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Accountants & Advisors for a New Economy

With the Economy Down - Employee Theft is on the Rise

As an economy deteriorates it may seem like everything is in a free fall; the market is down, the dollar is down, and morale is down; but there is one thing that is traditionally on the rise during a down economy – employee theft.

Few words terrify small business owners more than “employee theft”. It can have a crippling effect on companies of all sizes and even drive smaller businesses into bankruptcy. The good news is that unlike the economy, there are things you can do to help prevent employee theft from irreparably damaging the business you worked so hard to build.

One of the most important things businesses can do to combat the dangers of employee theft is to ensure a segregation of duties. It is vital for any organization operating today to have policies and procedures in place that guarantees that no one person is ever in control of the entire payment process.

Essentially, there are five key steps to the payment process:

1. Place an order with a vendor
2. The order is received
3. Invoice received
4. Payment made (check or electronic)
5. Reconcile payments with the bank account

A payment structure like this, allows for 3-way verification. The purchase order, receiving slip, and accounts payable invoices are all compared to identify any discrepancies. When a discrepancy has been identified another employee is tasked with uncovering the reason for the inconsistency.

In an ideal world all five of the steps listed above would be performed by a different individual, but for many small companies this may be impossible.

If you are unable to separate all of the duties, there are three main separations you want to be sure to maintain:

1. Ensure the purchaser is NOT the receiver – If purchasing and receiving are done by the same individual, the purchaser may order more of a product than you need and keep the extra for himself.
2. Ensure the purchaser does NOT issue payment – If the individual responsible for placing orders is the same employee issue payments, then he may place an order and issue payment to a company that does not exist.
3. Ensure the individual issuing payment does NOT reconcile the payments with the bank statements – The individual would be able to issue checks and make false payments to himself or other family members.

The segregation of duties is a powerful tool, but it does not solely render a company immune to fraud. Employees can still work together to defraud the business. To help counteract this possibility, employees should be cross trained and rotated so the same employees are not always performing the same functions.

Another preventative measure is to require that all employees who handle transactions to take a vacation. Any employees committing embezzlement will not want others to examine their work in their absence.

You will also want to pay close attention to both credit memos and backordered items. These are particularly susceptible to fraud since invoice may be paid even though goods have not been received or have been returned.

In the end the best way to avoid theft is to remove the possibility that it will go on without being detected. By following the preventative steps outlined in this article you can help safeguard your company from employee theft.

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