

Avoiding embezzlement is a finance tool for companies

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A Holland bank offers its clients relevant advice.

HOLLAND — The comptroller embezzled more than a quarter-million dollars from a Wyoming trucking company.

The finance secretary at a labor union pilfered more than \$23,000 from his union treasury.

An employee at a community foundation is charged with embezzling more than \$20,000.

An assistant vice president at a bank is charged with stealing \$171,343.

An elected township official admits he stole more than \$1,000 from the account of a local public-access television station.

All of these took place in West Michigan and were reported in the news media in just the last few months, underscoring the point that internal embezzlement is one of the most common financial risks faced by any business or organization.

Phil DeVries, senior vice president and market manager of the Bank of Holland's Grand Rapids office, said many owners of successful small businesses never question the security of their accounts and cash flow until it's too late – because the employee who does it has been there a long time and is considered trustworthy.

"That happens a lot" said DeVries.

Bank of Holland managers try to meet with their small business clients on a regular basis. Especially if it is a new client, the bank asks questions such as: "How do you handle the deposits? How do you handle the check writing? Who is reviewing the bank statements on a monthly basis? Where are the bank statements being mailed – are they being mailed to your business or to your home address? If it's going to the business address, who is reconciling that statement on a monthly basis?" said DeVries.

"You'd be surprised how many times they don't even look at them, because they've had this person who has worked for them for 10 years or 20 years. They're like family. You just trust them," said DeVries.

He said that historically, internal embezzlement or fraud has a tendency to involve a long-term employee who was trusted by the business owners.

Many employers assume a long-term employee's personal financial circumstances are "OK," so it wouldn't make sense for them to embezzle. But common sense doesn't necessarily play a large role in criminal activity: In 2003, a former vice president of finance at a United Way in the Lansing area told a federal judge in Grand Rapids that her love for expensive show

horses drove her to steal almost \$1.9 million from the agency over seven years. Once she even paid \$45,000 for a horse.

In that case, she wrote checks to herself from the United Way account and forged names of co-signers. Then she intercepted the canceled checks when they came back to the agency and destroyed them.



After that the Capital Area United Way hired an accounting firm to reconcile its bank statements.

DeVries said that if a would-be embezzler

knows there are no dual checkpoints, "they know what they can do and no one is going to catch them."

In the business world, is there any particular type of business that is more prone to embezzlement?

"I don't think you can actually say it's always going to be a manufacturing company or (a business) in the service industry," said DeVries. "It's not like one is more susceptible than any other."

Often the reports of small business embezzlements or internal thefts from organization treasuries are startling in regard to the size of theft.

"Some businesses have huge cash flows on a regular basis, enough cash flow, with receipts so large" that embezzlement "can get covered up for a while," said DeVries.

Small businesses are particularly vulnerable because owners become complacent over the years, while "some owners say they don't have time" to double-check the book keeping, said DeVries.

Dual control over key financial processes "is very important. Whether it's your son or daughter or best friend (managing the finances), you as the owner really have responsibility to review all the (financial) work that's being done," said DeVries.

Key financial processes begin with basics, such as incoming mail and the supply of blank checks.

Often a company receives hundreds or even thousands of blank checks, with only a few at a time in a checkbook.

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"Where are the rest? Are they locked up?" said DeVries.

He said that he has seen checks that have been altered, with expensive zeros added to a relatively small amount that otherwise would not attract attention. The key is reconciling that check with the amount actually paid on it by the bank.

"Who opens the mail?" is another basic process of which business owners should be aware, he said. If an employee who opens mail is also involved in company expenditures and receivables, there is a window of illicit opportunity – just like the window left open for the United Way executive in Lansing.

Another key financial process involves vendors and purchase orders. If the same individual manages vendor files and issues purchase orders, a regular review of POs may be well-advised.

If a small business has a line of credit at a bank, DeVries said the owner should know who is requesting advances on that account. If an employee authorized to write checks can also request advances on a line of credit, and the business owner does not know who is being paid with that cash advance, what starts out as a small case of embezzlement can quickly "get wild," he said.

"A lot of times, we recommend that the owner is the only one who can make an advance on a line of credit," said DeVries.

Dual control over ACH payments is prudent. ACH stands for automatic clearing house, an electronic process some businesses use that permits an established vendor to automatically debit that company's account.

If the wrong person at either end – or somewhere between – has the checking account number and the bank routing number, that individual can drain a bank account in minutes.

"You should study that on a daily basis," said DeVries.

Bank of Holland offers Positive Pay, which DeVries said is a "fairly new product." A client regularly provides the bank with a magnetic tape from its IT system, listing all checks and dollar amounts. When those checks come in to the bank, the bank's system will automatically verify those checks. The cost of positive pay depends on how much information is provided to the bank each month.

Of course, there is insurance for just about every risk under the sun, including dishonest employees.

A "fidelity bond," sometimes called "honest insurance," protects a company and its customers from employee dishonesty. Patty Wittekind, commercial account manager at Paul Goebel Group Insurance Agency, said this form of insurance has been around for many years and is commonly purchased by janitorial service companies, retail businesses, accounting firms and schools.

The coverage is limited and ranges from \$5,000 to \$100,000 and "in most cases," according to Wittekind, a claim requires a conviction in court of the bonded employee.

In buying a fidelity bond, a company must usually disclose any prior losses from employee theft – which would presumably impact the cost of the bond.