

# EMBEZZLEMENT and

by Rita Brown | Brown's Gymnastics Training Centers

**E**mployee theft in the gym exists. As an owner, we just don't want to believe it could happen to us! A report by the Association of Certified Fraud found that a typical organization loses five percent of its revenue to fraud each year, translating to a potential projected global fraud loss of more than \$3.5 trillion.

## DISHONESTY

Most employees who commit occupational fraud are first-time offenders with clean employment histories. Worse yet is that 84 percent when caught had never been punished or terminated by their employer for fraud-related conduct. Gym club owners have the responsibility to recognize potential areas or opportunities that can prevent unnecessary losses by people we trust.

Determining why dishonest employees act the way they do is the first step in understanding and eliminating potential holes in your program. The fraud triangle, known as Cressey's Fraud Triangle, helps model the factors that cause an employee to commit such occupational behavior: perceived opportunity, perceived financial need, and rationalization (Figure 1).

## OPPORTUNITY

Opportunity is the first and most important element in the triangle. You can effectively deter employees' dishonesty by putting policies, procedures, and processes in place that will reduce opportunities for fraud.

Deputize only a few trusted individuals to handle financial matters and deal with billing, collections, and banking. Avoid cross-training employees, which allows everyone to help but means that no one is actually accountable. Financials are something you should never cross-train.

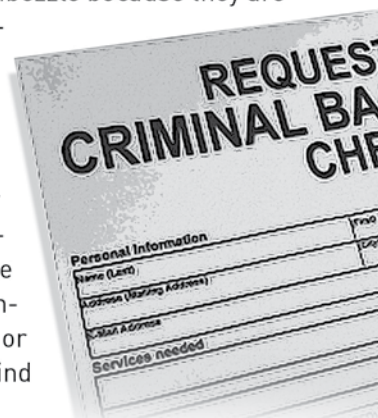
Likewise, passwords for financial based systems should be kept to the small group deputized in financial matters, and the owner should be the only person who accesses and pays bills online.

When choosing gym management software, make sure it offers more than one level of security and access. No one should have the ability to override or change the amount of a charge, payment made or how it was paid without a way of tracking it.

For material items, office supplies, gym supplies, pro-shop, chalk and training supplies, there should be an inventory control system in place.

Current in-stock inventory should be checked against sales on regular basis. High priced items should be stored under lock-and-key.

Burgess reports that most individuals steal because they can, but most employees embezzle because they are under financial strain. As an employer, it is wise and savvy to try to spot a person whose actions demonstrate a need or pressure to find cash.



## SIGNS TO WATCH FOR

Embezzlement tends to start small. Petty cash and other small funds are common first targets. Snack bars, vending machines and the petty cash drawers are the easiest targets.

Don't allow an employee making the deposits to reconcile the monthly statements, unless it's the owner. An employee could take tuition money and post it as paid while pocketing the money — something which can be difficult to spot, especially if you are running more than one club.

It is important to keep tabs on your cash. Someone should reconcile daily, so you will be alerted to any discrepancies. Anything over \$10, especially if it is reoccurring, could be a sign of an employee "testing the waters." You should publicly address the shortfall with all the staff, so they know you are paying attention. If the discrepancy continues, then more intensive investigation may be warranted.

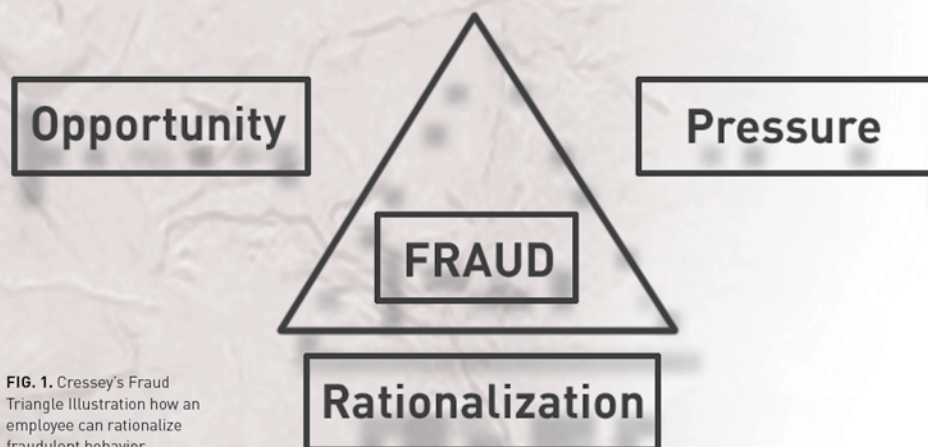


FIG. 1. Cressey's Fraud Triangle Illustration how an employee can rationalize fraudulent behavior.

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