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Red flag flying: Tips for detecting employee embezzlement

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Sadly, in the past 12 months, I have been hired to investigate or assist in investigating employee embezzlement more times than in the past 15 years combined. Embezzlement is the theft or misappropriation of funds or property placed in one's trust, belonging to one's employer. Employee theft costs are on the rise, and they are getting more sophisticated in their methods. They justify their actions by saying they aren't hurting anyone.

Employee theft or embezzlement can come in many forms, not all of which are preventable. The key to reducing employee theft costs is early detection. Once detected, many employers comment that signs had been there all along. And if only they had "seen the signs sooner." What are some of the forms of employee theft? What signs should you look for to detect employee theft?

Employee theft comes in many forms

Below is a list of some types of embezzlement by employees, many of which I have personally investigated over the years:

- Falsified expense reimbursement requests (either modifying the item purchased or purchase amount);
- Redemption of credit card or other reward programs for personal use;
- Skimming or fictitious bad debt (pocketing customer payment, and recording the account as a bad receivable);
- Larceny (stealing an incoming payment after a customer is given credit for payment); and
- Payroll fraud (creating a fictional employee—often a relative—and sending fake paychecks or claiming compensation for hours not worked).

Detecting employee theft

Detecting employee theft can be difficult, which is why (according to a 2020 Report to the Nations from the Association for Certified Fraud Examiners) typical employee embezzlement can go undetected for approximately 14 months. Undetected employee theft that goes on for longer than five years generally exceeds \$700,000 in financial losses. Paying attention to red flags, such as cash discrepancies or missing merchandise or supplies, can be paramount to reducing losses that occur because of embezzlement.

Once certain red flags arise, pay particular attention to the behavior of employees who could cause the cash discrepancies or missing merchandise. Employees covering up embezzlement or theft may refuse to turn over job tasks to others, in an effort to cover up any wrongdoing. They are also less likely to take vacations, as their theft may be discovered in their absence. Ask yourself, does this employee's lifestyle seem extravagant based on the past or in light of their salary?

Of course, exhibiting such behaviors is a possible indicator, not a definitive sign of theft. Additional investigation is warranted before approaching the employee with suspicions.

Also, don't ignore an employee's risk-taking behavior (e.g., gambling). Employees who gamble to the extent that they jeopardize their personal finances are at risk of embezzling money to cover the losses. Employees

who brag about other risk-taking exploits may also be willing to take the risk of embezzling company funds.

One final thing to note

Once you have a reasonable suspicion or actual proof that an employee is stealing or has stolen from you, consider contacting your legal counsel for support. There are many pitfalls when you confront an employee for embezzlement. You need to know your rights and the rights of your employee to ensure you engage properly during the confrontation.

A confrontation can go in any number of directions, and you should be prepared to respond accordingly. Consider the employee's possible reaction to the confrontation. Is there a concern the employee will become violent if he or she feels cornered?

You should also consider the timing of the confrontation. Don't jump to conclusions and confront an employee prematurely. Conduct at least an initial investigation and be prepared to offer evidence during the meeting with the employee. Often, having evidence will result in an admission that wouldn't otherwise be forthcoming.

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