INTERNAL THEFT PREVENTION

INTRODUCTION

Pilferage, employee theft, internal theft, are terms that boil down to one thing; just plain stealing. In this country, we have reached crisis proportions sociologically and economically concerning this issue. Usually, the concern is regarded as just the “cost of doing business”. Over a period of time, this can have disastrous effects on your business and the economy as a whole.

THE SCOPE OF THE INTERNAL THEFT EXPOSURE

Statistics can be interpreted many ways and can quickly become outdated. Statistics do however give us a base for understanding the scope of the internal theft problem. In the last 30 years internal theft has been considered the number one cause of business failure in the United States. Thirty percent of bankruptcies in the United States were caused by internal theft. $40 million dollars in cash and merchandise per day is the estimated daily loss. This far exceeds the monetary loss of crime in the streets. The U.S. Department of Commerce says that between $5 billion and $20 billion in internal theft losses occur each year. No matter what figure you use we are talking about billions of dollars. In a recent study, retail losses from internal theft estimated a loss of $12.9 billion with annual sales of $1.9 trillion dollars.

CAUSES OF INTERNAL THEFT

Societies have used the terms “rotten apples”, “moral laxity”, and “undesirables and their associates”, as substantiating the causes of theft. The true causes can be categorized into four general areas; employee attitude, management responsibility, managerial dishonesty and other factors.

EMPLOYEE ATTITUDE

Employee attitude can be affected by dissatisfaction with the job. Individuals may feel justified in stealing as a result of this. An individual may feel that a company is not paying them what they are worth or that they have been passed over for promotion. A person may feel that the work conditions are substandard or unsafe. A business may be strong enough to withstand stealing in the eyes of some other employees. In many cases, employees don’t believe they are hurting anyone.
INTERNAL THEFT PREVENTION
Page 2

MANAGERIAL DISHonestY

Employees learn from their bosses. Managers establish the norm for the employees to follow. Any behavior that conforms to what is perceived to be acceptable will not be considered dishonest. A recent study of fidelity losses indicated long-term employees with positions of responsibility have a greater loss potential. Those thefts involve large sums of money over long periods of time.

OTHER FACTORS

The fact that inflation is affecting our life-styles also tends to push the employees in trying to stretch their paycheck. Employment uncertainty and recession as well as bankruptcy or impending mergers may also push an employee into a state of mind where dishonesty seems less of a criminal act. Many of these factors tend to cause employees to lose their sense of loyalty. Also, there are needs to cover up a gambling debt or the need to pay for expensive drug habits that also weigh in as a factor in reducing the level of honesty of an employee.

WARNING SIGNALS

There is no fail-safe technique for identifying the dishonest employee. The potential for theft exists in all employees. Efforts therefore should be directed at the mainstream rather than the stereotype. An employee exhibiting a few of these signals does not mean you have a criminal on your hands. You are looking for consistency and frequency in a wide range of signals. It may only be circumstantial. Too often, the signs are accredited to chance, coincidence, or eccentricity and ignored. To successfully detect theft and prosecute against the criminal, evaluate and compare the theft warning signals from merchandise and equipment, from theft protection devices, from records and documents, from personal behavior, from employee activities, and from customers or outsiders.
INTERNAL THEFT PREVENTION
Page 3

SIGNALS FROM THEFT PROTECTION DEVICES

- Signs of forced entry at perimeter doors and windows, such as scratches near locks, damaged door jams, broken panels, etc.
- Alarm system wires broken, damaged, or jumped.
- Frequent false alarms or frequent inability to close premises because the system shows a break somewhere.
- Electronic security devices frequently in need of repair and inoperable.

SIGNALS FROM RECORDS AND DOCUMENTS

- Discrepancies between inventory records and physical counts.
- Controlled documents missing or out of sequence.
- Unexplained alterations in inventory records.
- Documents not properly signed or countersigned.
- Excessive use of substitute records because originals are “lost”.

SIGNALS FROM PERSONAL BEHAVIOR

- Symptoms of substance abuse, patterns of absenteeism (Monday, Friday),
- Heavy gambling on horses, cards, numbers, sports, etc.
- Disgruntled, dislikes, boss or company, and complains about being underpaid or over worked.
- Never takes time off or vacation, or comes in during vacation or day-off.

SIGNALS FROM EMPLOYEE ACTIVITIES

- Coming in too early or staying too late for no good reason.
- Habitual carrying of gym bags, shopping bags, etc.
- Habitual wearing of loose-fitting clothing.
- Rapidly loading a truck while the other trucks are loaded more slowly.
- Presence of employees in an area where they have no legitimate business.
INTERNAL THEFT PREVENTION
Page 4

SIGNS FROM CUSTOMERS AND OUTSIDERS

- Frequent customer complaints of shortages or substitutions in shipments.
- Unusually friendly relationship among employees and such outsiders as truck drivers, repair men, trash collectors.
- Frequent contact among employees and visitors, especially those visitors who carry shopping bags or other containers. Presence of outside personnel (telephone repair, building service, salesman, etc.) in areas where they have no legitimate business or communicating with employees they have no business dealing with.
- Many customers always dealing with one employee and refusing to buy from anyone else.

CONTROLLING INTERNAL THEFT

These theft prevention strategies can be categorized into four areas: Pre-employment screening, procedural controls, improving employee job satisfaction, and an apprehension and prosecution policy.

PRE-EMPLOYMENT SCREENING

A comprehensive employment application form should be developed that affords the basis for an in-depth exploratory check of the applicant’s background. The form should be consistent with federal and state requirements and should include, as a minimum, information about residence, education, job history and references.

- The applicant’s references and previous employers should be checked, either by mail or phone. If the telephone is used, all questions should be direct. Letter inquiries should be designed using “check-off”-type questions, not requiring narrative answers, and should include a self-addressed, stamped envelope.
INTERNAL THEFT PREVENTION

Page 5

- A list should be developed of questions to be asked, during the job interview, that are intended to provide insight into the person’s character. Procedural Controls These controls are designed to limit the opportunity for theft by making it more difficult to accomplish successfully. Gaining the agreement of the employees is important. Without their agreement and understanding, there may be damaging effects on morale.
- Employers should develop a set of written security procedures that also outline the company’s policy for dealing with an employee caught stealing.
- A copy of security procedures, as well as other company policies (such as borrowing tools), should be provided to each employee; a signed statement of its receipt should be obtained.
- A notice should be posted, in a conspicuous location, stating that dishonesty will not be tolerated and that all offenders will be dismissed.
- Responsibilities and functions should be separated so that no one employee has control over all parts of a given transaction.
- Workflow should be organized so that the work of one employee acts as a check on that of another.
- Employees should account for tools and materials through inventory control. A program should be established of regularly scheduled inventories, combined with unannounced or “surprise” inventory checks performed by other than stock room personnel.
- Keys to the premises should be controlled and a record maintained of employees to whom keys have been assigned.
- Check employees who arrive early or stay late when there is no need to do so.
- Use care in allowing employees free access to store rooms or to other sensitive areas.
- Keep valuable items locked up with the appropriate manager in possession of the keys. Also, keep all storerooms locked.

Apprehension and prosecution, fear of being caught, dismissed, and possible prosecution with threat of a jail term is undeniably an effective control strategy. Dishonest employees
must be prosecuted to the full extent of the law. Where warranted, strong positive action must be taken. It pays for itself in terms of a recognized deterrent.

INTERNAL THEFT PREVENTION

Page 6

- Management should uphold company policies regarding employee thefts, judging every employee by the same objective criteria. Failure to take decisive action or failure to be consistent can have an adverse effect on successful prosecution and the attitude of employees in the future.
- When an employee is suspected of internal theft, local police should be consulted. Employers should be familiar with the evidence required and the procedures that should be followed. An employer should seek professional legal consultation when setting up a prosecution policy.

CONCLUSION

Internal theft can seriously affect the economic stability of a business. Management needs to implement policies to control internal theft. Businesses who have a good employee selection program, publicize to employees that stealing will not be tolerated, and establish control strategies to detect employee theft, usually have lower levels of dishonestly. Beware of the “theft contamination”. Once dishonesty gains a foothold in a business, it can spread.
To be effecting in reducing the potential of internal theft, the four control strategies outlined must be integrated into a comprehensive prevention program that gives consideration to an employee’s morale and legal rights. You can start to control your losses today.