Minimizing Your Employee Dishonesty Exposure

Most fire service organizations establish programs for the protection of their members, but they often forget about protecting their assets against employee dishonesty. Employee dishonesty is defined as "theft by employees," but could also be called “theft by members” in a volunteer setting. Where control measures are not in place, loss due to dishonesty is common because employees/members have easy access to exposed property (i.e., funds) and the losses can be easily hidden from discovery for long periods. Many large losses are often discovered only by accident.

Here are some simple control measures that can be easily applied to any organization, regardless of the size, to help control employee/member dishonesty exposure:

- **Segregation of duties** – The cornerstone of sufficient protection against dishonesty lies in the principle of segregation of duties. This principle requires that two or more people be involved in partner activities. An example of this would be in the management of checking and savings accounts. It’s common practice for an organization to write checks for the monthly bills and then transfer funds from savings to checking to cover the outgoing amount. If one member is responsible for writing checks, a different member should be responsible for transferring the appropriate amount from the savings account. Why is this necessary? Suppose a member issues one or more checks to pay some small personal bills using the funds from your organization. If the same member is also responsible for transferring funds from the savings account to cover all of your monthly bills, these small shortages could – and often do – go undetected.

- **A strict funds transfer policy** – Adopting and enforcing a strict funds transfer policy is another method for protecting against employee/member dishonesty. Your policy should require at least two different members’ sign-off prior to any transfer of funds. Also consider a policy requiring different authority levels to sign-off based on predetermined transfer amounts. For example, a member and your treasurer must sign-off on any transfer amount up to $1,000. For amounts more than $1,000, sign-offs are required from the treasurer and your board president or commissioner. Work closely with your financial institution while developing and communicating your policy. Many financial institutions provide automatic notification to a third party, such as the fire chief or president, in the event of policy breaches and funds transfer attempts that exceed agreed guidelines.

- **Require different members to frequently reconcile bank statements and financial sheets** – By having separate reconciliation duties, funds cannot be hidden or withdrawn without someone away from the transaction knowing about it. The more frequent the reconciliation, the less likely a loss will go unnoticed. As a minimal control, the member who signs checks and/or makes deposits should never reconcile the bank accounts unless another member also reviews those reconciliations on a monthly basis and signs off on them for accuracy.

- **Term limits –** High-dollar dishonesty losses are often the result of many small thefts occurring over a long period of time. Consider establishing term limits for the elected or appointed positions that directly manage your funds. One-year or two-year term limits may deter someone from attempting a dishonesty scheme. The regular turnover also serves as an opportunity to check your financial records and detect any inappropriate activity that may be in progress.

- **Duplicate records –** Good recordkeeping practices are critical. Documents must be readily accessible to members and others who are charged with reconciling financial statements and checking for improprieties. If the only person who controls the financial records is also the person who perpetrates a dishonesty scheme, detection and investigation may be seriously compromised. Consider a procedure requiring a copy of all financial transactions and statements be sent to a second member – such as a board member or president – for safekeeping.

- **Written policy** – Adopt a written policy outlining the consequences of theft and make sure every member receives a copy. Include comments that theft will result in immediate dismissal and legal action, regardless of a member's position or length of service.

- **Outside assistance** – At least annually, have a Certified Public Accountant (CPA) review your financial procedures and records to obtain an objective evaluation of your financial control program and possibly offer suggestions for improvement.

The following is a brief checklist to help you evaluate your employee/member dishonesty controls. For each response in the "No" column, consider implementing a new control measure or improving an existing program to help reduce your exposure to loss:

Item	Action	Yes	No
1	Are the financial duties for your organization segregated between two or more employees/members to provide for proper check and balance?		
2	Is there a funds transfer policy/procedure in place which requires two or more approvals for any fund transfer? Are appropriate authority levels set for larger dollar amounts?		
3	Do you require two or more employees/members to reconcile bank statements or financial sheets?		
4	Are term limits set for the elected/appointed positions that directly manage funds?		
5	Do you maintain duplicate financial records? Is more than one person responsible for maintaining records?		
6	Do you have a written policy outlining the consequences of theft?		
7	Do you have an annual outside audit performed by a Certified Public Accountant?		

For more information on Employee/Member Dishonesty safeguards or other risk management programs, please contact your local Risk Management Representative or visit us at www.uticanational.com.