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10 RED FLAGS ON BILLING SCHEMES

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If you own a business, the subject of employee theft may be of interest to you if you have a habit of approving invoices and signing checks blindly, especially if submitted by trusted employees. Billing schemes by dishonest employees frequently involve the use of shell companies and fake bills to steal resources from your company.

There are four major types of billing schemes:

1. A shell company that is set up to bill you for goods and services that are *not* received.
2. A fake company that buys good and services that are resold to you at marked-up prices.
3. Overpayments to a vendor who refund the excess that is then misappropriated by an employee.
4. Ordering personal merchandise that is used or resold.

Here are 10 red flags of employee theft using shell companies and phony invoices:

1. Unfamiliar vendors.
2. Vendors that have only post office box addresses.
3. Vendor addresses that match employee addresses.
4. Vendors with names consisting of initials only.
5. Billings of more than once a month.
6. Trend of increasing purchases from one vendor.
7. Invoices for poorly defined consulting services.
8. Small invoices that do not attract your attention.
9. Mails with bills are opened and paid by the same employee.
10. New vendors are approved and paid by that same employee.

Here are 10 ways to prevent and detect malversation of funds:

1. Segregate duties so that not one person has control to approve new vendors, receive invoices, and pay bills.
2. Rotate employees in positions of confidence. Get them out of their comfort zones.
3. Have employees take accrued vacation leaves.
4. Time the audits to coincide with vacation leaves.
5. Ask your accountant to conduct an internal audit.
6. Spot check some vendors to see if they are listed in the telephone book. (An unlisted number of a company who is supposed to market products and solicit orders is not a good sign).
7. Sample vendors with P.O. Box but no physical addresses.
8. Compare vendor addresses with those of employees who are suspected of theft.
9. Sample vendors with initials and nothing more in their business names.
10. Look for vendors who get paid more than once a month.

Of course, collusion among employees makes it more difficult to catch thieves. You need a professional accountant or auditor to flush them out. Good internal controls discourage employees from such ventures. Lack of controls coupled with misplaced trust encourages them.