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Article for *Minnesota Counties*

Prevent and Detect Employee Theft in Your County

By Rebecca Otto, Minnesota State Auditor

As a county commissioner, the last thing you want to have happen under your watch is theft of county funds. Some think, "It would never happen in our community." Unfortunately, employee theft happens. Therefore, to be proactive and prevent employee theft, it is important to have sound internal controls in place.

This article will provide guidance on implementing procedures that reduce the risk of theft and increase the chance of early detection.

Types of Employee Thefts

Employee thefts may take several forms. It may be as simple as a county employee writing a check to himself/herself, but recording in the county records that the check was written to a vendor or the check is "void." It may involve a failure to deposit all county funds into county accounts, or depositing a check intended for the county into a personal account. It may involve submitting personal expenses as employee expenses, or altering invoices presented to the county for payment.

Procedures to Reduce the Risk of Theft

To reduce the risk of employee theft, every county should implement basic safeguards. An environment of accountability should be created.

Segregation of Duties. Simply put, no employee should be in a position to commit an irregularity and then conceal it. An example of segregation of duties taken from everyday life is a movie theater where one person sells tickets and another person collects the tickets. This separation of duties helps prevent the person selling the tickets from: (1) collecting the price of the ticket, but allowing entry without a ticket (allowing the ticket seller to pocket the ticket payment without being detected); or (2) allowing entrance without the purchase of a ticket.

Examples of incompatible duties that should be performed by separate individuals are:

- Receipting collections, posting collections to registers, and making bank deposits
- Signing checks, and reconciling the bank accounts.

Internal Control Procedures. Many internal control procedures are common sense methods used to track county funds. Here are a few procedures that may help prevent thefts or allow earlier detection of thefts:

- Have checks written to the county
- Endorse checks for deposit as they are received
- Make daily deposits
- Reconcile receipts with deposits
- Contact your bank
 - prohibit cash withdrawals and check cashing from the county account
 - be sure authorized signatures are up-to-date
- Reference approved claims and amounts in the minutes
- Do not pre-sign any checks
- Reconcile bank statements monthly
- Require detailed original receipts for the reimbursement of employee expenses
- Have written policies (e.g., checks may only be for the amount of purchase, no cashing of personal checks)

We also encourage counties to obtain from their banks, if possible, the county's cancelled checks or optical images of the checks. By comparing the cancelled checks with the register each month, discrepancies will be detected.

Environment. Finally, counties should promote an environment of accountability. Everyone should comply with the county's internal control procedures.

Red Flags in Detecting Theft

Theft can result from poor segregation of duties. The following are possible red flags. Employees:

- who take records home,
- take on duties that should be segregated,
- work hours when others are absent,
- and refuse to take vacations.

Theft can result from noncompliance with internal control procedures. The following are some red flags to watch out for:

- Submitting copies rather than original invoices for payment may indicate that an altered document is being submitted
- Deposits are late

- Old checks remain outstanding
- Receipts are not reconciling with deposits
- Checks are written out of order

Special Situations Presenting Risks

Situations involving cash transactions present special risks and require extra diligence. When a county receives cash, it must implement internal control procedures to prevent theft.

When Theft is Suspected

Whenever a county employee or officer discovers evidence of theft, embezzlement, or the unlawful use of public funds or property, the person is required to promptly submit a written report to the Office of the State Auditor providing a detailed description of the alleged incident(s). *See* Minn. Stat. § 609.456, subd. 1. The person must also report the incident(s) to law enforcement.

Employee thefts may implicate disciplinary actions as well as criminal charges. As a result, Tennessen Warnings may be required. Before approaching the employee or officer involved, consult with a supervisor, the county attorney, local law enforcement, or the Office of the State Auditor for guidance on what actions to take.

To contact the office regarding evidence of employee theft or with further questions, please call (651) 296-2551 or e-mail us at state.auditor@state.mn.us.

For additional information on internal controls or investigative reports, visit the Office of the State Auditor website: www.auditor.state.mn.us.