Are Your Assests Well Protected?

How are you managing your business finances? Many business owners are discovering that their assets are not as well protected as they had thought. This is especially true in small business environments where a single or a few employees manage all the finances. Often there are not "checks and balances" to verify that transactions are accurate.

When proper, consistent procedures and supervision are not in place, employees can learn to manipulate the accounting system to their benefit. Whether they take money from the company or their mistakes are undiscovered, the end result can greatly impact your company's management discussions, financial reports and tax filing.

Unfortunately, once your financial records have been altered, discovering problems is extremely difficult. Most standard accounting practices are not designed to uncover internal problems such as embezzlement.

Many business people are not aware that the scope of a typical accounting or tax engagement does not include specific services relating to the disclosure of employee fraud.

There are usually two major factors that can cause an employee, who has otherwise been an honest and trusted employee, to suddenly become involved in an embezzlement or theft. The first is involvement with substance abuse by either the employee or one the employee's loved ones; the second is pressure created by an economic downturn. It is not until after such a theft is discovered that most employers become sensitive to their own exposure. It is imperative that every business person understands why employees commit fraud and what can be done to prevent employee embezzlement and theft.

Therefore, the best way to safeguard your company's assets is to recognize and improve weaknesses in your internal procedures. The following business practices can help you minimize potential internal control problems:

- **Related duties should be assigned to different people** (if personnel are available). Certain accounting functions are designed to cross-reference each other for accuracy: writing/signing checks, ordering/paying/receiving materials, handling cash/recording cash, etc. These procedures can reveal inconsistencies in your records in a timely manner.

- **Reconcile and scrutinize your bank statements every month.** A bank statement can tell you a lot about your business if you review the information in a timely manner. Have all bank statements sent to your home so they are received unopened and there is no potential for tampering or alteration. Examine checks and endorsements; track transactions between accounts; compare payroll checks with employee records, and ask questions.
- **Always ask for proof before you sign a check or authorize a transaction.** When you insist on reviewing original documentation, your employees become more accurate and communicate their needs more clearly. You should also verify the names of your vendors and your employees occasionally. And, remember to cancel supporting materials after signing a check. Do not return the check to the person who prepared it. Mail it directly or give it to another employee for mailing.
- **Lock and protect your valuables.** Keep blank checks and signature stamps secured, and deposit cash and checks daily. It's also important to secure fidelity bonds and insurance for all accounting and key personnel.
- **Know your employees and examine behavior changes.** Always verify employee references before hiring. Many white-collar crimes go unreported and continue to be repeated. Watch for trouble signs: possible substance abuse, change in lifestyle, living beyond means and possessiveness of work among other changes.

These internal controls can help you reveal many discrepancies; as well as recognize the excellent efforts of your staff. Our firm can help you develop and implement any of these important internal controls. Please call us if you have any questions. We will be happy to assist you any way we can.