

# Preventing fraud at your business



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**R**ECENTLY THERE have been a few high-profile embezzlement cases at nurseries. Just in Oregon, almost \$5 million was stolen from two nurseries.

Any industry can be impacted by embezzlement and fraud. Fraudsters generally don't target a specific industry. They end up seeing an opportunity where they work.

The best way to stop an embezzlement is to prevent the opportunity in the first place. Keeping your employees honest is priority one.

It is easy to think that it won't happen. After all, who would hire a thief? No one intentionally hires someone who is going to steal. That is the thing about embezzlement. An employee can be a great employee for many years or even decades, but something happens. They make a choice to steal.

It always starts small and generally it doesn't stop until they get caught. It grows over time. Initially, it might be because of a real financial need. It might be because of a sense of entitlement. Or they just make the choice to want more money.

But it's not their money. The business provides for the owner, their family and all the employees and their families.

## Ways to prevent embezzlement

Here are some ways to prevent embezzlement at your business. They are not technically

difficult, they are not expensive, and they are easy to implement.

**1. Mail bank statements to home or to a post office box.** The business owner needs to see the bank statements before anyone else. Why? Because in the technological world we live in, anyone can easily change a bank statement to a fake balance.

**2. View the images of the checks.** Do they match up with records or your recollection? They might not!

For example, a business owner discovered this when they inadvertently hit "view image" while viewing an online statement. The check they signed for \$2,500 to one of their vendors did not show said company as the payee. It showed the bookkeeper's name.

Prior to this, the owner would go through the online account. They knew they signed all the checks, but did not realize the bookkeeper had changed the vendor name. Many business owners scan the online accounts but just look at the amounts, not the actual "pay to the order of."

**3. Maintain the element of surprise.** If only checks over a certain amount are reviewed, start randomly reviewing smaller checks. In the same vein, one can ask for different reports such as profit and loss monthly instead of quarterly. Both of these are basic yet important reports to do. Ask your employee about a random check. It shows you are paying attention to the finances.

**4. Don't let audits give a false sense of security.**

Audits are important, but they are not the only way fraud is discovered — or even the most frequent. According to the Association of Certified Fraud Examiners 2020 Report to the Nations, tips are the number-one way fraud is discovered.

**5. Segregate financial duties as much as possible.** For example, make it a practice that the person who enters the payments is not the person who makes the bank deposits. Cross training your employees is important. If cash is accepted, make sure to always have two people count it out. If possible, change who counts the money regularly.

**6. Make sure your employees take vacations.** Why is that? Many embezzlements are discovered when an employee misses work due to an unexpected sickness or accident. They aren't there to answer the phone with the vendor asking about a late payment or a customer questioning their statement.

**7. Never ask employees to share passwords.** It is a protection for the employee and business owner. If passwords are shared, how can someone definitively prove who made a deletion or journal entry?

## Watching for red flags

Who is the type of person who steals? Are they a hardened criminal? Most likely not. Do they have a criminal history? According to the 



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Association of Certified Fraud Examiners 2020 Report to the Nation, only 4% of fraudsters had a criminal record.

However, that does not mean someone who steals has never done it before. In my experience as a fraud investigator, if they start stealing within six months of starting a job, they probably stole at the prior job. Most businesses, due to shame and humiliation, just fire the employee.

Only 15% of all embezzlement cases are turned over to law enforcement. While background checks act as a deterrent, they are not a guarantee.

Is there a way to identify a potential embezzler? Lifestyle that is not commensurate with an employee's salary is the number one red flag.

If an employee shows up in a car that is three times their annual salary, it could be a red flag. If they take extravagant trips that

even the business owner doesn't take, that is a red flag. Financial issues due to garnishments, car repossessions or a change in lifestyle might be cause for the business owner to pay closer attention to that employee.

### Recovering from the shock

When a business owner finds out that an employee has stolen from the business, it is something they will never forget. Unlike many other types of crimes, these crimes are incredibly personal. Perpetrator and victim may have worked side by side for many years.

I have worked with many business owners to identify fraud and embezzlement that took place at their business. One of these owners said the worst part was having to tell their employees what had happened.

"They wouldn't even look me in the face until I asked if they had any questions,"

the owner said. "An employee turned around, looked me straight in the face and asked, 'How could this happened?' He was hurt. His family hadn't had a large bonus in three years and no wage increases. We had fewer employees, so he had to work longer hours and harder. Our employees believed so much in us and had left other jobs to work for us."

Many people start businesses because they have a passion for what they do. Nursery owners are no exception. Passion is important, but in the end, the business needs to be profitable.

Embezzlement can cause a business to fail and leave the owners with debts. Employees are human and can make bad choices. By installing better controls and monitoring, a business owner can remove the employee's opportunity to steal. Keeping honest people honest is the best policy. ☺



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