

Everything You Didn't Want to Know About Employee Crime

Article provided by Professional Liability Agents Network (PLAN)

This material is provided for informational purposes only. Before taking any action that could have legal or other important consequences, confer with a qualified professional who can provide guidance that considers your unique circumstances.

It's something employers don't want to have to think about: employee crime. Finding out that trusted, long-term employees have been stealing from the company through embezzlement, fraud or other illegal activities is like taking a sharp blow to the stomach.

But thinking about employee crime is just what employers need to do. It's a widespread problem and one that is growing in size, complexity and stealthiness as businesses become more and more dependent on the Internet and computerized financial programs.

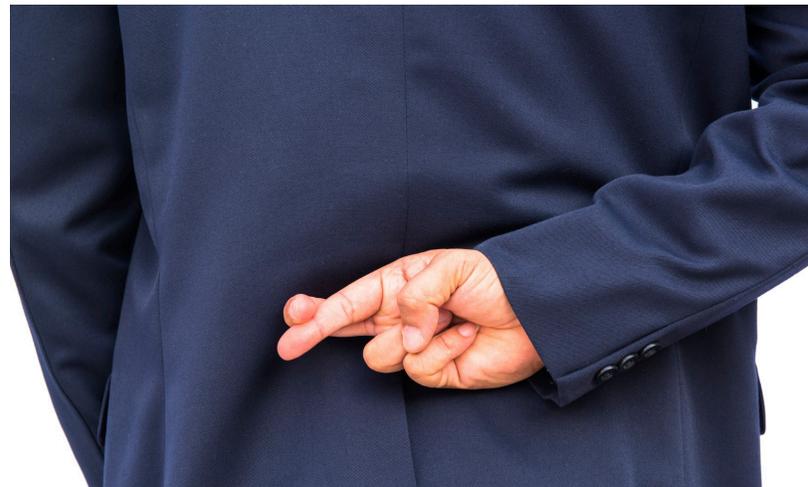
Just how big is the problem? Consider these statistics pulled from a 2014 report from the Association of Certified Fraud Examiners (ACFE):

- The typical organization loses 5% of revenues each year to fraud.
- The median loss caused by fraud was \$145,000.
- 22% of the cases had losses of \$1 million or more.
- It typically takes 18 months to discover fraud is occurring.
- In approximately 30% of the cases, the perpetrator is committing multiple forms of fraud.

- Small companies tend to suffer a disproportionate amount of large losses.
- The higher the level of the perpetrator's authority, the greater the fraud losses.

Types of Employee Crime and Fraud

The types of employee crime a company is most susceptible to largely depends on the industry it is in. Manufacturers are very susceptible to theft of materials and finished goods, while service company like architectural and engineering firms are most vulnerable to embezzlement and fraud resulting in the loss of financial resources. Geotechs are also vulnerable to theft of their surveying equipment.



Examples of crimes that typically hit A/E and similar service firms include:

- Manipulation of company financial statements
- Falsified billings from perpetrator's shell company
- Check forging or tampering
- Purchasing or sale schemes that funnel funds to the perpetrator's bank account
- Manipulated time records
- Payroll schemes, such as "ghost" employees or falsified wages or withholdings

(continued on page 2) Employee Crime

(continued from page 1) **Employee Crime**

- Expense reimbursement schemes
- Bribery or illegal gratuities
- Invoice kickbacks
- Bid rigging
- Theft of cash on hand

According to the ACFE report, 77% of employee fraud were committed by individuals working in accounting, operations, sales, upper management, customer service, purchasing and finance. The vast majority of those caught are first-time offenders: only 5% had been convicted of fraud crimes in the past.

What You Can Do

Fortunately, there are a number of steps employers can take to reduce the likelihood of becoming a victim of employee crimes. While no preventive steps are 100% foolproof, they can make a marked difference in combating employee crime. Consider taking these actions:

Conduct employee education. Make it clear to all employees that the company is alert to the potential of employee crime and has a no-tolerance policy no matter how minor the infraction may seem. An employee-crime awareness training program and other risk management tools may be available from your property and casualty insurer or a local business association.

Institute an employee hotline. Make it easy for employees to anonymously report suspicious activity that may indicate criminal action by their coworkers. The ACFE reports that an employee hotline is the most effective way to detect fraud. Over 40% of all criminal cases against employee-crime perpetrators were the direct result of a tip from a fellow employee or other party.

Consider job redesign. In small companies in particular, employees perform important job functions from start to finish with little if any management involvement or oversight. For instance, one employee may handle all accounts payable and receivable. Look into redesigning job functions so that important financial functions involve two or more individuals, preferably one of them a trusted member of management.

Conduct internal or external audits. Consider having all financial activities audited by internal management or external auditors on a regular basis. Surprise internal audits by managers equipped with formal financial review procedures can be the most effective.

Consider background checks. Conducting background checks on new hires, particularly those with financial responsibilities, may be advisable. But remember, most perpetrators are first-time offenders without a criminal record, and these checks can be costly.



Don't Forget About Insurance

Obviously, it is impossible to totally eliminate the threat of employee crime. That's why companies of all sizes should consider securing insurance to minimize potential losses should theft, embezzlement, fraud or other similar types of crime occur.

Typically called Fidelity and Crime Insurance, this coverage is readily available and reasonably affordable. Smaller firms can often purchase fidelity and crime coverage as part of a commercial package policy, with limits typically up to \$500,000. Larger firms who need higher coverage limits can purchase fidelity and crime coverage as a mono-line policy with limits of \$1 million or more. Mono-line fidelity and crime policies offer greater customization of coverages as well. Fidelity bonds are another option to consider when a client asks for high limits.

(continued on page 3) **Employee Crime**

(continued from page 2) **Employee Crime**

When shopping for fidelity and crime insurance through a commercial package policy, look for dedicated limits for employee theft exposure. Also look for policies with multiple insuring agreements that provide fraud protection for exposures such as:

- Forgery
- Counterfeit currency
- Credit card fraud
- Loss of money, securities and other property while on your premises, banking premises or in transit
- Computer crime, including losses caused by malicious software
- Funds transfer fraud
- Reimbursement for claim expenses

Some policies provide protection of certain fraudulent acts of non-employees as well, such as vendors or board officers and directors. As specialists serving architects, engineers and environmental consultants, we can help you secure fidelity and crime insurance that fits your particular needs.

Never an Easy Discussion

Addressing employee crime with your work force is never easy. But bringing the topic into the light of day is often the first step in reducing the chances of criminal activities taking place in the workplace. When employees know you take a no-tolerance approach to employee crime, are monitoring company finances and encourage co-workers to be vigilant to suspicious activities, you've already decreased the chances of fraud, embezzlement and theft. Secure the added layer of protection that fidelity and crime insurance provides and you've taken a large bite out of the potential losses you could suffer from rogue employees. ■

Can We Be of Assistance?

We may be able to help you by providing referrals to consultants, and by providing guidance relative to insurance issues, and even to certain preventatives, from construction observation through the development and application of sound human resources management policies and procedures. Please call on us for assistance. We're a member of the Professional Liability Agents Network (PLAN). We're here to help.

Risk Management Seminar Series



Wage & Hour 101

Friday, January 8, 2016

7:30am Registration

8:00am - 10:00am Program

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In Defense of Coffee

Coffee has an unfortunate reputation for causing many health problems—from stunting your growth to claims that it causes heart disease and cancer. But, recent research indicates that coffee may not be so bad after all. For most people, the health benefits actually outweigh the risks.

Why the change of heart? Earlier studies didn't always take into account that high-risk behaviors, such as smoking and physical inactivity, tend to be more common among heavy coffee drinkers. If you take those unhealthy habits out of the equation, there is actually a healthy relationship between coffee consumption and decreased overall mortality.

Furthermore, that cup of coffee could actually protect against Parkinson's disease, type 2 diabetes and liver disease—including liver cancer. It also appears to improve cognitive function and decrease the risk of depression.

There are exceptions, though. Drinking too much unfiltered coffee may cause elevated cholesterol levels. Plus, some people have difficulty metabolizing coffee and could be at higher risk for heart disease as a result.

Although coffee may have fewer risks than benefits, keep in mind that other beverages, such as milk and some fruit juices, contain nutrients that coffee does not. Also, adding cream and sugar to your coffee adds more fat and calories.

This article is intended for informational purposes only and is not intended to be exhaustive, nor should any discussion or opinions be construed as professional advice. Readers should contact a health professional for appropriate advice.

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Sugar Substitutes

Because there are so many sugar substitutes on the market, it can be difficult to decide on the best one for your lifestyle. This decision is especially important for the millions of people who live with diabetes. The following is a list of some of the most common artificial sweeteners and how they affect your blood sugar levels:

1. **Agave Nectar** – Agave nectar is a concentrated sugar syrup that is a vegan alternative to honey. Although it has twice as many calories as table sugar, it has a lower glycemic index, meaning that it is safer in moderation for people living with diabetes. And, being 1.5 times sweeter than table sugar, people tend to use less of it. Still, the American Diabetes Association lists agave nectar as “a sweetener to limit.”
2. **Aspartame** – Aspartame is produced by linking aspartic acid and phenylalanine, two amino acids. It's known by its brand names, Equal and NutraSweet. It can be found in soft drinks, dairy, candy, fruit spreads and various other foods. It is also available in packets that can be added to coffee and tea. Aspartame is 200 times sweeter than sugar and is acceptable for people with diabetes since it has no effect on blood glucose levels.
3. **Stevia** – Derived from the South American stevia plant, its brand names include PureVia, Truvia and SweetLeaf Sweetener. It can be found in drinks, desserts, gum, baked goods, candy, yogurt and in packets for use in beverages. Stevia is up to 300 times sweeter than sugar and does not affect blood sugar levels, so it is safe for people who have diabetes.
4. **Sucralose (Splenda)** – Sucralose, or Splenda, is a no-calorie sugar substitute found in many processed foods and used as a general purpose sweetener (found in small yellow packets wherever coffee and tea are served). Splenda is 600 times sweeter than refined sugar and not very safe for individuals with diabetes, due to its carbohydrate content. According to research, Splenda contains about 1 gram of carbs per teaspoon, which means it could affect blood sugar if it's not consumed in moderation. People who have diabetes should limit their intake of Splenda.

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30-Minute Chili

This recipe is quick, easy, inexpensive, healthy and delicious—especially on cold winter nights.

- 1 lb. ground beef
- 1 onion, chopped
- 2 cups light red kidney beans, cooked
- 1 can tomato soup (no water added)
- 1 Tbsp. chili powder, or to taste
- 10 drops hot pepper sauce, or to taste

Directions

In a large skillet, cook the meat for about 10 to 15 minutes or until brown.

Drain the meat, add the onion, and cook for five minutes.

Add the kidney beans, soup and chili powder and heat for five minutes or until hot. If using hot pepper sauce, add the sauce then, too.

Serve alone or on top of whole wheat pasta or rice.

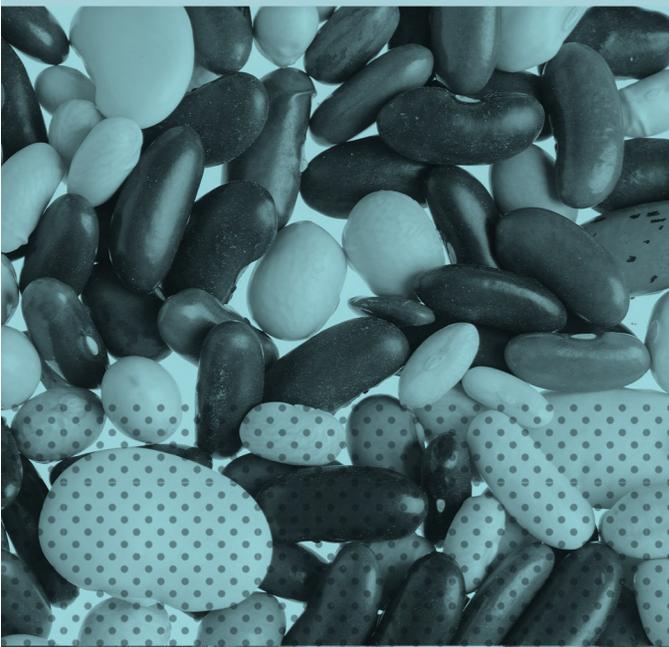
Makes: 6 servings

Nutritional Information (per serving)

Total Calories	310
Total Fat	10 g
Protein	28 g
Carbohydrates	26 g
Dietary Fiber	5 g
Saturated Fat	4 g
Sodium	350 mg

*Percent Daily Values are based on a 2,000 calorie diet.

Source: USDA



New Year's Resolutions

According to research, only 8 percent of the people who make New Year's resolutions actually achieve them. This could be due to people setting unrealistic goals or setting no goals at all. If you want to make a resolution in the New Year and actually stick to it, consider setting a "SMART" goal—one that is **specific**, **measurable**, **attainable**, **realistic** and **timely**.

For example, let's say that your goal is that you would like to take three CrossFit classes per week for 60 days. If you achieve your goal at the end of that 60-day period, you should reward yourself with something worthwhile. Then, keep your original goal going with consecutive SMART goals after you complete each one. Remember that when you set your SMART goal, you should determine your reward then, as well. That way, when you're five weeks in and tempted to throw in the towel, you can set your sights on that specific reward and remind yourself how close you are to getting it.

How to Make and Keep Your New Year's Resolutions



S-Be **specific**. Specific resolutions make them more concrete and exciting. General resolutions are static and often lack inspiration.



M-Make them **measurable**. Determine benchmarks against which you can determine progress. Without measurable benchmarks, you can't gauge progress and may not feel motivated to continue.



A-Make them **attainable**. Choose resolutions that are important to you and actually inspire you to take action.



R-Be **realistic**. You must be willing and able to work toward something concrete. Set yourself up for success with a resolution that you are realistically able to achieve.



T-Be **timely**. Identify a solid start and finish. Without that, you will have no sense of urgency to accomplish your goal.

Spotlight On



Cavignac & Associates is proud to support local and non-profit civic organizations, including Serving Seniors:



Serving Seniors provides meals, supportive services, health education, affordable housing and lifelong learning opportunities for seniors in San Diego County.

All individuals age 60 and older are eligible for our congregate meals, senior center activities, health education and social services.

People age 62 and older are eligible for permanent affordable housing at Potiker Family Senior Residence in East Village and Potiker City Heights Residence in City Heights.

They serve meals at 10 congregate dining sites and to home-bound seniors in San Diego County. They ask for a nominal donation of \$2.50, but no one will be turned away for being unable to donate.

For more information about Serving Seniors, visit www.servingseniors.org.