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# Stopping Embezzlement

*How to protect your business from the thief within*

By Michelle Tuccitto Sullo

**W**hen you imagine someone stealing from your business, a stranger likely comes to mind. Yet, several area companies have lost large sums of money from culprits working on the inside.

A Waterbury woman, Ashleigh Herring, was recently sentenced to three years of probation and ordered to pay \$86,000 in restitution for stealing from Hamden-based Best Choice Home Health Care, where she had worked as a payroll supervisor.

Barbara J. Buchanan, also a payroll manager, was sentenced in July to a year in prison following her conviction for embezzling \$260,202 from her employer, H.J. Baker & Bro. LLC in Shelton.

In one of the largest area cases, Thomas Malone, the former chief financial officer of New Haven biotech firm Artificial Cell Technologies Inc., was sentenced in 2019 to two years in prison for stealing more than \$1 million from the business.

These are just a few examples of local embezzlement cases that have impacted businesses from various industries, from health care to manufacturing.

Those convicted typically had a position of authority and handled a business' finances. The thefts often transpired over the course of months or

years before being discovered, usually through an audit, when the individual went on vacation and someone else took over their duties, or when the business' owner did a close review of finances.

Embezzlers have used a variety of tactics — such as diverting funds to personal accounts, paying themselves unauthorized bonuses, or using company credit cards for personal expenses.

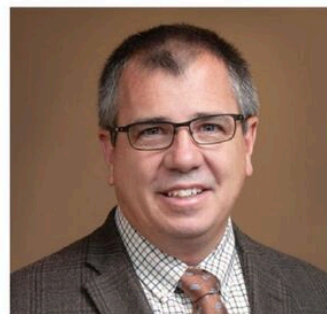
According to the 2018 Hiscox Embezzlement Survey, respondents reported that 85 percent of embezzlement cases were perpetrated by someone at the management level or above, with 70 percent of cases lasting more than a year. The average loss was \$357,650.

With the coronavirus pandemic causing widespread financial distress, embezzlement cases are sure to climb, and business owners should be on their guard, according to Stephen Pedneault, principal of Forensic Accounting Services LLC in Manchester.

"There is an inverse relationship between the economy and fraud," Pedneault says. "If people are desperate to make ends meet, they may turn to their employer's coffers. When the economy gets better, embezzlement will go down."

## Remote-work risks

Frank Rudewicz, a managing partner with accounting and



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consulting firm blumshapiro, which has offices in Shelton and West Hartford, does forensic accounting and investigations. He sees another reason why the pandemic could mean more embezzlement cases — because more employees are working remotely.

"Where someone might have had access eight hours a day, now it is 24 hours a day," Rudewicz said. "The opportunity to embezzle and commit fraudulent acts is greater."

According to Pedneault, embezzlers typically aren't career criminals, but rather individuals who are trying to solve a personal financial need, such as making a mortgage or rent payment. They may initially plan to put the money back, but their financial situation doesn't improve.

"Then it snowballs," Pedneault said. "There is always someone looking somewhere for an opportunity."

In long-standing embezzlement cases, the culprit typically is a trusted employee who does all the finance-related work and never uses vacation time, he said.

"If someone never takes time off, that is a red flag to me," Pedneault said. "Maybe they don't want someone else looking at their work."

He noted that many businesses are struggling due to the pandemic, and many have reduced staff. If they have had three people in accounting, maybe now they are down to just one, making them more vulnerable to theft.

"We don't have segregation of duties the way we should," he said. "People are struggling financially, and internal controls are looser."

## Prevention and detection

What can business owners and



employers do to prevent or detect embezzlement?

"It is always the same — the owner needs to be looking at things," Pedneault said. "Watching the finances and having decent controls in place is important. I don't think any businesses can afford to have any sort of bleed now."

He recommends that business owners review all bank and credit card statements. An employee with access to the business' credit card could use it for personal expenses. Business owners also need to make sure all sales are recorded, and money that should be hitting the bank actually gets deposited, Pedneault advises.

"This is the time to be vigilant," Pedneault said. "It was President Reagan who said, 'Trust, but verify.'"

Any internal controls or checks and balances should be tiered, he says. Look at your business' internal controls, positions and potential vulnerabilities. Even for a small business with only a few employees and little time to search for problems, an outside bookkeeper or accountant can help.

SCORE, a nonprofit and network of business mentors, recommends unannounced internal audits, and having an outside firm conduct an audit annually.

Embezzlers can find a variety of ways to steal from all types of companies. A restaurant, for example, might have sales not rung up, and the thief pockets the cash instead. A medical office might have seen patients all day, but not have payments logged for all of them.

According to Rudewicz, embezzlement is most likely to happen when multiple factors are in



Frank Rudewicz

play, including opportunity, financial pressure, access and rationalization.

To reduce the opportunity and access, he also recommends a system of checks and balances. You need to have different people creating invoices and paying them, according to Rudewicz.

Rudewicz also noted that for many embezzlement cases, a long-term employee is the fraudster.

He suggests having audits, software alarms, and a second set of eyes reviewing any checks that go out. He advises that businesses do fraud risk assessments regularly, and know exactly who has access and who is responsible for which duties.

With remote employees having continuous access, business owners should periodically check for unusual activity — such as if someone is logging

on in the middle of the night, even though they typically work 9 to 5, Rudewicz said.

During his career, Rudewicz has seen cases where employees have stolen millions by using a corporate credit card. Therefore, he recommends that business owners check monthly statements. He also advises setting up parameters with your credit card company so you get an alert if a charge is made above a certain amount.

#### Learning from experience

Joyce Bellamy, owner of Best Choice Home Health Care, discovered the theft from her business after reviewing payroll records.

Her advice to other businesses looking to avoid being victimized? Screen potential employees well and check references thoroughly.

"Pay attention to the ledger more," Bellamy says. "Even if somebody is a good employee, you still have to do the math and check what you need to check."

Since her experience, she now has more than one person handling payroll for her company, and she reviews information herself too.

Donald Masters, president and CEO of Artificial Cell Technologies Inc., says his company has instituted new protocols since it was impacted by embezzlement.

Any company credit card purchases, for example, get reviewed directly by Masters.

"I see what was purchased and when," Masters says. "The more people with eyes on the financials, the better. You need to have layers of people looking over people's shoulders." ■

## Embezzlement by the numbers

In 2018, global insurer Hiscox surveyed 200 U.S. chief financial officers, controllers and accountants who have worked in a company where embezzlement has occurred.

■ Percent of cases included more than one perpetrator. The average number involved was three. **79%**

■ Percent of cases were perpetrated by someone at the manager level or above. **85%**

■ Percent of cases lasted more than a year. **70%**

■ Percent of crimes went on for three years or longer. **31%**

■ Percent of those who experienced embezzlement saw more than one case in their career. **39%**

■ Percent of perpetrators worked in the accounting or finance department. **33%**

■ Percent of embezzled funds were recovered on average, through settlements, restitution or insurance. **39%**