

Dear Client:

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

How are you managing your business finances? Many business owners are discovering that their assets are not as well protected as they thought. This is especially true in small business environments where a single employee manages the finances. Often there are no "checks and balances" to verify that transactions are accurate.

When proper, consistent procedures 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 filings.

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.

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.** 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. 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.
- **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.

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 internal controls to address the weaknesses you identified and/or your areas of concern.

Please contact us if you have any questions. We will be happy to assist you in any way we can.

Sincerely,

Mark H. Carson & Associates, P.C.