

Preventing Fraud Is as Important As Detecting It

In our [last blog post](#), we talked about how good accounting systems can help you uncover and stop employee fraud. However, if you take a positive, proactive stance, you can demonstrate to your staff that you have a tough policy regarding employee theft and fraud, and you can outline some clearly defined consequences for those who break the rules. When you are setting out your policies to prevent employee abuses and fraud, consider the following:

1. You need to create clear policies in your Policies and Procedures manuals or Employee Handbook outlining what you will and will not reimburse. Since expense accounts and employee reimbursements are the most common source of employee fraud, you want to establish clear guidelines up front, such as:
 1. a. What is the maximum dollar amount allowed without a manager's authorization?
 2. b. Be sure you require original receipts for reimbursement.
 3. c. Establish timeframes for reimbursements so old expenses don't appear unexpectedly.
 4. d. Set guidelines for what the company will and will not pay for, such as mileage, phone charges, etc.
 5. e. Set clear guidelines for travel reimbursements, such as a daily per diem for meals or what the company will and won't accept as entertainment expenses.
2. Be sure to outline in your employee handbook the consequences for falsifying expenses or stealing from the company. The policies should be specific, and should clear the way for you to act quickly and decisively with employees who break the rules, e.g. "abuse of the expense policy, including falsifying expense reports, can be grounds for disciplinary action, up to and including termination."
3. Be fair when creating your policies so your employees don't feel cheated. If they have legitimate business expenses they incur for office supplies, business travel, or trips, make sure your reimbursement policies don't leave them feeling shortchanged and compelled to pad expenses to get their due. For example, if your company reimburses gas mileage, adjust your reimbursement policy to reflect rising gas prices – that's fair. If your sales team needs to entertain, give them an entertainment allowance, but put limits on it regarding how much they can spend on a bar tab or meals to entertain clients, so the policy is fair but not open to interpretation or abuse.
4. Be sure your accounting staff understands the policies and doesn't interpret them but enforces them. There can be no exceptions and no whining. Your accountant is the watchdog for your expenses, so appoint someone you trust, and someone who can enforce the rules. Make sure that there are no exceptions about things like producing receipts or record-keeping.

When it comes to expenses, it's better to define the rules at the outset then try to make them up as you go along. You can adjust policies for business or market conditions, but if you don't clearly

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spell out the rules, then you are leaving yourself wide open for potential abuses.