



Fraud and Embezzlement?

It is heartbreaking when we learn that companies have been violated often by a long-time, trusted employee who has been embezzling money for years. And yet it happens. Why?

While I cannot speculate on each person's motives, I have noticed that addictions to gambling or substances are frequently involved. However, others are not easy to determine. Case in point, one accounting clerk secretly opened a new company credit card account, and used it to purchase personal items for several years. Over \$80,000 was charged and she, of course, paid the statements using the company AP accounts. And this is not a huge company, but it was not caught for a long time. The credit card statements were mailed to her house and her email and phone number were the only contact points, so that the office never knew about this credit card account. Fortunately, someone finally questioned the financial statement accounts where the expenses were going. They were then able to audit the system records and found the credit card vendor and history of payments.

In another case, the Controller was also the IT person and when the accounting firm was closing in on over \$300,000 in embezzlement, she destroyed the paper and electronic records of her crimes and then abruptly quit.

Yet another case involved a major vendor calling to request a wire transfer of open invoice amounts to help them with a cash-flow crisis, supposedly. The money was wired to the account provider before they learned that it was a fraudulent call. Somehow, they knew enough about the vendor relationship and acted like they were the vendor company. The FBI told them that they would never get their money back, as it had been transferred out of the country and was long gone.

Sad cases that I hope send a message that you need to trust, but verify. Entrepreneurs are very trusting people and very optimistic about life. They have to be. They trust themselves to risk everything to start and build a business. Their confidence in themselves and their team is usually well placed, but not always.

So, what does "trust but verify" mean and how does it apply to avoiding these kinds of problems?

Before computers, in the paper-records age, when accounting books were all we had, there were procedural controls that prevented most types of fraud and embezzlement. This was based on the concept of checks and balances. One person would open the mail daily, count and total the cash received and hand the package with adding machine total tapes to a bookkeeper who would create the cash journal entries and credit the customer accounts. The totals were compared to make sure that the money all got accounted for before the day was done.

We have lost this kind of thinking and we need to understand the risks. Your accountant should be well qualified to help you create a procedure to tighten up your internal controls using procedures that are designed to prevent a single person from getting away with the goods. There is still the possibility that more than one person colluding together, could make it harder to discover malicious activity, so always question and verify anything that looks out of line. And drill down, rather than accepting a flip answer.

One great suggestion I heard a long time ago was to have the bank statements sent directly to the home of the owner of the business. These days you have to pay for US Mail statements, but it is a good investment since it gives you the opportunity to review the transactions before you pass it on to the accountant and then you can ask questions. I know that you dislike the suggestion that one of your own could be stealing from you and I hope that you are right in your assumption that it is not happening. But we all know the saying about the word assume.

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