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Trust, but verify' when it comes to accounting by Terry McCarthy

My business is losing money. I don't get it. We should be doing great, but it's just never there when we develop internal financial statements. I just can't bear to think it could be one of my employees ripping me off. They are the greatest bunch of folks - why, we're like family! Some of them have even give up their vacations for the sake of business. How can I ever question a group like that?

**Signed,
Trusting 'em like Family**

Dear Too Trusting:

Let's face it. If your business is losing money, but you know the sales are there, then you better start asking questions. Let me tell you the parable of "Me and Mrs. Jones" (sounds like a song title). I hope you learn something.

Mrs. Jones was the finest darn bookkeeper anybody ever had. She had started with ACME Firecracker Company as a young woman, and had been with the company for years. She climbed the ladder from receptionist to bookkeeper to chief accountant, taking classes that ACME paid for to help her grow.

Mr. Acme watched Mrs. Jones blossom from insecure to full-fledged firecracker. She became more confident and secure, even to the point of arrogance. During the course of her employment, she met Mr. Jones, married, and started a family, but never missed a beat where her job was concerned. She knew the workings of ACME Firecracker better than the head Rocket Launcher, Mr. Acme himself.

Over the years, ACME grew, marketing their explosives far and wide. Hardly an event went by without ACME Fireworks hitting the sky. The accounting department grew, with Mrs. Jones comfortably and confidently at the helm. Her responsibilities grew to supervising accounts receivable, accounts payable, cash receipts, payment application, account reconciliation, etc. There wasn't much she didn't control. And she was ever knowledgeable; Mrs. Jones wrote checks, signed them, even reconciled the monthly bank statement. She was so in control, she took the bank deposit to the bank each day.

Her husband, Mr. Jones, had started his own business many years ago, but in recent years, his business wasn't doing well, according to the gossip at the coffee machine. Mrs. Jones' co-workers marveled at the fact she had great clothes, a new car, tickets to everything, and her kids went to the best schools, but they never dared question. She was so loyal and dedicated, she never took a vacation. Even Mr. Acme didn't ask questions.

Until one day, the auditors came. It seems Mr. Acme wanted to expand his plant in

Indiana and needed a bank loan. That required an audit, and that's when the questions began. Seems Acme Firecrackers was getting close to implosion, while Mrs. Jones was getting ready to retire to a nice island in the Caribbean. Where had they gone wrong?

The auditors determined that Mrs. Jones had been writing checks to a fictitious vendor for the last six years. She started small (about \$15,000 the first year), and gradually blew it up to \$80,000 last year. She had accumulated almost \$300,000 in fraudulent disbursements.

Mrs. Jones had observed early on that Mr. Acme placed too much trust in her. He let her write the checks, sign them, and reconcile the bank account without much oversight. She went to the bank one town over, where she had grown up, and set up a checking account using her Social Security number for a new business she had created A Mrs. Jones, d.b.a. Starburst Gunpowder @ Mrs. Jones was the only check-signer on the new bank account. She would just write a check to Starburst out of the ACME account (charging it to the Cost of Sales account, and thereby burying it in the largest account on the income statement) and then go and deposit it into her new Starburst account. No questions asked.

During the course of the audit, the auditors employed a relatively new device called data-extraction software. They were able to run a computer edit that tried to match the Social Security numbers or addresses of the company's employees to the same information on the vendor file. The only match that came up was that of Mrs. Jones and Starburst Gunpowder. It didn't take long to blast the scheme wide open. Especially when they asked questions and determined Mrs. Jones' lifestyle was well beyond her salary.

Mr. Acme was devastated, as were his other employees. No one had ever suspected her. Mr. Acme said to himself, "Self, what could I have done?"

Well, Too Trusting, as former President Reagan once said, "Trust, but verify." That is exactly what Mr. Acme should have done, and you need to start doing. A dedicated employee is a blessing; one who takes no vacations (they have no control then), and does not give up certain tasks, may, in fact, be dedicated to no one but her personal bank balance. Mrs. Jones had been given way too much trust and knew it. She realized she could abuse it, and did. That's not to say your employees have or will, but don't tempt them, or give them the opportunity.

Contact an accounting-fraud specialist, possibly a Certified Fraud Examiner, as soon as possible to learn what steps can be taken to uncover problem practices and put controls into place to make sure they don't cost you a penny more. Make sure the specialist is certified to do the work, then stand back and let him do the work necessary to help protect your company's income and assets.

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