How to Prevent Billing Fraud

3 min read

On average, a billing scheme lasts 24 months before it's detected, and the median losses amount to $100,000 per case. (*Report to the Nations on Occupational Fraud and Abuse: 2018 Global Fraud Study*)

The most frequently occurring type of fraud in small businesses is billing fraud, which amounts to 29 percent of all cases.

Billing fraud occurs when an employee submits personal, fake, or inflated invoices for goods or services to the employer. The employee may create a fictitious company and invoice the employer or may generate new invoices or make multiple payments to a current, albeit non-accomplice vendor. Another billing fraud tactic is submitting bills for personal items purchased by the employee.

Example of Billing Fraud using Multiple Invoices

A nonprofit organization had outsourced its CFO position. As specified in the statement of work, the CFO of the outsourced service provider would invoice the nonprofit on a monthly basis.

From the start, the CFO did not include a time period on the invoice, so it wasn't clear to the Executive Director of the nonprofit exactly what he was paying for.

Over time, the CFO gradually shortened the time between the invoices. Eventually, he was submitting an invoice once every three weeks instead of once a month—effectively charging the nonprofit approximately 25 percent more than agreed.

OutSmart Billing Fraud with Internal Controls

Always pay based on an invoice (the original bill), never from a statement, and verify time periods so you're not being billed multiple times for the same services or time period. Invoices need to show the period of time served so they don't overlap. Enter the invoice number into QuickBooks®, since it will give you an alert if it's a duplicate.

Invoices without numbers should be entered by date so you can always go back and check the payments.

A **good strategy for combating billing fraud is to incorporate separation of duties for the various billing and bookkeeping functions**. Authorization, record keeping and custody of related assets should be assigned to separate employees – simply put, the person writing the check should not be reconciling the accounts. For growing businesses, this separation may not be feasible, which is a common reason many businesses decide to outsource the bookkeeping and controller aspects of their business. The more eyes on the books, the less appealing your company is to potential fraudsters.

- Separate your accounting duties: Accounts Payable, Accounts Receivable, & Authorization/Check Writing
- Use Purchase Orders, or enact separate approval on invoices before handing them to the bookkeeper
- Separate bank reconciliation from bill payment
- Use electronic bill payment with built-in workflow. We recommend Bill.com.
- Establish and review an Approved Vendor List
- Scan bill and link to each transaction inside QuickBooks

Implementing internal control strategies within your accounting functions minimizes your risk for employee theft. It also leaves you less vulnerable to human error that results from relying on a single point of failure, such as one bookkeeper, to handle all of your accounting duties.

Payroll fraud accounts for only 8.5 percent of cases, but the median loss per case amounts to $90,000. Because the amounts are so great, payroll fraud warrants special attention.

Read on about How to Prevent Payroll Fraud...