

Petty Cash Gets Serious

By [Karen J. Bannan](#), June 29, 2010



RELATED LINKS

[Do's and Don'ts: Protecting Your Business Against Employee Fraud](#) Tips for reducing employee theft.

[Occupational Fraud: A Study of the Impact of an Economic Recession](#) Association of Certified Fraud Examiners report on employee theft.

[Business Owners Get Burned by Sticky Fingers](#) From the Wall Street Journal.

[Consider Using A Corporate Card](#) Get expert advice on how to maximize savings.

On the Lookout for Trouble According to the U.S. Department of Commerce, employee theft and fraud contribute to nearly a third of business failures, which is why the old adage is true – an ounce of prevention is worth a pound of cure.

Whether someone is using cash or a charge card, there's always the temptation to view a company's money as a private lending source, says James Ratley, president of the Association of Certified Fraud Examiners, an Austin, Texas, group that specializes in anti-fraud training and education. Taking away that temptation is often one of the most important things a business owner can do to deter fraud, he says.

Employee theft often starts accidentally – someone leaves lunch money at home and needs a few dollars. But once someone "borrows" from petty cash and gets away with it, the practice can quickly become a habit. That's why managers should do regular spot checks of petty cash boxes to make sure receipts and cash are in order, and should examine expenses carefully. "When a manager glances at a receipt, signs it and hands it back" without checking carefully, Ratley says, "it puts a seed into the mind of even the most honest employee" that it's possible to get away with something.

Managers should consider questioning employees periodically about specific expenditures because even legitimate-looking receipts may be fakes. Thieves use software to create receipts or use websites that let them input data and print out receipts. "Look for even dollar amounts – \$10, \$20, \$50, \$100," Ratley says. "When was the last time you made a purchase and it came out even?"

Finally, be aware of what's going on in employees' lives. Employees dealing with financial issues or a drug or alcohol problem may steal as a result. "If you know someone has a problem you may do well by being willing to step in and help," Ratley says. "It's much easier than having to fire someone for theft."

[Community Options](#) has 2,500 employees who work with thousands of developmentally disabled people. In many cases, employees live alongside their charges in group homes managed by the Mount Olive, N.J.-based nonprofit. As part of that care, it's not unusual for an employee to run to the supermarket for milk or pay a pizza delivery person, both of which require cash.

That's why every one of Community Options' more than 150 group homes has a petty cash account, a locked box with anywhere from \$200 to \$1,000 inside. It's important for the three or four employees who co-manage each facility to have access to cash, explains Robert Stack, the organization's president and CEO. "A local ice cream store is going to want paper money."

While petty cash might be a forgotten concept at larger companies, for mid-size enterprises such as Community Options, it's still a large part of running the business. To protect what could be large sums of money from being lost or stolen, companies need to have strict policies in place.

Added together, Community Options' petty cash accounts total more than six figures, which is why the company uses multiple policies and practices to protect it, including requiring receipts for purchases, adhering to a strict accounting process and performing several types of audits.

Such restrictions make for extra work, but it's worth it. Business owners may be reticent to police employees, but failing to do so can have serious consequences, says Alan Carsrud, a professor who holds the Loretta Rogers Chair of Entrepreneurship at [Ryerson University](#) in Toronto. "Any entrepreneur always has to be thinking, 'What happens if we don't take care of business and we end up on the front page of our local paper? What will the headline read?'"

Petty cash problems typically start out as simple mistakes but can quickly spiral into something much more dangerous, says James Ratley, president of the [Association of Certified Fraud Examiners](#), an Austin, Texas, group that specializes in anti-fraud training and education.

"Companies can definitely fall prey to internal fraud, and it happens more often than you would think," Ratley says. "They believe the word 'petty' in the phrase 'petty cash.' They have no idea how much money is at stake or how long this kind of theft can continue if unchecked."

To avoid problems, use the following safeguards:

Designate a responsible party - The more people with access to petty cash, the more likely you'll have a problem, says Chris E. McGoey, president of [McGoey Security Consulting](#) in Los Angeles. "If 20 people have access to cash someone might think, 'Oh, that can't pin it on me,' and they're right. It's much more difficult to figure out where missing cash went. That's usually what I'm brought in for," McGoey says.

Instead, assign one person to manage and disperse petty cash funds. Run a background check to make sure the person doesn't have a criminal record. Also, whoever oversees petty cash shouldn't function in a vacuum. "People need to know their work will be reviewed (It takes the opportunity away" for them to do something they shouldn't, Ratley says.

[Community Options](#) follows this advice. Supervisors check petty-cash balances and receipts once a day, and internal auditors drop in to perform monthly spot checks, Stack says.

Require receipts and ledger entries - Receipts provide a paper trail and a way of tracking spending. An employee who uses petty cash should be required to immediately log it in a ledger and turn in receipts for purchases within a certain time frame – a month or less is usually best, says Michael Bechara, a managing director at [Granite Consulting Group Inc.](#) in Brewster, New York. Receipts should be legible and include the time, date and items purchased. Petty cash accounts should be reconcilable by adding whatever cash remains in the box to the sum of all receipts. “If you’re not keeping good books you can have thousands of dollars siphoned off very easily. You can also run into problems should you get audited by the IRS,” Bechara says.

*Business owners may
reticent to po
employees, but failing to
so can have seri
consequenc*

Set spending parameters – Keep as little cash on hand as possible. To come up with that figure, look at the total amount of cash purchases your company made in the last six months. Employees should know that petty cash should only be used for specific types of purchases, says Carsrud, the Ryerson University professor. Limit the things employees can buy by creating a list of acceptable expenses, and then warn them you’ll ask to be reimbursed for unapproved items. Consider limiting how much can be spent. Large purchases, for example, should go through purchasing and require managerial approval, he says.

Create a written policy – Petty cash rules should be backed up by a written policy that any employee who spends even a penny of company cash is required to sign. Consider adopting a policy like the one in place at Austin party franchiser [Games2U Entertainment](#), which topped revenue of \$20 million in 2009. There, all purchases over \$100 must be approved by an owner or senior manager. “Even as a smaller business we felt there needed to be written policies and procedures in place,” says David Pikoff, the company’s owner and founder. “It lets everyone know what’s expected of them.”

Consider using a corporate card – In 2006, [Old Firehouse Winery](#) eliminated petty cash, opting to provide its five full-time employees with a company charge card instead. The Geneva, Ohio, company also uses checks at venues that don’t accept plastic. Old Firehouse made the move because receipts for petty-cash purchases often weren’t detailed enough, says company treasurer Don Woodward. “People would take money out of a cash register, which isn’t the best way to do things,” he says.

Using a corporate card also provides Old Firehouse Winery with up-to-the-minute accounting since charges are posted as they are made. And there’s no question who made a specific purchase. Another plus: charges can be sorted by category, making income tax time that much easier.

More Products & Services

[Gift Cards](#)
[Membership Rewards® Program](#)
[Travel Protection](#)
[Savings Accounts and CDs](#)
[Small Business Services](#)

Get an American Express Card

[Airlines Credit Cards](#)
[Small Business Credit Cards](#)
[Credit Card Rewards](#)
[No Annual Fee Credit Cards](#)
[Gold Cards](#)

Important Links

[Resources for Cardmembers](#)
[Credit Basics](#)
[Fraud Protection Center](#)
[Amex Labs](#)
[Help](#)

Company Information

[About American Express](#)
[Careers](#)
[Affiliate Program](#)
[Contact Us](#)
[Connect](#)

[Terms of Service](#) | [Privacy Statement](#) | [Card Agreements](#)

All users of our online services subject to Privacy Statement and agree to be bound by Terms of Service. Please read.

© 2010 American Express Company. All rights reserved.