

Good Accounting Heads off Employee Fraud

Here's a challenge that faces all businesses, especially small to midsized businesses, that spans both accounting and human resources – employee fraud. Small and midsized businesses seem to be more susceptible to fraud and theft, partially because there is a greater degree of trust, but also smaller organizations don't tend to implement the systems they need to recognize and head off fraud. The greater familiarity and family atmosphere of a smaller company often promotes a level of trust that may be unwarranted. And a smaller company can close because of fraud or theft.

Practical Tips

The most common kinds of fraud are Expense Reports. Many employees don't see any problem with padding their expense account at the business's expense. Travel expenses are easy to pad. You might stay in a less expensive room in a hotel but submit and expense for a higher rate, or you might room with a coworker and both expense the same room fees. Restaurant receipts also are easy to pad. Turning in receipts for a meal someone else paid for is a popular scam. There also are ways to create your own receipts if you really want to scam your boss.

And bookkeeping employees have other opportunities to commit fraud. Two we have seen are adding your cell phone bill and phone bill together for expenses, and then cutting one check to a common service provider such as AT&T. We also have seen dishonest employees setting up fake vendor names, opening a bank account in that name, and then paying the phony vendor from the company accounts. What's the solution? Implement controls over expenses. Some companies use a per diem or spending cap for expenses for traveling employees so they can't pad their expense reports too extravagantly. You also can prepay travel expenses like hotel rooms using popular online booking services such as Expedia.com, which eliminates questionable expenses. Or, if you have employees who do a lot of traveling and need more flexibility, you can issue corporate credit cards or cards designated exclusively for travel, so your accounting department sees the bill every month. The best approach is not to trust expense reports with receipts alone. Create auditing systems that allow you to double-check.

Inventory fraud is another popular form of employee fraud. This usually occurs when an employee has direct control over inventory or something that puts cash or goods in their own pockets. For example, when ordering office supplies online, an employee may take a printout of a screen shot of goods in the shopping cart but never actually purchased and submit it as an expense. Creating a check-and-balance system and a clear, foolproof audit trail can prevent this kind of fraud.

And there are other kinds of fraud, such as padding your company mileage report, or faking a meeting, training session or conference.

Systems Can Mitigate Fraud

There are a number of systems you can put in place to eliminate (or at least minimize) employee fraud:

1. Establish a clearly defined employee expense policy, including what will and will not be reimbursed. Also outline the type of documentation needed for reimbursement.
2. Require original receipts – not itineraries or packing slips, or printouts
3. Set up a review process for all receipts submitted, including an expense timeline to make sure the expenses could actually have been made in the time indicated.
4. Look for missing items on the receipts, such as order confirmation numbers for online purchases.
5. If you suspect fraud, call the hotel, or airline, or conference facility to check up.
6. Set up accounts or regular orders with business suppliers you deal with directly to avoid miscellaneous purchases except in the case of emergency.
7. If you can, divide responsibility over expenses among different employees so no one person controls the purse strings. This is another strong reason to have an [outside accounting service](#) come in to audit your expenses and check for fraud.