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Halting Employee Theft

She was such a genteel, hardworking bookkeeper. Always in the office before anyone else. Every week she sent a sizable check to her gray-haired sister's account, and another to her church. Who would have thought that these checks had been siphoned from the company's own funds?

According to a survey from the Association of Certified Fraud Examiners, American employees steal $600 billion from employers annually. That's $4,500 per employee - 10 times our nation's street crime theft, and twice the shoplifting total. The Justice Department estimates it as 1.5 percent of all global world trade.

Into the manager's lap has fallen the unappetizing task of staunching this flow of stolen cash. Over the past 25 years, Kevin Hart, partner in Lawrenceville's Stark and Stark law firm, has prosecuted many of the state's highest profile white collar crimes.

He readily admits that dealing with any level of embezzlement involves some of the most delicate decisions a manager may ever make.

"Every antitheft measure carries a message, which will be taken very personally - companywide," says Hart. It is all too easy to lay down long lists of rules which scream to employees, "we don't trust you." Though harder to achieve, Hart urges a more shoulder-to-shoulder approach, implying that all of us are in this company together - any stealing injures us all.

*** Fences of Prevention.** The surest padlock against theft is a strong ethical tone set from the top. When senior management is seen backdating options, taking golden parachutes, or even charging their cleaning to the company, the tacit permission goes out. Conversely, when a firm's leadership unanimously acts with honor, employees sense ethical behavior as one more rail on the fast track to advancement.

In addition to such unofficial leading by example, Hart calls for managers to draft and distribute a written code of ethical conduct. "When the line between right and wrong are clearly drawn," says Hart, "it becomes more difficult for employees to rationalize their own dishonorable behavior." The code also serves to eliminate the many ethical gray areas which tend to crop up in any business process.

Hart's second antitheft safeguard is to lead them not into temptation. "Never make a single individual in charge of both receivables and payables in any department," he says. "Rather decentralize and develop checks and balances."

In the case of our skimming bookkeeper, she alone handled all receipts and invoices for a large medical group. No one else oversaw the records, or even had a clue as to the finances. Thus, it became a simple process for her to forge a few signature cards, open another account at the group's bank, and regularly deposit some of the checks into her account. Then she and her sister would have plenty of ready withdrawable cash for their frequent forays to Atlantic City.

It should be noted that such compartmentalization is also just bad business. Had our book keeper - honest or not - been hit by a truck, the entire practice would have had to shut down for months.

A little employee screening can save millions in regret later on. Hart cites several surveys indicating that of every 10 employees, you will likely one flat out thief who will steal anything not nailed down. Two will be absolute saints, who would never succumb, no matter how lucrative the lure. The remaining seven are basically honest human beings, who might possibly steal if conditions became extreme enough.

"These seven are the ones whom you are trying to lead from temptation with your own ethical examples," says Hart. "But it's that rotten one guy who makes your screening pay off. If a new hire comes in ready to steal, odds are excellent he has tried it before. Scouring past employers and their records may reveal a suspicious pattern.

*** Watchdogging.** No employee enjoys having his honesty tested. The slightest whiff of managerial suspicion will stir great resentment. This does not mean that supervisors must turn a blind eye. Getting to know the employees and chatting with them about their lives beyond the workplace is something any good manager should be doing anyway. And the occasional comment of "Boy, I bet that new boat will cost you a pretty penny," if given casually, should not be taken amiss. No one ever suspected the skimming medical bookkeeper until she began parking her new Jaguar in the employee lot.

Many managers arrange tests, seeing how responsibly an employee handles a little, before setting that employee over much. There is one Paramus retailer who when sending new employees to deposit a fixed amount in the bank, regularly adds more cash in the pouch than is listed on the slip. Would you report the error; or pocket the difference?

*** To Cover or Uncover.** Hart's mantra is always, always prosecute any theft. Even that very nice young executive with a new wife and baby who borrowed some company funds to handle his small gambling problem, Hart insisted on prosecuting. "Once you give that tacit permission, it grows like a cancer," he says.

"Jim" was the top salesman, earning the company $3 million annually - thrice the sales of number two. So when Hart discovered that it was he who had embezzled the $250,000, the company owners reined the attorney back and told Hart not to prosecute. Instead they signed a payback agreement and let him keep working. Within two years, the owners hired Hart back three times, and his investigative team unearthed seven new employees stealing from the company. "You've got to let it be known that if you cross the line here's what we do - and you must apply it equally," Hart says.

News of embezzlement is bound to send ripples of unrest through shareholders and customers. Fearing such publicity, many victimized firms have opted to quietly usher wrongdoers out the door under the cloak of various no-tell deals. "But just think of what you are letting out on the street," says Hart. "Can you in good conscience send this crook on to another company to ply his trade?"

Further, the hopes of fully covering up any major theft are markedly slim. When news finally leaks of both the theft and the coverup, the entire business looks rotten to the core. Rather, the company that publicly prosecutes and loudly announces it zero-tolerance for unethical behavior will best burnish its image before stockholders and clients. Besides, there is always the chance of reclaiming much of the stolen funds. From our medical group bookkeeper, Hart was able to win back a Jersey shore beach house, a women's clothing shop, some gambling winnings, and of course, the Jaguar. (Her church offerings he left in the hands of God.)

In an age when all financial transfers have become increasingly less tangible, and more the matter of a keystroke, employees find temptation opening scores of new ways to pick the company's pockets. But before concentrating on the geeks exclusively, remember that most company theft is still achieved at the point of a simple pen.

Manager's, indeed, must be wary. For the past decades, the employer-employee relationship has undergone a frightful denigration. Employees sign just long enough to punch their resumes and move on to richer pastures. Employers make it plain that as soon as they can find a cheaper worker, the employee will be replaced. Yet to see if you have installed the very best antitheft device answer the question below:

When an employee is having trouble meeting his rent, does he come to you - his company supervisor - and privately ask for aid? If you can answer yes, rest a little easier. After all, it is a rare worker who steals from a friend and benefactor. (add "Biz4" article end note.)

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Kevin Hart admits to being originally lured into law by cash. A native of Morristown Hart entered Rutgers University, and somehow got sidelined into work as a janitor and painting contractor. "One day, I decided I didn't want to be a housepainter when I became 30," he says. Thus smitten by his mortality, Hart returned to Rutgers, graduating with a bachelors in political science in 1975, then two years later, he emerged from Seton Hall University with his law degree.

Hart began work as deputy attorney general for New Jersey, prosecuting all kinds of crime. While better than a house painter, his salary was scarcely staggering. "The only criminal attorneys I saw getting rich were defending organized crime," he says, "and I just couldn't do that." So Hart returned to school, gaining a masters in corporate law from New York University, after which he joined Stark & Stark. For the last twenty five years, Hart has, among many other services, offered corporate clients expertise in white collar crime. As a frequent FDIC-appointed receiver, it is his job to unravel the theft and recover as much as possible of the embezzled funds.

Article Summary

With American workers stealing $600 billion annually from their companies, what's a manager to do? Attorney Kevin Hart, who has investigated and prosecuted some of the state's highest profile white collar crimes, offers some pre-preemptive strategies that won't shatter company morale.