



Using QuickBooks® to Prevent Fraud

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A Case Study in Weak Controls

It was the day before I was going to have my second child. I was saying my “Goodbyes” at my client before leaving to go to the hospital the next morning. Just as I finished my last email ... the Accounts Payable Clerk came into the office I was working in. She informed me there was a problem.

When I first began the engagement with the client in question, they had few controls in place. They had hired me to assess their QuickBooks file and design a better process for their accounting department to improve financial reporting and cash management. However, as most of us realize once we are troubleshooting and asking questions of our clients, we uncover a whole lot more than just QuickBooks errors. We end up recommending proper business processes, procedures and controls for their company, while utilizing QuickBooks to run their back-office accounting.

A Few Small Problems

At this particular client, they were using QuickBooks for their accounting and inventory management, as well as a separate program for their Sales department. The following were business process failures and internal control risks I found:

- The Sales software application was not integrated with QuickBooks.
 - Customer Invoices were created in Microsoft Word by the Sales department.
 - Sales staff often modified and duplicated invoices.
 - Sales Invoices were handed to the Accounting Department for entry into QuickBooks.
 - Many of those invoices were modified and changed by the Sales Department without communicating with the Accounting Department.
 - No consideration was given to the Accounts Receivable balances in QuickBooks.
- Many of their employees and contractors travelled all over the country. Each of them had corporate credit cards in the company’s name that were automatically paid by the company each month.
 - It was very hard to get employees to turn in receipts, and if they did, they came in 60 to 90 days after the purchase.
 - Credit card transactions were reviewed online against the statement, but not downloaded from the Internet in real time.
- Inventory was not properly monitored. Physical inventories were not taken.

Wait, there’s more.

- The Sales department was paid on Sales, not cash collected.
- Customer records were incomplete or inaccurate, so collection calls were unsuccessful many times.
- Employee timesheets were manual and employee reimbursements were created with manual checks.
- The Accounting staff freely deleted or changed prior period transactions in QuickBooks.
- Daily cash reports for Management were created outside of QuickBooks because information in QuickBooks could not be relied on.
- Everyone knew the Administrator Password and Closing Date Password.

Shall I go on...? You can see that these are procedural and control issues, not issues in the QuickBooks data file.

The Role of QuickBooks in the Control Environment

QuickBooks is designed to be an easy, flexible software tool for a wide array of users, but at the end of the day it is still part of an accounting system. We can help clients to fully utilize the security features in QuickBooks; just as importantly, we can help make sure the client complies with appropriate business processes and controls. So when teaching the client how to use QuickBooks, we should probe further and make sure the client also has the right controls in place, whether the client is a sole proprietor or a corporation with hundreds of employees.

So What Happened?

With all of the areas listed that were going wrong in this client's environment, I implemented QuickBooks features and appropriate internal controls to prevent fraudulent activities. Based on that and other experiences in working with hundreds of businesses, I've put together a list of 25 areas or issues for you to consider when working with your QuickBooks clients to implement controls and business processes.

[Checklist of 25 Elements of Appropriate Controls with QuickBooks](#)

Fraud Surfaces with Proper Controls

So, are you still wondering what happened at my client? After months of implementing new policies of submitting expense reports with original receipts, tracking credit card expenses properly, creating Purchase Orders for approval and matching them against inventory received and completing a physical inventory count each month-end, the fraud was uncovered.

The Accounts Payable Clerk reviewed an expense report from one of the company employees and questioned some purchases. The receipt showed inventory that was purchased; however, the vendor on the invoice was not the typical vendor they purchased from, although the vendor name matched the credit card statement.

A Surprising Vendor

After further research with the Inventory Manager, it was found that the inventory listed didn't have a Purchase Order and had not been received. They went online to research the vendor and found it was an adult entertainment company!

The invoice submitted was a fake with the vendor shown at the top matching the credit card statement. Upon further research of the credit card bill for the prior six-month period, it turned out that various employees of this company had spent more than \$180,000 with this one vendor.

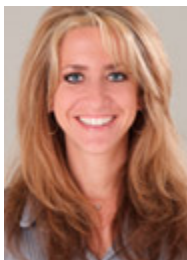
The Moral of the Story

When controls are weak, a fraud like this can subvert the accounting system for years without detection. Before this client implemented the proper internal controls and business processes, unprincipled employees were freely picking the owner's pockets.

Although we rarely expect our clients to be a victim of fraud, this is a case where it is better to be safe than sorry.

Cash is the lifeblood of any business. When dishonest employees threaten cash, the fraud hampers business success and can even hasten business failure.

By utilizing the security features in QuickBooks and implementing the appropriate controls around QuickBooks in your clients' business, you deliver tremendous value to your engagements, and your clients will see how hard it would be for them to live without you! Helping them to prevent only one fraud will more than pay for your fees.



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