

## Memorandum

To: Clients, Associates & Friends of Pro@ctive Advisory  
From: Mark L. Wyssbrod, Director of Tax Planning and Strategy  
Date: February 1, 2014  
Re: Are you over paying vendors?

In this memorandum, you will receive information about the following:

- A new version of the same story I hear every year
- Can you protect your cash outflow from fraud?
- Deadline reminders
- Financial ration of the month

Please contact me should you have any questions. I hope you feel the love in the air and re revival of energy in your life and economy.

### New version; same old story

To keep the updates more positive last year, I purposely did not write an annual update on material misstatement, theft, or loans made without approval. Well, let's just call what these aforementioned items are: fraud! Feedback when I write updates regarding internal controls and fraud is "this will not happen to me", "I trust my internal bookkeeper" and "why did you try to scare me?"

As you know by now, I try to share information unbiasedly. The aforementioned attitudes are from individuals who fraud has either not happened to (yet) or do not realize it is happening. In mid-January I heard another story of how a trusted team member "accidentally" took extra bonuses and loans without manager and/or the owner's approval. This is the same old story with new names and dollar amounts.

How does this story of fraud continue to repeat itself in small businesses? Small businesses generally do not have a strong accounting system and procedures. This leads to inadequate internal controls. Trust is one of the minimal internal controls in place. The problem with trust is that you do not know you have been deceived until afterwards.

Perhaps it's time to review and test your internal controls,

Mark W.

## Are you overpaying your vendors?

An expert would tell you fraud occurs when an individual has the opportunity, pressure (or motivation) and can rationalize the action. We are human and I have observed humans can rationalize anything!

This update will focus on vendor fraud. The following information is from “Fraud Busting Strategies: Accounts Payable and Disbursements Fraud” by David Sawyer, CPA from the January/February 2014 Current Accounts magazine.

- Schemes, risks and perpetration
  - Shell company
    - An employee creates a bogus company that sends bogus bills to your company
  - Personal purchases
    - An employee orders personal items and hides them as company expenses
  - Fraudulent expense reimbursement
    - An employee files a false, inflated or fictitious expense report claim (personal meals, travel, quasi-business goods or services or duplication of reimbursement of single receipt)
  - Check tampering
    - An employee uses (steals) blank checks from the company and uses the checks to pay personal vendor bills
- What are the symptoms, “red flags” and other detections?
  - Understand why the cost has increased – additional goods or services?
  - Look out for incomplete vendor information
  - Be aware if vendor information matches employee information
  - Unusual, unauthorized vendor names or address have been added to the master list
  - Missing or altered copies of supporting documentation (purchase orders, invoices, receiving documents, etc.)
    - Copies instead of originals could be an indicator
  - Changes in lifestyle by employee
    - Lavish trips, jewelry, luxury car, personal items and assets, etc.
    - Bogus stories generally include “winning the lottery” and “rich uncle died”
  - Increase in purchases from favored vendors or “unusually” close relationships with suppliers
  - Goods received but not ordered

- Data analytics may also show linkages between employee information and vendor information
- What are my countermeasures and controls to increase prevention?
  - Separate the vendor setup and approval process from the payment process
  - Rigorous vetting of all new vendors when they are set up
  - Frequently reviewing the vendor master file with payment volume activity, for reasonableness
  - Maintaining and reviewing a log of sequentially numbered checks and payables processing batches
  - Setting up Positive Pay
  - Always require original receipts or invoices
  - Never sign blank checks
  - **Mandate your accounting staff to take two weeks of vacation every year**
    - A lot of fraud is detected when the accounting staff is out of the office and cannot continue to cover up their actions

You can make simple changes and complete quick double checks to reduce your chances of being taken advantage of.

Please contact me should you have any questions or would like for us to review your internal controls!

#### Deadline reminders

- February 28 – Form 1096 and 1099 Due to IRS
- February 28 – Form W-2 and W-3 Due to IRS
- March 17 – Corporation (S & C) Tax Returns Are Due (for annual tax filers)
  - File Form 7004 For Extension
  - Employer Retirement Matches Due
- April 1 – Business Personal Property Tax Returns due for Georgia Counties

#### Financial ratio of the month – Gross Profit Margin

Gross Profit Margin indicates the percent of revenues that is paid out for direct costs. It is a measure of operational efficiency. It can be used in business planning because it indicates how many cents can be generated from each dollar of revenue.

Gross Profit Margin = (Revenues Less Direct Costs) / Revenues

A small improvement in the Gross Profit Margin can have dramatic improvement in the Net Profit. The higher the ratio the better!

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