

PATHWAYS TO PROFIT

Don't be a victim of bookkeeping fraud

Recently, you may have heard of bookkeeping and accounting employees caught embezzling from companies.

The sad truth is that every day, trusted employees of small and midsized businesses embezzle millions of dollars from their employers. Many times, the business owners find that the fraudulent activity has been taking place for years undetected.

A national fraud association recently calculated U.S. losses from fraud exceeded \$600 billion. That's a troubling fact that every business owner must unfortunately face.

Small businesses can be particularly vulnerable to employee theft because they often give a single employee multiple responsibilities and little supervision. This is understandable given the circumstances. But it puts the small-business owner at a higher risk for fraud.

Understanding how fraud happens and what to look for can help you thwart a would-be embezzler.

Start by ensuring that no single employee is in control of a financial transaction from beginning to end. Dividing up the responsibilities makes it more difficult to steal and to manipulate documents or entries to cover-up theft. The person who cuts the check should not be the person who signs the check.

If you don't have the transaction volume or resources to accomplish this, consider outsourcing to a reputable bookkeeping firm that has put these safeguards in place.

► Review your bank statements. Look at the canceled checks and note the payee, signature and endorsement. Investigate any payees that you do not recognize. Compare your recorded sales receipts with the actual deposits made and be sure they match up. Review your

credit card statements, too, and be sure the payees and transaction amounts are valid.

► Keep your financial statements organized and understand your books. The sloppier you are, the easier it is for an employee to steal from you. A regular review of your financial statements will flag unusual expenses (compare expenses by category to previous periods and research discrepancies) and revenue that is out of line (possibly an indication that cash deposits are being skimmed or revenue is somehow being diverted).

Timeliness is key to thwarting potential fraud, so be sure financial documents are kept up to date. Finding a problem at the end of the year may be too late.

► Be vigilant. Does your bookkeeper's lifestyle seem inconsistent with income? Does your bookkeeper get defensive when you ask questions or can never find important items, such as receipts, deposit records, supplier correspondence, etc., when you ask for them? Does your bookkeeper insist upon privacy when working, take records home, or resist hiring or outsourcing financial support?

► Don't be paranoid, but don't turn a blind eye, either. Follow your instincts and look into any odd behavior. An unscheduled audit of your books should not be an insult to anyone and is a smart business practice. Consider hiring a third party to review your books at least once a year.

And if you suspect fraud, you can request a fraud audit, which is designed to uncover and prevent these types of losses.

► When hiring a bookkeeper or outsourcing to a bookkeeping firm, check references.

Take the time and do what you need to do to protect yourself.



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