Internal Control, Ethics And Hiring Process Towards Employee Theft Prevention For Cash

Judith T. Gallena
Universitas Katolik Parahyangan
Leturer at Universitas Advent Indonesia

Abstract

Employee theft is rampant to companies where there is opportunity to steal pressured by the situation and triggerred by the attitude or rationalization. Employee theft (fraud) involve individuals or group of individuals dishonestly obtaining property or financial advantage by means of deception. Cash is very much prone for employee fraud since it can be easily obtained by the perpetrators. Employee theft should be prevented because it is a serious problem. Effective internal control, ethics (code of ethics), and human resource management (hiring of employees) are ways to prevent fraud. Internal controls are rules, regulations, policies and procedures set by top management to provide reasonable assurance of achieving objectives. Ethics set limits of unethical behavior and are intended to offer guidance in ambiguous situations. Human resource hires people that are skilled, competent, qualified and ethically equipped candidates.

Keywords: theft, effective, perpetrators, reasonable assurance

INTRODUCTION

Employees are the main assets of an entity, be it a private or a public company. Employees comprises of the human force that renders skills and knowledge in order to attain organizational objectives. Most of the employees are aiming for the best, especially receiving the best from the employer. Employees have different background, different behavior and different ways of thinking. And these differences may lead to another motivation, motivation to do unfavorable acts against the company. These unfavorable acts include stealing, shoplifting, or the so-called employee theft. Employee theft is rampant to companies where there is opportunity to steal, pressured by the situation, and triggered by the attitude or rationalization. Employee theft connotes fraud, which involves individuals or group of individuals dishonestly obtaining property or some financial advantage by means of deception (Smith, 1998). Employee theft can contribute to lack of profitability (Stewart, 1997), offenders maybe individuals or employees or managers of organization (Smith, 1998), employee fraud can occur at any level within an organization (Riddle, 1999).

Niehoff & Paul (2000) elaborated that employees prone to engage in theft are generally young, face economic pressures, and are emotionally stable. In addition, it is a behavioral response to unfair treatment. Many employees are working hard, they extend their time to work but sometimes companies do not appreciate employees' effort thus leading them to think that they are not getting any, lest they are treated unfairly. The social scientist sees an employee theft as a means for the employee of striking back at his/her employer for the perceived injustices perpetrated against and associated with salary equity, promotional opportunities and the work environment (Moorthy, et al, 2010).

Internal control is the whole system of controls financial and otherwise established by management in order to carry on business of an organization in an orderly manner to ensure adherence to management policies safeguard the assets and secure as possible the completeness and accuracy of records (Ramaswany, 1994). When internal control tends to be weak (Marden & Edwards, 2005) and poor internal control leads to employee theft (KPMG Peat Marwick, 1993). Employee theft is costly. Employee theft is ten times more costly than the nation's street crime (Niehoff & Paul, 2000). Employee theft should be prevented because it is a serious problem (Stewart, 1997). Business today is very competitive and employees can feel very stressed. As a result, they have feelings of being overworked, underpaid, and unappreciated. If employees are also struggling with serious personal problems, their motivation to commit fraud is high (Haugen & Selin, 1999).

There are many ways to prevent employee fraud, internal control is one of the many ways. Non-existent internal controls were the key elements that led Livent fraud (Lokanan, 2014). High degrees of internal control activity and low degrees of monitoring ensures a greater effectiveness of the internal control system, better control system (Alstete, 2006), systems and procedures (Moorthy, et al., 2010) are ways to deter employee theft. The study found the existence of effective internal control and cash management to detect fraud errors and cash misappropriation that causes problem, and lead the organization to fail its operation (Aden et al, 2015).

In additional to prevention of employee theft, ethics may do so. Ethics as a way to reduce employee theft and increase loyalty (Schaefer, et al., 2000). Adherence to ethical standards (Wang & Kleiner, 2005) is also a way to prevent employee theft. Businesses are increasing emphasis on ethics and compliance, and the area is to get gain further important in the near future (Hagel, 2015). The ethics programme did however appear to strengthen ethical culture, suggesting such programmes make an important contribution to reducing unethical behavior in organization (Park & Blenkinsopp).

Human resource (Niehoff & Paul, 2000) prevents employee theft. As stressed by Filipowski (1993), HR plays a direct role in decreasing employee theft. The role of HR in decreasing employee theft begins with the hiring process (Filipowski, 1993) or hiring policies (Gregory, 1993).

REVIEW OF RELATED LITERATURE

Employee Theft: Its Concept, Causes and Sympotms

Employee theft brings damage to the company. Individuals are motivated to commit fraud for personal gain. Employee fraud, which involves non-senior employee theft or improper use of company resources (AICPA, Inc.,2005). Employee theft covers a broad spectrum of acts by all categories of personnel (Tryon, Keliner, 1997). As adopted by Gregory (1993) Financial theft and fraud is an intentional deception, the misappropriation of a company's assets, stealing, or the manipulation of financial data to one's own advantage (King and Feldman, 1992). Employee theft happens for personal gain or interest. Employees are motivated to perform theft because of some personal reasons. Unsavory conduct can be defined generally as the illegal or unethical use of corporate resources, including the falsification of documents, employee misappropriation of assets, or of HR in decreasing employee theft begins with the hiring process (Filipowski, 1993) or hiring policies (Gregory, 1993).

Statement of the Problem

In this research, the researcher wants to answer the following questions: a. Can internal control prevent employee theft?

a. Can ethics prevent employee theft?

b. Can hiring processes prevent employee theft?

Research Objectives

a. To know how to handle employee theft
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b. To know that internal control, ethics, and human resource helps prevent employee theft. other actions that directly affect the financial statements of the company (Bruns, et al, 2012).

Employee embezzlement is defined as stealing the funds or property of an employee, company, or government or misappropriating money or assets held in trust, and it includes bribes or kickbacks adapted by Gallenta (2015) from Nolo's Plain English Law Dictionary. Also added by Gallenta (2015), Employee fraud is usually thought to mean stealing cash, it can also involve the reporting of hours not worked in order to obtain overtime or the overstating of travel expenses.

Haugen & Selin (1999) said that there are many reasons, the more common being revenge, overwhelming personal debt, substance abuse, and lack of internal control. According to Hopwood et al
(2008:295), "the fraud triangle is helpful in explaining which employees may defraud the

company. The three elements of the fraud triangle are pressure, opportunity, and rationalization." When these fraud triangle exists, top management must be in vigilant to implement fraud prevention methods. Gregory (1993) shared the symptoms of employee theft as employee has sudden need for money; revenge factor; company treats its employees poorly; and inadequate controls and procedures in place. Also, tips and complaints; changes in behavior; changes in lifestyle (Tryon & Kleiner, 1997). Lastly, the Security Infowatch (2013) reported additional symptoms of theft, these are, economic conditions are not getting better; lack of resources to help focus more and put a higher priority towards dishonest employees, lack of process controls and exception reporting capabilities, increased abuse of loyalty programs, weak detection strategies, more part-time employees and less supervision.

Types of Employee Theft (Fraud) Schemes for Cash

Cash is the most liquid asset. The more the liquid the asset the more likely it is to be target of employee fraud. As elaborated by Hopwood et al (2008:298299), "Cash collection fraud are as follows:

a. Basic Sales Skimming – the employeee does not record the sale but pockets the cash.

b. Advanced Sales Skimming – the employee collects the money from customer, fails to record the sales, and gives the customer a forged receipt.

c. Checks Swapped for Cash – involves an employee's removal of cash from the cash drawer and replacing it with phony checsk, sometimes even adding false customer identification information on the check.

d. Cash Box Robberry – the Mail Room Theft – Companies should have policy that prohibits accepting cash in the mail. However, some customers still send cash, creating the possibility of cash theft in the mail room.

e. Shortchange Sales – a"skilled" because it has an effect to the company cashier can confuse or disctract the itself. customers while shortchanging them. The cashier pockets the shortchanged.

f. Cash stolen in transmission- "leakages" can occur anytime cash excahnges hands. That is, either the person giving up the cash or the person receiving it can steal some of it.

g. Lapping of accounts receivable – The clerk begins by stealing one incoming payment and not crediting it to the customer's account.

h. Short bank deposits – The person making a bank deposit can make a short bank deposit by failing to make full deposit.

i. Noncustodial theft money – theft of cash is not limited to employees with custodial responsibilities. When a company has lax security, someone with a combination, key, or code can get into a locked safe or cash box.

j. Check tampering – involves altering stolen customer checks and then cashing them using false or stolen identities.

k. Check washing – involves the use of chemicals to remove payee names, dates, and/or amounts from customer checks that are typically turned over to organize crime.

Check laundering – occur because banks typically do not verify payee names on deposited checks."

The above mentioned schemes for Internal cashier steal from the cash box without restraint.

Control as Mean to Prevent Employee Theft

In the developed countries like USA, the organizations which sponsored Treadway (COSO- Committee of Sponsoring Organizations) produced a further report in 1992, specifically addressing the role of internal control in securing improve corporate governance, COSO framework is regarded as the foundation of modern approach to control (Spira & Page, 2003). Internal control can be recognized as policies and procedures designed to provide management with reasonable assurance that the company achieves its objectives and goals (Ariesa & Berasategu, 2009). Internal control is one of the most important mechanisms of delivering accountability and enables organizations to monitor and control their operations (Jones, 2008). Wilkins and Haun (2014) adopted the Committee of Sponsoring (COSO) definition of internal control. COSO's definition internal control is a process affected by entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. Effective internal controls also creates competitive advantage, as organization which effective internal control can take additional risk (IFAC, 2012). Internal control is very helpful in theft prevention. As long as the internal controls are properly designed and implemented, asseted, assets are protected from cash are usually committed by employee.

Objectives, Inherent Limitations and Control Activities of Internal Control

Objectives of internal control:

Fadzi et al.(2005) state that the primary objectives of an organization's system of internal control are to provide administrative management with reasonable assurances that financial information is accurate and reliable; that the organization complies with policies, plans, procedures, laws, regulations and contracts; assets are safeguarded against loss and theft; resources are used economically and efficiently; and established objectives and goals for operations or programs can be met. The following three internal control objectives can be found in the COSO framework: 1.) effectiveness and efficiency of activities; 2.) reliability of financial information; and 3.) compliance with applicable laws and regulations.

Gyebi & Quain (2013) said no matter how well designed and operated, can provide only reasonable assurance to management and the board of directors regarding achievement of an entity's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the realities that human judgment in decision making can be faulty, persons responsible for establishing controls need to consider their relative costs and benefits, and breakdowns can occur because of human failures such as simple error or mistake. Additionally, controls can be circumvented by collusion of two or more people. Finally, management has the ability to override the internal control system. There are limitations to internal control. Internal controls are made by mankind. Internal controls are subject to some internventions by those who are in authority specially if it is not in line with their desire.

COSO defines control activities as "the actions established through policies procedures that help ensure that management's directives to mitigate risk to the achievement of objectives are carried out." Examples include, authorization, security of assets, reconciliations, verifications, separation of duties, and information techology controls.

The following are the control activities mentioned by Onumah et al (2015):

a. Integration with risk assessment. Actions are taken to address risk to the achievement of financial reporting objectives.

b. Selection and development of control activities. Control activities are selected and developed considering their cost and potential effectiveness in mitigating risk to the achievement of financial reporting objectives.

c. Policies and procedures. Policies related to reliable financial reporting are established and communicated throughout the company, with corresponding procedures resulting in the implementation of management directives.

Information technology.

d. Information technology controls, where applicable, are designed and implemented to support the achievement of financial reporting objectives. Those activities are relevant in the implementation of internal control.

Ethics (Code of Ethics) Matters

Wang and Kleiner (2005) emphasized that, to handle employee and theft effectively, employers should first try their best to create an honest and satisfactory environment. It is supported by Koumbiadis & Okpara (2008) that it is suggested that business school programs especially accounting, should continue to emphasize ethical and moral issued into their respective programs. Armstrong et al. (2002) added that to increase accounting students' moral motivation, the paper recommends exhorting students to good behavior, pointing out that they, indeed, are masters of their moral selves, and encouraging them to take pride of their profession.

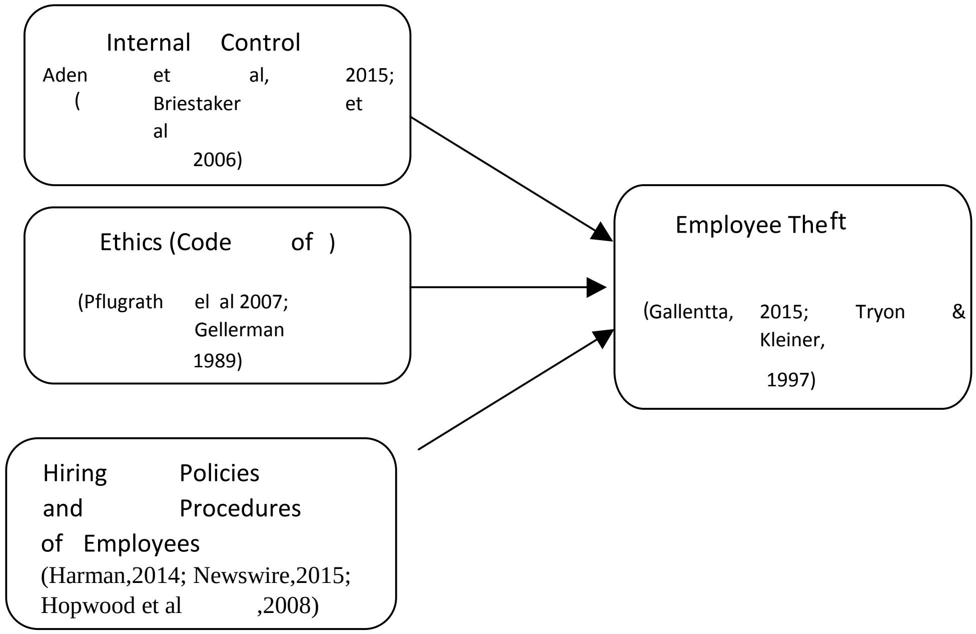
In a day-to-day transactions, people must have ethics. Ethics point to what is right & wrong. Code of ethics are important since they implicitly set limits for unethical behavior and are intended to offer guidance in ambiguous situations (Pflugrath et al, 2007). Arens, et al (2008:76) define ethics "as a set of moral principles or values. It is common for people to differ in their moral principles and values and the relative importance they attach to these principles. These differences reflect life experiences, successes and failures, as well as the influences of parents, teachers, and friends." According to Horngren, et al (2008:25), "The Institute of Managemetn Accountants say that ethics deals with human conduct in relation to what is morally good and bad, right and wrong. It is the application of values to decision making. These values include honesty, fairness, responsibility, respect and compassion." As elaborated by Luthans (2002:86), "ethics involves moral issues and choices and deals with right an wrong behavior." Caroll and Buchholtz (2000:99) said that "ethics is the discipline that deals with what is good and bad and with moral duty and obligation. Ethics can also be regarded as a set of moral principles or values." Nyanyanwu (2010:82) stated that "the purpose of ethics or code of ethics is to enable individuals to make choices among alternative behaviours. The importance of ethics increases in proportion to the consequences of the outcome of a behaviour. As an individual's actions become more consequential for others, the ethics of that individual become more important" Behavior matters in every aspect of life. Employees must know how to behave in every dealing. Adhernce to code of ethics is a way to prevent employees from taking assets (fraud).

Code of ethics can perform several organizational function, such as making explicit the ethical values that were previously unstated or unclear, alert employees to what actions are unethical and unpunishable, and help firms shift accountability of actions from the organization to the individual (Gellerman, 1989). Survey studies have established that code of ethics are thought to be relevant and important to organizations and their employees (Martinov, 2004; Lamberton, et al, 2005). Code of ethics help every organization to have an orderly manner and employees' acts are appropriate to avoid actions that will detriment company's property.

Pre-employment Screening Prevents Theft

Harman (2014) encouraged human resource to do pre-employment screening to avoid theft. Developing a reliable hiring system that consistently produces highquality, trustworthy employees are invaluable in any industry (Newswire, 2015). Hopwood et al (2008) suggested that "appropriate background checks should be made when hiring employees."

Hiring employees is not an easy job for human resource department since its function is to hire the candidate the will help increase profitability of the company and help achieve organizational goals. Hiring policies and procedures guides human resource management to properly hire people that are skilled, competent, qualified and ethically equipped with values. Protection and prevention from theft begin with the hiring policies (Gousak, 1996). Hopwood et al (2008) shared that "proper human resource management must exercised in the following areas: hiring, assignment of responsibilities, training, supervision, and even vacations. As Gousak (1996) excerpted from Hopson, 1992, a few simple but important hiring procedures, including:1. Carefully screening applicants, 2. Verifying applicant's references, credit histories, and police records, and, 3. Administering integrity tests permitted by federal and state law. Harman (2014) added, pre-screening process: reference checks, background checks and criminal checks can provide valuable information. It must be a clearcut policy to do a background checking on all the candidates who are seeking for employment. Backrgound checking contribute a lot to hiring an honest and responsible employee theft prevention.



ANALYSIS AND INTERPRETATION

There are researches proving that employee fraud can be prevented. Niehoff & Robert (2000) while it is impossible to prevent all theft, it can be reduced. Dealing with employee theft is inherently discomforting to managers. If care is taken to establish and maintain trust in the workplace, honest employees will respect employers' effort at theft prevention as they realize the value of being able to trust co-workers. Better control system and record keeping (Alstete, 2006) helps prevent employee theft. The groundwork for effective fraud prevention and detection is found in an of honesty within the company is of utmost importance in controlling employee theft. Employees must feel valued, appreciated, and there should be no double standards among employees. Theft deterrence begins with the hiring process (Filipowski,1993). Bierstaker, et al (2006) mentioned that internal control combat fraud. A good internal control will surely help an entity to prevent, if not eliminate fraud. The existence of internal control helps monitor the company's achievements. According to Rae & Subramaniam (2008), the quality of internal control procedures has moderating effects on the relationship between in preventing fraud. Internal control assures that policies and procedures are wholeheartedly followed. Although internal controls have limitations, its benefit still appreciated specially when companies adheres to it strictly.

Ethics (code of ethics) is also proven as a way to deter fraud. McNeal (2015), revealed that organizations that enact robust ethics programs send a clear message to their employees about which behaviors are acceptable and which behavior are prohibited Employees guided with ethics would likely not to commit fraud. Employees that are honest in their job must be appreciated. Code of ethics guide every employee of what is morally right and wrong. And lastly, hiring of employees must be taken into considerations. Background checking of every candidate for employment is indeed inevitable. As exemplified by Smith, (1998), detailed job application forms and checking references is one of the practices that prevent fraud. Hiring someone with unknown background is not favorable for employment.

CONCLUSION

Employee fraud happens because of intentional act to do so as motivated by different factors. Cash is the most target perception of organizational justice and employee fraud. Omoteso and Obalola (2014) explained that internal control is a tool by perpetrators. There are ways to theft prevention, these are internal control, ethics, and human resource. Internal control can prevent employee fraud since internal control is a mechanism of delivering accountability. An effective internal control must be implemented in the company. Safeguarding assets is the priority. It must be guarded and kept safely that no one can steal. In addition, ethics also can prevent fraud. A clear cut code of ethics must be practiced in such a way that employee theft can be deterred. Ethics are set of moral values, these values include honesty and integrity of individual person. Human resource can also prevent employee fraud. Human resource department must do background checking when hiring someone for employment. A thorough background checking gives a possibility of knowing the personal records of every candidate for employment. It is therefore concluded that internal control, ethics, and human resource can deter employee fraud.

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