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Step by Step for Understanding Separation of Duties

L**et’s make this as direct and clear as possible.**

1. There are bad people who will steal from you under any circumstance.
2. There are people who will take advantage of you when they find out they can!
3. There are many ways to steal from you!
4. There are people who will steal from you and lie about stealing from you!

This list continues on for a very long time, and the bottom line issue is that you have to use accounting protocols to protect yourself, your company and your employees. Many companies have found out that someone has been stealing from them too late, and the company has to declare bankruptcy! It has happened too often, and I have seen it happen to large companies, small companies, and companies that had really smart business people running them. It has even happened to a set of personal friends of mine. They were successful brothers running a 10 million dollar contracting company. An in every case, all of these people were surprised.

Lesson: Protect your company through accounting separation of duties.

No one gets the keys to store and is put in charge of guarding the store. If you are in this position, change it, right now before someone gets the ideas in # 1-4 above. Let’s look at how!

The basic ways to steal are Cash, inventory, Fraud, and Embezzlement. There are many scams but they usually will fall into these categories. These are not all the procedures, but it will get you started!

Examples:

1. Your controller shows payroll checks being withheld and says the withholding monies are being sent to IRS, but they are not – where are they?
2. Your service technician writes out an invoice for 200 and collects cash from the homeowner for a charge that was $150.00 by your company price. The $50 goes in the pocket. The technician writes out the $150 invoice and turns in the cash for $150 with the fraudulent invoice.
3. You have no purchase order system, or you use verbal PO numbers, so a technician calls the supplier, uses a verbal PO by guess who, the person in the company authorized to issue them, the supplier accepts the verbal because that is business as usual, takes the inventory and installs it in the neighbor’s house and collect the money for the moonlighting job. The technician gave them a real job name in case someone looked. Since you do not use sequenced PO’s, you can’t really track it, and if you do check the technician will deny it, and how do you prove it?
4. Sales person begins work on $38,000 rehab (turns out to be a colleague) but the financing paperwork wasn’t turned in and approved. Sales person convinced the work to begin, but low and behold, the homeowner couldn’t pay. No right of rescission signed, and no approved financing paperwork – BAMM – work completed, bad debt and the salesperson gets a kickback!

*There are many, many more ways to be dishonest, but some basic steps can help your company from getting pinched!*

Follow these steps to accounting separation of duties:

Many companies may not be big enough or have the resources to complete all of these disciplines, but knowing what the issues are and why is now available to you.

1. Have a competent and engaged outside CPA, not just an accountant who calls you when you call them! If they are any good at all, they should help you identify proper procedures to begin with so they have a clear conscious.
2. Keep personal funds separate from business funds.
3. Use a detailed chart of accounts.
4. Use of general ledgers, the source journals and subsidiary ledgers for accounting practices by the bookkeeper.
5. Use journal entries.
6. Post to journals promptly to keep in balance for reviews monthly by owner or bookkeeper.
7. Back-up procedures are in place for your accounting files if they are electronic – daily!
8. Secure the backed-up files in a secure location off premises.
9. Financing paperwork is always signed and APPPROVED before work begins, along with the 3 day right of rescission paperwork!
10. Whoever deposits the checks and the cash to the bank does not control the auditing of the cash disbursement ledger.
11. Whoever writes the checks does not also sign the checks, and is not authorized at the company bank to sign the checks.
12. The auditor of cash disbursement journal can be the person who writes the checks if they cannot sign the checks.
13. Owner reviews the checking statements once a month.
14. Discourage the acceptance of cash as a method of payment, while it is not always possible; have a customer service policy from dispatch that says, how will you pay – CREDIT CARD, Personal Check, or DEBIT CARD? Leave out cash, and homeowners won’t use it.
15. Use a happy call follow-up if possible and validate the customer invoice number and payment pleasantly as a means to identify the technician, and of course the quality of service!
16. Written purchase orders are used 100% of the time, no exceptions.
17. All suppliers are notified in writing who is able to authorize a purchase order for the company.
18. Purchase orders are checked and audited by a person who is not able to issue purchase orders.
19. All purchase orders are checked against packing slips, invoices, and accounts payables.
20. Purchasing and receiving functions are separated from invoice processing accounts payable, cash receipts and disbursements.
21. All service invoices are numbered sequentially and any voided invoices are returned to the accounting department.
22. All service invoices are checked 100% for billing and accuracy by someone (service manager-owner).
23. Invoice processing and accounts payables are separated from general ledger functions.
24. Supervisors or crew leaders sign-off on materials requisitions.
25. One person in the receiving area or warehouse handles all materials. No one gets access to any inventory or parts without getting into the fenced and locked area of materials without a materials requisition form signed by a supervisor.
26. Inventory is counted once a month, no less than once a quarter.
27. All technicians and installers are 100% accountable for their truck stock inventory, which of course is counted once a month and they have signed off on the original count stock. Any missing inventory they are responsible for paying the company back.
28. The technicians and installers do not count their own inventory in their trucks.
29. Receiving paperwork is validated against the PO’s, and if something is missing or ordered and not part of a sequenced PO system, find out why?
30. All purchase orders are matched against receiving packing lists and the supplier invoices by accounting to validate inventory was ordered properly, received properly, and billed properly.
31. Someone other than the person handling the accounts receivables opens the mail and lists out the cash receipts for the day, stamps the check with any endorsement, and compares the cash receipts with cash journal and duplicate deposit slips.
32. Any large purchase, some pre-determined amount needs approval from the owner of the firm.
33. Shipping orders for return goods are matched with vendor credit memos.
34. Payroll function and general ledger functions are separated.
35. W2’s are reconciled against payroll and general ledger registers at year-end.
36. Employee time records are timely and accurately recorded.
37. Billing processes and cash collections are separated, and if not such as a service agreement renewal, it must be authorized.
38. All bad debts are written off by the owner never by one who has access to cash.

This is by no means a complete list, but it is a start.

Why does getting the separation of duties in place matter?

* It can save your business.
* You never understand how important separations of duty were, until you needed them!
* **Improves your financial structure and SAVES YOU MONEY!**