

## Lessons Learned

**Title:** Employee Embezzlement Revealed in Audit

**Loss Amount:** \$58,000

### Situation:

An independent auditor advised our insured that the "Employee Receivable Account" was exhibiting unusual growth. The client, who was not familiar with an "employee receivable account," was told that it appeared to be money that an employee was "loaning" to himself.

An internal investigation confirmed that a criminal act had taken place and local authorities were notified. Neither the local authorities nor the district attorney's office had the expertise to investigate an alleged embezzlement, so outside auditors were hired. It took over 1,000 hours and a year to find the embezzlement trail. Auditors also determined that the employee had stolen an unknown amount of cash. When cash was received, it was replaced with an incoming check so that would look like the cash was accurately posted.

The employee was terminated when the first investigation revealed the shortage. Subsequently, a criminal investigation began and charges were filed. When confronted by police, the employee confessed that the money was stolen to pay personal bills over a four-year period.

### Lessons Learned:

Independent auditors raised the alarm about the unusual account in the bookkeeping system. Here are some procedures that can be implemented to reduce the possibility of employee theft/embezzlement:

- Independent auditors should review the accounting records at least annually.
- Accounting personnel should be required to take a vacation so that another person has access to the books. Insist that employees take vacations as scheduled. A dedicated employee who "never takes a day off" is often the first sign of wrongdoing.
- Monthly checking accounts should be reconciled by someone other than internal accounting staff.
- Unannounced spot checks may be appropriate.
- Accounts receivable and accounts payable functions should be assigned to different individuals.
- A second signature should be required on check disbursements over a pre-set amount.
- Background checks should be conducted on employees who will handle finances. These and previous employers will frequently reveal indications of potential trouble.

### For Further Assistance in the Prevention of all Types of Losses:

- Call VISC at 888.762.3143
- Call the Fireman's Fund Loss Control Help Desk toll-free at 888.527.6872