

AUGUST 2017

# ADDENDUM

PUBLISHED BY THE ALABAMA STATE BAR

## IN THIS ISSUE:

- President Augusta Dowd:  
Bar Unity
- An Evening to Remember:  
Honoring the Memory of Mike Turner
- Important Notice
- Update on Collaborative Law
- Member Benefits Spotlight
- Celebrating Those Who Make Access to  
Justice a Priority
- 2017 Annual Meeting Photo Highlights
- Mark Your Calendar for the Second Annual  
Tri The Gulf Triathlon
- Inside Jobs—Is Your Law Firm a  
Target for Embezzlement?
- Birmingham Attorney Honored with  
ABA Award
- Scams Targeting Attorneys:  
Will You Be a Victim?
- Suing for Their Freedom: Auburn University  
History Professor Discusses Her New Book,  
*In the Shadow of Dred Scott*

Short articles of general interest are always welcomed from ASB members. All materials submitted for publication in the *Addendum* are subject to editing for style, space and content. Send submissions as Word documents to [Allison Skinner](#), editor; [Linda Flippo](#), assistant editor; or [Margaret Murphy](#), managing editor.

*Addendum*, official digital newsletter of the Alabama State Bar, is published six times a year (December, February, April, June, August, October) by the *Addendum* Board of Editors, P.O. Box 4156, Montgomery 36101-4156. Contributions from members are welcomed and encouraged. Views expressed are those of the authors, not necessarily those of the board of editors, officers or board of bar commissioners of the ASB. Copyright 2017. The Alabama State Bar. All rights reserved.



## > Inside Jobs—Is Your Law Firm a Target for Embezzlement?

By Larry B. Childs

**J**ohn and Susan have grown their legal practice steadily and profitably for 14 years, partly by keeping their overhead low. Unfortunately, they recently discovered hidden profit: For the past six years their bookkeeper, Isabel, has been methodically embezzling from them. Because the firm's income kept rising, they didn't notice the losses, which now total approximately \$300,000.

Employee fraud occurs in every industry, but law firms can be easy targets when lawyers focus on client service at the expense of good business practices. Smaller firms with a single bookkeeper handling billing, collections, bank accounts and payments are especially vulnerable. John and Susan thought they were being careful by requiring that one of them must sign all paychecks. They did not notice, however, that Isabel was writing herself two paychecks each pay period and taking them to John and Susan separately, along with other routine payments. Isabel overpaid some of the firm's bills and, when the vendors refunded the overpayments, she used John's signature

stamp to endorse the checks for deposit into her personal account. She also systematically wrote off client receivables after diverting their payments.

### **The Triangle of Fraud—**

Embezzlement occurs most often when three conditions are present: need, opportunity and rationalization. The bookkeeper has a particular financial need. (Who doesn't?) The firm provides virtually no oversight, giving the bookkeeper the opportunity to steal with little fear of getting caught. Finally, the bookkeeper frequently has underlying resentment and justifies her actions because she feels overworked and undercompensated.

**Methods of Embezzlement—**The three primary ways employees embezzle money are:

1. **Skimming**—removing cash prior to its being entered in the accounting system;
2. **Larceny**—removing cash after it has been recorded; and
3. **Fraudulent disbursements**—creating bogus vendor accounts and invoices.

**Preventing Embezzlement—**Law firms can break the triangle of fraud by reducing the *opportunity* for theft. A sound system of basic accounting controls can dramatically minimize opportunities for embezzlement, even when the firm has only a single bookkeeping employee. Someone other than the bookkeeper must provide oversight, such as by receiving and opening the bank statement every month. The accounting processes should also be separated so one person does not handle accounting for a transaction from start to finish. As the owners of the law firm, a partner should review bank and credit card statements, payroll records and other accounts. In addition, engaging an independent CPA to review these records periodically is helpful. When employees know that accounts are reviewed regularly, they are much less inclined to steal from the firm. <

*Larry Childs is a partner with Waller Lansden Dortch & Davis LLP in Birmingham.*