

Newsflash

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March 14, 2007 – *Large and small, every organization needs financial checks and balances to prevent employee theft* and ensure profitability.*

LACK OF FINANCIAL CONTROLS BRINGS AN UNWELCOME SURPRISE

Situation

The controller of a \$7 million manufacturer found another job so the CEO engaged Level II Solutions as interim CFO because the organization worked on very tight cash flow.

Problem

When the first credit card statement arrived, it contained some non-company-related charges. The former controller, with the company for eighteen months, had been the only authorized user on the corporate credit card. He was paying the bills via wire transfers though he did not have check signing authority.

We then reviewed past statements and other financial reports and began uncovering other irregularities as well:

- The credit card charges were buried and not easily identified in any particular expense area
- When the controller called in payroll, he changed his salary each week. Although the CEO approved the time sheet, he did not compare the payroll reports against the time sheets
- One of the controller's relatives worked part-time; the controller also significantly inflated the number of hours this employee worked as well.

Solution

Once we realized the depth of the fraud, we did the following to prevent its happening again:

Credit card purchases and vendor invoices

- Canceled all credit cards with the controller's name
- Set up procedure that **all** company purchases (including credit card) must have a purchase order

- When vendor invoices arrive, they are matched to purchase orders to ensure that quantities and dollar amounts agree

Payroll

- Payroll time sheets go to CEO for approval, he enters their data into worksheet, and forwards to controller who submits the information electronically to the payroll company
- When the payroll arrives, the CEO opens and compares the reports to the original worksheet; the controller checks the actual line items

Financial controls

- CEO monitors bank accounts daily online
- He developed and uses key numbers (see News Flash, Sept 06, *Sales & Profit Analysis Yields Key Financial Knowledge*) to ensure that the numbers are where they should be.

Note: depending on the size of your organization, the owner or someone in finance would monitor cash flow. No single employee should be responsible for everything.

Results

- Cash flow is improved because all revenue is flowing through the business rather than disappearing
- Profit margins are shifting for the better since expenses are not inflated
- Using the new margins company is able to plan for realistic growth
- Controls and procedures have brought peace of mind to the CEO and the honest employees are protected

If you want help setting up your financial systems to include checks and balances, please contact us at 617-277-0222 or linda@level2solutions.com.

* For details on the staggering extent of fraud, see the **2006 ACFE Report to the Nation on Occupation Fraud & Abuse** at acfe.com.

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