

# THE NUMBERS ADVISORS

## SMALL BUSINESS EMPLOYEE FRAUD DETECTION CHECKLIST

### **A 10-Step Mini Audit for Identifying Embezzlement in QuickBooks Online**

Use this checklist if something feels off in your business finances. This is not a full forensic audit, but it will help you quickly identify the most common signs of employee fraud and embezzlement.

### **How to Use This Checklist**

Set aside 60–90 minutes. Work through each step inside QuickBooks Online and your bank accounts. You are looking for patterns, inconsistencies, and anything that does not make sense.

*If you find multiple issues, it may be time to involve a professional.*

### **Important Note**

Finding only one of these issues isn't enough to prove guilt. Some of the issues you might discover by using this list could exist because of a legitimate error, or because the person doing the work isn't very good at their job.

Errors like reconciliation discrepancies or deletions are symptoms; they are not money leaving your business. You'll also need to find a pattern of unauthorized payments.

*If you find multiple issues, it may be time to involve a professional.*

# 1. Review Bank Reconciliations

## Where to look:

- Accounting » Reconcile
  - Select the bank or credit card account to verify.
  - Is the blue colored date the end of the most recent month?
  - For the end-of-month balance, enter a \$0.00. Set the date to 12/31/current year. Don't worry, we're not saving this. Click the button to 'start reconciling'.
  - To exit, in the dropdown on the top right, select "close without saving".
- Verify Reconciliations Weren't Forced
  - Run your Profit & Loss report for a specific month in the recent past.
  - You're looking for a line that says "Reconciliation Discrepancy". If this exists, it means that the numbers in your reports don't perfectly match what is happening in your bank accounts.

## What to look for:

- Reconciliations that aren't completed monthly
- Old or unreconciled transactions
- Adjustments made to "force" reconciliation
- Reconciliations done by the same person who handles payments

## Why it matters:

Bank reconciliation is where you make sure that what happens in your bank account matches what is reported to have happened in your business. If something is wrong here, it's not enough to prove employee fraud, but it is enough to suggest you should continue reviewing your accounting records. At the same time, if there is nothing wrong here, you might be dealing with a savvy and capable person, so keep looking.

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## 2. Review Vendor List for Suspicious Entries

### Where to look:

- Expenses » Vendors
  - Sort your vendors alphabetically to easily compare for duplicates, synonyms, and similar but misspelled vendor names.
- Reports » Standard Reports » In the search box type “Vendor” and several different reports will show in the dropdown.
- Reports » Vendor Phone List, or Vendor Contact List

### What to look for:

- Duplicate vendors with similar names
- Vendors with no contact details
- Vendors with P.O. boxes or personal addresses
- Recently added vendors you do not recognize
- Vendors with memo/description that are blank or don't make sense

### Why it matters:

Fake vendors are one of the most common embezzlement methods. Every vendor should have phone, email, and address information. Call or contact all vendors you don't recognize to verify a business relationship.

In other victimized businesses, Deep Fake vendors have been found to exist in every legal manner when they are in fact shells for embezzlement. In most states, it is free of charge to look up who owns a particular business.

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## 3. Review Recent Vendor Payments

### Where to look:

- Reports » Standard Reports » In the search box type “Vendor” and several different reports will show in the dropdown. You’re looking at reports that include the word “transaction”, “purchases”, and “balances”.

### What to look for:

- Round-dollar payments
- Frequent payments just under approval thresholds
- Payments to unfamiliar vendors
- Multiple payments to the same vendor in short timeframes

### Why it matters:

Fraud often occurs through repeated small payments rather than one large one. Don’t stop when you find one suspicious vendor. Continue to see if there is more than one.

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## 4. Check for Duplicate or Unusual Expenses

### Where to look:

- Reports » Transaction List by Vendor
- Reports » Expenses by Vendor Summary

### What to look for:

- Duplicate amounts
- Similar invoices paid multiple times
- Unusual spikes/increases in specific expense categories

### Why it matters:

Duplicate payments are a simple but common way to siphon money. Should you find a fake vendor with a similar name, run the Expenses by Vendor Summary report for both vendors in the same date range to see if the duplicate payment method was used.

## 5. Review Audit Log Activity

### Where to look:

- Settings » Tools » Audit Log

### What to look for:

- Under Events, choose Deleted/Voided transactions
- Use the Ctrl+F function to find “Edited” transactions after posting
- Activity outside normal working hours. Its easiest to first check weekend dates.
- One user making frequent, or all, changes.

### Why it matters:

The audit log shows who is changing financial data and when.

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## 6. Examine User Permissions

### Where to look:

- Settings » Manage Users

### What to look for:

- One person with full access to everything
- Users with admin privileges who should not have them
- Former employees who still have access

### Why it matters:

Too much access creates both opportunity and capability for fraud.

## 7. Review Expense Reimbursements

### Where to look:

- Expenses & Bills » Expense Transactions (filter by employee/vendor)
  - Once you find a specific transaction you want to review, use the “View/Edit” link on the right to open that transaction.

### What to look for:

- Missing receipts
- Vague descriptions
- Frequent reimbursements
- Personal-type expenses

### Why it matters:

Expense reimbursements are one of the easiest ways to commit fraud.

### Technique of the fraud:

A \$50 expense reimbursement is added to an employee A’s paycheck. Then, when the paycheck is paid, \$50 is directed to employee B’s bank account. Employee A’s deposit looks normal to them in their bank account, and there’s no tax impact to Employee A. Nobody reads their pay stubs anymore, so this goes unnoticed.

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## 8. Compare Financial Reports Month to Month

### Where to look:

- Reports » Profit and Loss (Monthly)

### What to look for:

- Sudden increases in expenses
- Declining profit without clear reason
- Categories that fluctuate unusually
- Expense categories that have consistently increased over time and at slow rates with no explanation.

### Why it matters:

Fraud often shows up as gradual changes over time. You might find fictitious employees or fictitious vendors who started as small expenses and grew slowly over years.

## 9. Look for Piggyback Transactions

### Where to look:

- Expenses & Bills » Expense Transactions - filter by vendor
  - Look at transactions involving retail vendors, utilities, cell phones.
  - Once you find a specific transaction you want to review, use the “View/Edit” link on the right to open that transaction.
  - Do not exclude your personal transactions

### What to look for:

- Transactions that are larger than they reasonably should be
- Secondary smaller transactions
- Personal-type expenses

### Fraud Technique:

Transactions are entered and processed to pay for employee expenses. In victimized companies, it's common to find that 3 units of something were purchased when the business (or business owner) only needed/wanted two.

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## 10. Match Cash Flow to Business Activity

### Where to look:

- Reports » Statement of Cash Flows
- Bank account activity

### What to look for:

- Cash leaving the business without a clear purpose
- Mismatch between planned profit and available cash
- Payments that don't align with operations

### Why it matters:

At a high level, fraud often shows up as cash that “disappears.”

# What to Do If You Find Issues

If you identify one or more red flags:

1. Do not confront the employee immediately
2. Preserve your records and limit system changes. Backup the QuickBooks file.
3. Document what you found
4. Consider bringing in an outside professional

If multiple issues appear across this checklist, there is a strong chance that deeper review is needed.

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## Final Thought

Most embezzlement isn't sophisticated. It relies on a lack of oversight and simple gaps in the process.

This checklist helps you apply a second set of eyes to your own business.

If something doesn't make sense, trust your instincts and take the next step. We've seen too many business owners ignore that gut feeling to their own detriment.