

## Accounting for Who Counts Your Books

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You may have noticed that there are a lot of embezzlement cases going to trial lately. I, certainly, have noticed more business owners calling who have experienced embezzlement than I have in past years. It is easy to jump to the conclusion that it is a result of the recession, but my conversations have found that no, the embezzlements occurred during the good times. It is now, when times are tough, though, that the businesses are failing with the embezzlement as a strong contributing factor.

I'll make a little speculation as to what happened. Sales are good and management's time goes to bidding those sales and patronizing those customers. A trusted employee steps in and becomes responsible for all the ordering, collections, deposits, bookkeeping and check signing. Management isn't into those duties anyway and it is so nice to have someone who will just take care of everything while he/she is out making more sales. Cash flows are strong with all those customers and there is no need to mind every nickel and dime. There is money available in the

bank, so everything must be fine.

Then, sales slow down, a couple accounts receivable become bad debts, payroll is due and management realizes, the money is no longer in the bank. Someone starts to wonder where all the money went and signs start to surface of embezzlement. Call in an accountant; it is hard to nail down, but \$50,000, \$200,000, \$500,000 or more has been drained out of the business over the past years.

Management feels cheated and it is a long and, many times, fruitless process to take the guilty party(ies) to court.

Did it have to happen? Most of the time, no. There are systems and processes that can be put in place to prevent most methods of embezzlement. There are some embezzlement schemes that are so sophisticated, that even the best of firms get caught.

I am not going to give you lists of some of these systems and processes today. If you want some, contact my office. What I am going to talk about is the two

areas of guilt. Yes, I said two. The embezzler is guilty and we need to understand the motivation that encourages someone to embezzle. But the second guilty party is management, the owner, that person that ultimately carries the burden of the loss.

**Embezzler** I am not a doctor or a psychologist. I do not have data from studies or court hearings. The following opinions are my own with a little bit of reading added to the mix.

Most embezzlers are not in a poverty situation when they perform the embezzlement. It is not the waitress that can't feed her daughter tonight like in the commercial. The embezzler is motivated though to take care of some personal wants that goes beyond their normal paycheck. Their reasoning may include:

- 1) "The boss lives high and mighty and we paid employees live on beans. I am the one running this company and I deserve some of the riches."
- 2) "My paycheck covers the rent and the

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groceries, but I need extra for the meth, cocaine, or booze.

- 3) "I am only borrowing while I am a little short. I'll give it back."
- 4) "This is more fun than going to Las Vegas. These idiots don't have a clue."

I am sure there are more, but basically, most embezzlers do it to get even, get ahead or to experience the adrenalin rush of being clever enough to get away with it. You, as the manager, can be cautious about who you hire, set those systems and policies in place, look for the signs constantly and let it be known that ethics applies to one and all.

**Management/Owner** Being a small business owner is demanding. There are many hats to wear and it is natural to look for someone that you can entrust with the responsibilities that you do not excel at, such as the bookkeeping. There is an excellent book on the market that all small business owners should read just to understand themselves. The book is the E-Myth by Michael E. Gerber. It has

been around for many years and is well recognized.

In the E-Myth, it explains that most small businesses are started by someone who is a "technician." This is the skill that the owner brings to the business, it may be welding, electrical contracting, chiropractics, hair styling or food preparation. Doesn't matter what. That owner is very good at doing what they do.

But as the business grows, it is no longer a one person business with that technical work just being performed by the owner. As people are hired and positions created that technician owner needs to become a "manager" and eventually in that growth cycle, also become an "entrepreneur". The owner needs to move away from being the one that performs the technical trade part of the business and into being the one that establishes the systems, policies, strategies and visions for success. This can be a huge leap that many owners just cannot make.

Don't see yourself in this yet? Well, if you have hired one employee you should. With that first step, you need to make the transition to

being a manager at least part of the time. You need to set the systems in place that lets you provide oversight to even your most trusted employee. You need to realize that if you allow it to happen through lack of management of your business, you are just as guilty as the embezzler is.

Please take the time to be the manager of your business. Trust everyone and trust no one.

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