

Strategies for Success—Billings Business News

Embezzlement Prevention—Is your firm next?

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During the past 2 months, the media has been replete with articles on cash embezzlement from banks, small and large business firms as well as non-profit organizations. This matter has become so prevalent and serious that we need to again address the key factors a business or organization may face regarding embezzlement.

With the tough economic times that many individuals are currently experiencing, embezzlement of company funds is one way in which to augment and supplement personal funds. The business owner must be very astute and attentive to his/her financial matters all the time, however, as we have recently seen, several firms have experienced extensive losses of fiscal resources.

The person who is most prone to embezzling funds from a business or organization is “like Aunt Martha” said Bruce Parker, Senior Vice President, First Interstate Bank-Downtown, Billings, Montana. “The individual who normally is caught embezzling is a very pleasant, personable and cordial individual who has the combination to the safe/vault, has signature authority on the company checkbook and credit card(s), possess an owner or senior manager’s signature stamp, has the keys to all of the locked drawers and knows everyone’s passwords on employee computers, “ said Parker. Additionally, Parker stated that employees caught embezzling are normally those who believe that they are indispensable to the firm, never take any sick leave or vacation time and are never absent for more than one or two days at a time. Such individuals, who are always at the firm, are always able to cover up their actions and continue to embezzle funds because they are not gone long enough for anyone to detect any irregularities in financial records.

Is your firm vulnerable for embezzlement? You might say “No, not us”. Well, do not be so sure. Embezzlement is an equal opportunity action, not discriminating on size, type, or style of business. Some firms recently cited in the newspaper were large banking operations as well as small 2-3 person small businesses. In each case cited in the newspaper, an owner or senior manager detected the embezzlement when the financial records appeared to have deficiencies within them. Said another way, “something did not look or sound right” to the manager. This deficiency then prompted further review and questioning, normally leading to identifying some type of embezzlement activity.

If the business has been consistently profitable and suddenly, becomes unprofitable or experiences a significant decrease in revenue, fraud and embezzlement are two areas which I want to explore immediately. I want to know why the firm has suddenly experienced a significant decrease in fiscal status. This is the time that you really need to review the books, line by line, with your bookkeeper to clearly understand, what each entry means and why that entry is in the books. A serious questioning, “Show Me” attitude goes a long way to clearly understanding why each entry is placed in the book in a certain way. Your bookkeeper, secretary or other administrative support person who has control of the

books should be able to easily and clearly explain why and how he/she made the specific entry and what impact that action had on overall financial performance and company fiscal health.

OK, what actions do you take to preclude embezzlement from happening at your firm? First, you must have complete trust and faith in the person that does your book entry work. Even then, you should require that person to take at least a 10-day straight leave of absence or vacation at least one time per year. During the absence of this individual, you should test all of your internal control procedures to see, if in fact, that your internal controls are adequate and sufficient for your operation. I suspect that you may identify deficiencies that require correction or improvement.

Even though your business may only have 1-4 employees, segregation of cash handling, banking and fiscal duties is paramount. I have many clients who tell me that with such a small staff that such duty segregation is impossible. Although it is more difficult with a small staff to have cash handling staff segregation, it is extremely important that more than one or two individuals are involved in parts of the overall financial processing transaction process. Having more than one individual involved complicates embezzlement actions unless all individuals are collaborating with the embezzlement actions. With each individual having a specific duties, embezzlement is more complicated than having just one individual performing all financial management tasks.

Firms should consider an “Agreed Upon Procedures” study to indentify and test system internal controls to reduce embezzlement as contrasted to a full audit. The Agreed Upon Procedures study is performed by a Certified Public Accountant and specifically reviews how your firms’ specific internal controls and funds handling procedures are achieved. This study will pay for itself many times over if any defects and deficiencies in your internal controls are identified. Interestingly, these studies usually pay for themselves in improving overall organizational operational performance.

Documented, well understood and practiced internal controls, segregation of fiscal handling duties and responsibilities as well as periodic outside financial reviews will help prevent the occurrence of experiencing embezzlement in your firm. In times like those that we are currently experiencing, embezzlement is one action that is definitely on the rise. Due diligence helps preclude your firm becoming a victim.

Pull Quote:

“Using a Forensic Auditor is your best bet to identify internal control and procedure deficiencies”

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