

## Five Ways to Deter Embezzlement

### *Common situation:*

**One of the long-time employees at a construction firm has become the owner's right-hand man or woman. The worker is loyal, trustworthy and practically indispensable. But there is an unknown force that is driving the employee to embezzle funds from the company. It could be financial woes, an alcohol or drug addiction, or just plain greed.**

*Do not think that any company is immune.* Construction firm managers should not close their eyes and ears to the problem. Furthermore, acts of embezzlement can only be expected to increase during current economic conditions. At least taking some proactive steps may reduce the risks. Consider the following five suggestions:

1. Run a credit check on any individual who will be handling money before he or she is hired. In addition, perform criminal background checks in compliance with the Fair Credit Reporting Act.
2. Do not allow one employee to completely control the firm's finances. For instance, the person who prepares bank deposits should not be the one paying the bills. Create a division of labor in the finance department.
3. Take over the obligations for a finance department employee while he or she is on a week-long vacation. This will provide ample opportunity to examine the records and detect possible wrongdoing.
4. Be aware of employees who have started showing signs of financial stress or depression. Also, take note of employees who suddenly seem to be living well beyond their means. Do not make unfounded accusations, but monitor their activities carefully.
5. Other employees are often reluctant to reveal incidents of embezzlement and theft that they know about or suspect. Set up a system that enables employees to come forward without jeopardy.

If criminal prosecution is pursued, the firm's manager must prepare documentation that will establish the employee's guilt. As a result, the employee may face jail time or be forced to pay restitution in addition to receiving probation.



**Note:** Although these five steps should prove helpful, there is no absolute method for preventing embezzlement. Should an event occur, there are three main options for the firm:

- \*File criminal charges against the employee.
- \*File a civil lawsuit against the employee.
- \*Submit an insurance claim.

A civil lawsuit may enable the firm to recover lost funds if they are available. The construction firm may also seek punitive damages. Finally, the firm may be entitled to injunctive relief. This includes the ability to freeze the employee's assets if the stolen funds can be traced.

**In summary:** A financial disaster can be avoided through preventative steps. Make this a top priority for the coming year. By implementing sensible internal controls and being vigilant at all times, the firm can discourage employees from stealing in the first place.

## TAKING A TAX SHORTCUT FOR BUSINESS MILEAGE

Keeping track of business travel expenses is a necessary evil for tax purposes. To simplify matters somewhat, the IRS has authorized a standard mileage rate that may be used by business taxpayers who drive vehicles. The standard mileage method is not as time-consuming as maintaining records of all business-related expenses.

**Details:** As a general rule, a taxpayer may deduct the cost of using a vehicle for business purposes, subject to certain limits for luxury cars. But then the taxpayer must keep track of such fixed expenses as depreciation, gas, oil, tires, repairs, insurance, parking fees and tolls. Similarly, if the vehicle is leased, the taxpayer may be entitled to deductions for lease payments.

The IRS adjusts the standard mileage rate on an annual basis. It recently announced that the rate for 2009 is 55 cents for each business mile traveled (plus related tolls and parking fees). In contrast, the rate for 2008 was 50.5 cents for the first six months of the year and 58.5 cents for the last six months of the year.

Instead of deducting actual expenses, a taxpayer may opt to use the convenient standard mileage rate established by the IRS for that particular year. All of the costs of operating the car—including depreciation—are built into the standard mileage rate.

**Example:** John Jones, a construction firm owner, drives 15,000 business miles a year in his car. He also incurs \$1,000 in business-related parking fees and tolls. If John uses the standard mileage rate method in 2009, he can deduct \$8,250 (55 cents  $\times$  15,000 miles) for the mileage. When he adds in tolls and parking fees, the total deduction for 2009 is \$9,250 (\$8,250 + \$1,000) using this shortcut.

However, the standard mileage allowance cannot be used in certain conditions, including the following:

- \*The taxpayer owns the vehicle and has used a method of depreciation other than straight-line depreciation in a previous year (including the Section 179 allowance).

- \*For a leased vehicle, the standard mileage rate must be used for the entire lease period.

- \*The taxpayer operates five or more vehicles at the same time for business purposes (e.g., fleet operations).

- \*The vehicle is used for hire (e.g., taxicabs and limousines).

Most construction firm owners should be able to avoid problems as long as accelerated depreciation has not been claimed for the vehicle in the past.

Whether or not this method should be elected depends on the circumstances. Be aware that deducting actual expenses will produce a larger deduction if the operational costs exceed 55 cents per mile. In addition, Congress may revive bonus depreciation for vehicles placed in service this year. There is no benefit for bonus depreciation if the standard mileage rate is used.

**Recommendation:** Talk things over with a professional tax adviser to determine the best course of action. Then coordinate the necessary record keeping activities.



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