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## **An Appetite for Double-Dipping (and I Don't Mean Ice Cream)**

We never think it will happen to us. Becoming a victim of fraud is a horrible experience. It can wreak financial damage, sometimes significant enough to put us out of business. It's a time-consuming business disruption which often involves accountants, lawyers, credit bureaus, bank executives, and IRS and state tax agents (our favorite people, right?). Worst of all, it's a betrayal by one or more fellow human beings, sometimes relatives; an intimate violation that can leave us emotionally scarred for years.

The purpose of today's article is to get you thinking about this business threat, relay some common ways your accounting system can be used to hurt you, and to urge you to make a plan to protect yourself against fraud so you don't become a victim.

### **Story time**

Here's a list of just a few common ways that someone with access to your accounting system can make off with your dough.

#### **Paying bills you don't owe.**

If you and your bookkeeper both owe Pacific Gas and Electric, make sure the check is going to cover your account balance and not theirs. It's a common fraud act to pay personal bills from the company account. According to a Florida CPA, "one bookkeeper promised to repay a company owner \$50,000, with a second mortgage on the bookkeeper's house, when caught using QuickBooks this way."

Also watch out for repeat requests for reimbursements of the same receipts as well as overstated expenses due to improper use of entering bills versus writing checks in QuickBooks.

#### **PayPal, ATM withdrawals, and petty cash violations.**

Make sure you have the same controls on your bank accounts as you do your cash equivalent accounts. It's easy for employees to abuse PayPal accounts, ATM withdrawals, and other cash equivalents if controls are not in place.

#### **Lackadaisical oversight.**

When the cat's away....

A Connecticut consultant's clients were living overseas while a cousin was supposed to be handling their bills. The clients were unable to access their accounts online, so they began asking for bank statements. When they didn't get them, they suspected something was up. They finally had to request the bank statements from the bank and found that their cousin was paying both the clients' bills and their own bills from their account. It took four to five years to straighten out, plus a huge bookkeeping bill, and they never recovered all of the lost money.

You would hope people don't take advantage of you when you are in a weak spot, but it didn't happen in the next story. A Florida CPA tells of a bookkeeper and manager who stole \$250,000+ while an owner was out trying to recover from a liver transplant. They kept money that should have gone to pay payroll taxes. By the time you get the IRS letter telling you of the problem, the bookkeeper and manager can be long gone.

Don't let the mice play.

### **Sales irregularities.**

A Florida CPA alerted me to this story. When a customer attempted to return an item to the Complete Wireless store in Edinboro, PA, the receipt could not be found. Robert Kerner, a former employee, allegedly pocketed over \$19,000 worth of cash sales by deleting not only his sales receipts but the sales receipts of other workers. Journalist Tim Hahn of the Erie Times-News wrote, "Kerner admitted to taking the money in order to pay his college tuition."

### **Angry employees.**

An attorney who was a client of a Connecticut Timeslips consultant terminated their bookkeeper but let her work a few extra weeks. All of the billing was done in Timeslips. The angry employee deleted billings worth thousands of dollars right before she left. The Timeslips consultant was hired to attempt reconstruction of the damage.

It's dramatic in movies when the bad guy actors escort fired employees directly out of the building (most recently, Margin Call), but it's a good thing to do in real life as well.

### **Collusion.**

When the bookkeeper is a close friend of a bank teller, it can spell trouble. When they go in together to draft fraudulent checks and pull money out of a business owner's account, it can spell fraud. This happened to an attorney in Connecticut; to his credit, he noticed some irregular transactions on the bank statement and blew the whistle. You may wonder like I do how people think they can get away with this, especially when it's an attorney.

Fraud hardly ever ends well, so the best thing to do is to put measures in place to prevent it as much as possible. It's never a sure thing to prevent fraud 100%, but it makes sense to do as much as is cost-effective to avoid catastrophic losses that can bring an entire business down.

As always, if we can help you in any way with this, please don't hesitate to contact our office.

*(Thanks to Caren Schwartz of Time and Cents Consultants, LLC for the Connecticut-based stories.)*