an appropriate ethical example for staff to follow.

Basic internal controls are the next line of defence:

- Check the credentials of all new vendors and periodically review vendors to identify improprieties. You have to be concerned with bribery, illegal gratuity, conflicts of interest and false or inaccurate statements.
- Verify all new employees—consider criminal background checks and be sure to check references, prior employment and reasons for leaving, if there have been many employers in a short time.
- Make sure that your systems are designed so that one person doesn't have complete control over finances—segregate such duties among key personnel. Movie theatres are an example—one person sells the ticket, another person collects it. Fast-food drive-throughs are another—one person collects the cash, another fills the order. The person who collects the money should not also be the person who prepares the bank deposit and then reconciles the bank statements.

Watch for red flags, and encourage other workers to do this as well. Such tip-offs include:

- Driving a very expensive car that is not proportional to income from employment
- Talking about going to the casinos all the time
- Discussing triactors, quinellas, exactors—all suggesting numerous trips to the racetrack
- Taking a taxi to and from work every day
- Wearing a \$25,000 Rolex watch
- Expensive home, clothes, habits

- Never taking a vacation and routinely working long hours
- Never delegating or sharing duties.

Remember, though, that red flags are not proof of dishonesty—there are usually explanations, such as an inheritance or a gift.

What to expect if you have a claim

As the employer, you will be interviewed and expected to provide the following information in the event of a fidelity claim:

- Name and position of the suspected dishonest employee (the “principal”)
- Date, time and circumstances of the discovery of dishonesty
- Your operations as they pertain to the loss—how is business conducted?
- Records and documentation—how did the principal allegedly steal the money or property, what safeguards were circumvented?
- Present employment status of the principal—terminated, resigned, suspended, still active
- Principal’s reaction to the allegations
- Principal’s lawyer, if any (name, address, phone number)
- Witnesses to the theft—name, location, time
- A copy of the principal’s employment folder
- A copy of any notification given to governing bodies, such as the Ontario College of Teachers or the Certified General Accountants Association
- Known financial status of the principal —real and personal property, assets versus liabilities, lifestyle
- Present whereabouts of the employee
- Community and family ties—married, single, divorced, separated
- Other known employment of the employee (such as part-time jobs)
- Is there other insurance? If so, types, limits and names of other companies
- Recoveries, if any—refund or partial refund, returned goods, vacation pay, back pay, service gratuity.

A blank proof of loss form will be provided to you. The adjuster will not complete the form. You may get assistance if you do not understand the form itself, but you—the employer— will be accusing the employee of theft. The insurance company and the adjuster will not make any accusations against any employee.

After the proof of loss is submitted, the adjuster may contact the employee or his lawyer to get their comments on the proof submitted. The employee is given the opportunity to comment on the claim. Sometimes, the employee confesses and agrees regarding the amount; sometimes, the employee can explain part of the claim; and sometimes, the employee denies everything.

Usually, if the claim is covered, the insurance company makes payment and has the legal right to pursue the employee in civil court.

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It should be clearly understood that this document and the information contained within is not legal advice and is provided for guidance from a risk management perspective only. It is not intended as a comprehensive or exhaustive review of the law and readers are advised to seek independent legal advice where appropriate. If you have any questions about the content of this Risk Note please contact your organization's risk manager or chief risk officer to discuss.