Keep the "wolves of embezzlement" away from your merger.

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The economy may still be volatile, but that desire to expand your business or to become a first time business owner is overwhelming your thoughts; and you're working to make that dream come true. You have hired a good M&A (mergers and acquisitions) attorney, located a business to invest in, and you have decided on a company to perform your due diligence work. Everything is coming up roses….Well, maybe not.

Over the years, I have heard many stories that follow this same path until an issue comes to light that very few people even think of; which has to do with one simple word, "embezzlement." Just how much money was actually stolen from the company before it was purchased? There is only one way to even make a sound estimate, and that is by having a fraud examination conducted by a forensic accountant prior to the due diligence work even starts.

Here is an example of why a forensic examination should be completed: An individual invested several million dollars into a business that a due diligence examination showed was on sound financial ground; and that the ability for the company to turn a good profit was unlimited. The sale was finalized and the new CEO took over. Everything was running smoothly and the profits appeared to be flowing in. Then, the bottom fell out. The company's long-time bookkeeper asked for and was granted a vacation. In order to keep a good eye on the company's finances, the CEO started doing the bookkeeping himself. After a few days, the CEO realized that something was wrong with the bank accounts. The CEO reviewed the bank statements but he could not understand out why they did not balance. The CEO had seen a presentation on the capabilities of a forensic accountant and knew who he had to call. A fraud examination was initiated and in a short time it was determined that the "trusted" bookkeeper had been embezzling money from the company for years, and the loss was well into the six figure range. This loss directly affected the profitability of the company and its new owner. The new owner contacted the former owners to discuss this matter, and their response was predictable: "Sounds like your problem, not ours!" The new CEO was then forced to take the issue to a civil court in an attempt to recover what he felt were lost profits due to the previous owners not uncovering this embezzlement prior to the sale.

No one trying to build a business should have to worry about company losses due to an internal theft. The Association of Certified Fraud Examiners (ACFE) conducts a national fraud survey every two years, and they show that 75% of all businesses are affected by fraud, that it takes and average of 24 months for an average "fraud" to be uncovered, and that on a good day, 60% of the company's employees will be stealing from them.

It is not uncommon for a company executive to believe there is no need for an internal control review, or a full fraud examination, because they have "trusted" employees and no one would steal from them. As former President Ronald Reagan used to say, "Trust, but verify!" Make sure that every dime that belongs to the company is going to the right people.

Individuals who are under heavy financial pressures that they feel they cannot share with others will do things they normally would not do in order to make these pressures go away. But pressures never truly go away, and the individual must keep "borrowing" money to keep the "wolves from their door." Or, in a worst case scenario, the individual begins to enjoy the thrill of the theft, and keeps it up to simply see if they can get away with it.

A Fraud Examination is like having a home inspection for the home you are about to buy. You want to make sure that there are no major problems prior to closing. Have a "home inspection" on that business you wish to buy before you sign on the dotted line, and assume any "major problems" that already exist in the business. Contact a forensic accountant before the "wolves" are barking at your door and someone else is taking that vacation you should have had.