The Legal Intelligencer

BUSINESS LAW

CORPORATE FRAUD

'American Excess': Credit Cards Abuse

Without Proper Safeguards, Companies Invite Unauthorized Use

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Special to the Legal

"EXPENSE ACCOUNT ABUSE is probably the most common form of internal fraud. There are few employees or executives who haven't fudged their expenses to some degree at least once during their career.

Expense account abuse often involves corporate credit cards. If not properly monitored and controlled, these cards can end up costing employers dearly.

Take the case of Seymour Konz (a fictional name disguised for client confidentiality). He was the CFO of a small suburban company, who traveled extensively for the firm, incurring expenses along the way.

A trusted employee, Konz had check-signing authority and was responsible for the firm's bank reconciliations. No one doubted his honesty.

Many companies—both large and small—do not have sufficient safeguards to prevent credit card fraud.

At least not until his secretary, disgruntled because of his uncivil treatment of her, told the firm's president that Konz was submitting false expenses.

A subsequent investigation discovered that over four years Konz:

- Submitted credit card expenses for personal meals, store purchases and skiing vacations.
- Submitted original credit card receipts for legitimate expenses, then a photocopy of the same receipt later on, thus receiving payment for the same expense twice.
- Inflated some receipts, such as changing a $35 meal to $135.
- Had corporate checks cut directly to the credit card company for partial payments of the monthly statements, then submitted copies of his credit card slips with his bi-monthly expense reports for the remainder of the monthly bills, thus getting his company to pay his entire credit card bills.

Of the $400,000 Konz billed for expenses over the four years, only $80,000 were legitimate.

Konz's firm obviously did not have sufficient safeguards to prevent this kind of fraud. Many companies—both large and small—don't. Or, the controls exist on paper but aren't enforced, especially if a "trusted" individual is involved.

Why do companies have inadequate or unenforced controls:

- Many firms don't believe they'll be defrauded.

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- They're too busy meeting deadlines and dealing with other immediate problems to devote time and energy to instituting controls.
- They think they're too small to need them.
- They know their personnel and trust them.
- If they enforce rigid controls the staff will think they're not trusted.

And so on. These are all excuses and explanations that come forth after abuses have been discovered.

After dismissing Konz, his company redefined its internal controls and developed the following strategy:

- All expense reports to be approved by the president.
- No corporate checks issued to credit card or similar companies—all purchases require a purchase order with appropriate approvals.
- Expense reports must have original invoices credit card slips attached.
- Any expenses exceeding $500 need pre-approval by the president.
- The bank reconciliation function was moved to the accounts receivable clerk and required an additional signing approval.

Corporate credit cards are convenient and necessary for many jobs. But they are also vulnerable to misuse. All companies, no matter what size, should develop and distribute a policy on the use of corporate cards. Everyone with a card should sign-off that they've read and agreed to the conditions.

And great care must be taken to control and monitor credit card expenses. Failure to do so will likely cause your firm's credit card bills to go up—perhaps way more than you imagined possible.