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Delivering **Confidence**

The background of the slide features a blurred image of two people in business attire working at a desk. One person is on the left, wearing a blue shirt, and the other is on the right, wearing a striped shirt. They are looking at a laptop and some papers. The scene is brightly lit, suggesting a window in the background. A semi-transparent blue banner is overlaid on the image, containing the title and presenter information.

Hidden in Plain Sight: How Fraud Happens in QuickBooks

Presented by:
Sean T. Daughton, CPA, CFE
Christine N. Petrone, CPB

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Learning Objectives

- Warning signs and red flags of fraudulent activity
- Common fraud schemes facilitated through QuickBooks
- How employees exploit system features (and weaknesses)
- Key reports that can reveal potential fraud

What is Fraud?

Definition: wrongful or criminal deception intended to result in financial or personal gain

Fraud becomes a crime when: it is a knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment



What is Fraud? Continued

In other words, if you lie in order to deprive a person or organization of their money or property

YOU ARE COMMITTING FRAUD!



What is Fraud? Continued

The "10 – 80 – 10" Rule

- 10 % of employees would never commit a fraud, regardless of the situation
- 80 % of employees could become perpetrators if the situation was right
- 10 % of employees are basically dishonest and would steal if they got the chance

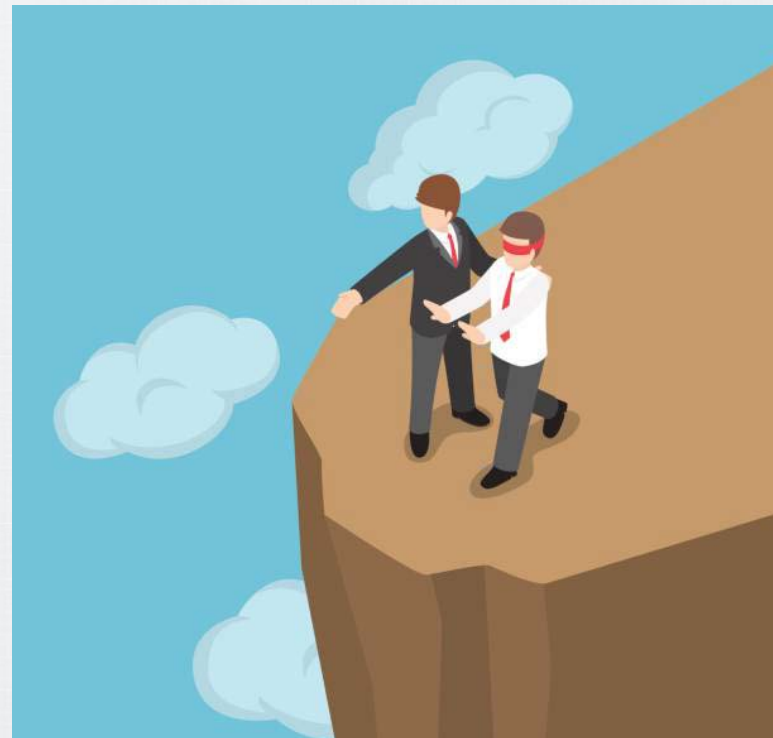
Fraud Triangle



Fraud Triangle, Continued

Opportunity:

- Internal controls
 - None in place
 - Not enforced
 - Not monitored
 - Not effective
- No segregation of duties
- Too much trust



Fraud Triangle, Continued

Financial Pressure:

- Debt
- Greed
- Lifestyle Needs
- Life Pressures
- Illicit Activities: Vices, Gambling, Drugs



Fraud Triangle, Continued

Rationalization:

- " I don't get paid what I am worth! "
- " Everyone else is doing it! "
- " They deserve to lose the money "
- " I intend to pay it back "
- " Nobody will miss the money "



Six Most Common Behavioral Red Flags

1. **Living Beyond Means**

Buying or doing things that are inconsistent with their known income

2. **Financial Difficulties**

Complaining about finances or having a sick family member

3. **Unusually Close Association With a Vendor or Customer**

Conflict of interest or collusion

4. **Excessive Control Issues**

Unwilling to share duties or delegate tasks

5. **Behavioral Changes**

Irritability, increased aggression, suspiciousness or defensiveness

6. **A General "Wheeler-Dealer" Attitude**

Exhibit consistently cunning or unethical approach to business dealings

Various Types of Fraud in QuickBooks

- Vendor Fraud
- Payroll Fraud
- Bank Reconciliation Fraud
- Accounts Receivable Fraud



Fraud involving **phony vendors** is a significant issue, with studies indicating that companies lose **5% of their revenue** due to vendor fraud. Additionally, **46% of reported fraud cases** involve imposter scams, which likely include fraudulent activities related to fake vendors.

As an example, if your company has annual revenue of \$1,000,000 and had vendor fraud, you could expect to have an average of \$50,000 embezzled.

In Part 2 we will discuss a more extreme example of over \$8,600,000 in 3 years!

Duplicate Vendors

QuickBooks will only recognize vendors as the same if all characters are exact. For example, QuickBooks considers these as two different vendors:

Dannible & McKee LLP \$0.00
Dannible & McKee,LLP \$0.00

If D&M is normally paid via ACH, the A/P Clerk could pay the duplicate vendor using his or her own bank account

Vendor Fraud, Continued



Fictitious Vendors

- Adding new vendors without approval or credit checks

An A/P Clerk could be paying what looks like a regular vendor but is in fact a check being deposited into a bank account of a company they created.

Vendor Fraud: Real World Example

- Company in Northern New York
- Person was NOT in the accounting department; they were the warehouse manager responsible for receiving and distributing products.
- Employee for over 20 years and well respected, and very close family style environment in the company.
- Created a fake vendor for "packing supplies"
- Friend in accounting not thinking much about yet another vendor, added the vendor in QuickBooks without any credit checks or reviews of this new vendor.
- Warehouse manager would "receive" in product (all small amounts under \$5,000 to not raise suspicious and provide the AP clerk with the invoice and the receiving report.
- When the phony vendor was discovered 3 years later, it was determined they had paid him over \$2,800,000.

Recording Entries to Look Like Payroll Expenses

- Payroll is often recorded via Journal Entries
 - Journal entries should agree to payroll register reports processed via payroll.
 - There should be no other entries within the payroll general ledger other than those associated with each payroll period

An employee with access to the bank could be withdrawing cash and recording it in QuickBooks via Journal Entry as wages

Payroll Fraud: Real World Example

- Company in Central New York
- Employee was the Office Manager responsible for 3 locations
- Company had a weekly payroll returned for NSF, and had to put money into the bank, and send money certified to the payroll company to pay employees that week.
- Office Manager started to take "cash" withdrawals from various bank tellers sometimes multiple times in one day.
- Owners had some health issue going on within the family and did not devote much time to the Company and "trusted" this employee.
- Office Manager started posting the withdrawals into QuickBooks as various cost of sales, and payroll accounts.
- Office Manager convinced its CPA/Tax Preparer they were paying employees in cash since they no longer trusted its payroll due to the one payroll being returned.
- Tax preparer never asked to see any 1099's since weekly payroll was being paid every week from its 3rd party payroll company.
- Three years after this had started, the owner opened one of its bank statements and wondered what the "Bank Teller" withdrawals were for.
- Only three years were evaluated, and the alleged embezzlement was over \$600,000 in cash withdrawals and use of the Company credit card.

Bank Reconciliation Fraud, Continued

Creating Fictitious Transactions

- Monthly bank reconciliations should be completed timely to ensure that the cash balance per the books agree to the balance per the bank statement, identifying and resolving any differences
 - These differences can include items like outstanding checks, deposits in transit, bank errors or other adjustments

An employee could be recording fake deposits in transit or altering dates, amounts & descriptions to make QuickBooks match the Bank Statement

Accounts Receivable Fraud

Falsifying Records to Hide Fraud

- Cash or Check payments are typically received from customer
 - The payments should be applied against open invoices
 - Those payments should then be deposited into the bank
 - Support from the deposit should be maintained

An A/R Clerk could be skimming cash payments and leaving those customer's invoices as open receivables



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Key Reports to Detect Fraud in QuickBooks

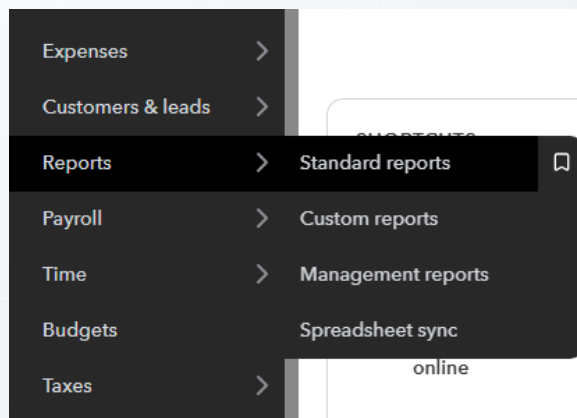
- Accounts Receivable Aging Detail
- Accounts Payable Aging Detail
- Check Detail
- Deposit Detail
- Journal Entry
- Audit log



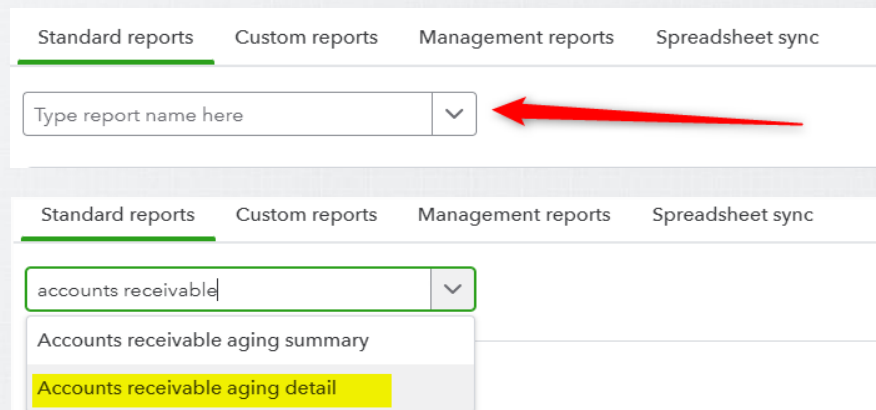


How To Access Key Reports

On the lefthand navigation bar select reports; standard reports



Once in standard reports, use the toolbar on the left to type in the desired report





Key Reports to Detect Fraud in QuickBooks

Accounts Receivable Aging Detail

This report will provide:

- Invoices outstanding to date
- Open balances on invoices
- Improperly applied payments



Accounts Receivable Aging Detail Report Example

Craig's Design and Landscaping Services

A/R Aging Detail

As of June 30, 2025

DATE	TRANSACTION TYPE	NUM	CUSTOMER	DUE DATE	AMOUNT	OPEN BALANCE
▼ 31 - 60 days past due						
04/16/2025	Invoice	1024	Red Rock Diner	05/16/2025	156.00	156.00
Total for 31 - 60 days past due					\$156.00	\$156.00
▼ 1 - 30 days past due						
05/06/2025	Invoice	1016	Kookies by Kathy	06/05/2025	75.00	75.00
05/07/2025	Invoice	1028	Freeman Sporting Goods:55 Twi...	06/06/2025	81.00	81.00
05/07/2025	Invoice	1027	Bill's Windsurf Shop	06/06/2025	85.00	85.00
05/30/2025	Invoice	1007	John Melton	06/29/2025	750.00	450.00
Total for 1 - 30 days past due					\$991.00	\$691.00
▼ Current						
06/02/2025	Invoice	1022	Jeff's Jalopies	07/02/2025	81.00	81.00
06/02/2025	Invoice	1021	Amy's Bird Sanctuary	07/02/2025	459.00	239.00
06/10/2025	Invoice	1012	Shara Barnett:Barnett Design	07/10/2025	274.50	274.50
06/15/2025	Invoice	1005	Freeman Sporting Goods:55 Twi...	07/15/2025	54.00	4.00
06/15/2025	Invoice	1018	Sushi by Katsuyuki	07/15/2025	80.00	80.00
06/21/2025	Invoice	1032	Travis Waldron	07/21/2025	414.72	414.72
06/22/2025	Invoice	1023	Red Rock Diner	07/22/2025	70.00	70.00
06/22/2025	Invoice	1019	Sushi by Katsuyuki	07/22/2025	80.00	80.00
06/22/2025	Invoice	1010	Weiskopf Consulting	07/22/2025	375.00	375.00
06/22/2025	Invoice	1015	Paulsen Medical Supplies	07/22/2025	954.75	954.75
06/23/2025	Invoice	1034	Rondonuwu Fruit and Vegi	07/23/2025	78.60	78.60
06/23/2025	Invoice	1033	Geeta Kalapatapu	07/23/2025	629.10	629.10
06/24/2025	Invoice	1035	Mark Cho	07/24/2025	314.28	314.28
06/24/2025	Invoice	1037	Sonnenschein Family Store	07/24/2025	362.07	362.07
06/24/2025	Invoice	1036	Freeman Sporting Goods:0969 ...	07/24/2025	477.50	477.50
Total for Current					\$4,704.52	\$4,434.52
TOTAL					\$5,851.52	\$5,281.52



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Key Reports to Detect Fraud in QuickBooks, Continued

Accounts Payable Aging Detail

This report will provide:

- Outstanding bills to date
- Improperly applied bill payments





Account Payable Aging Detail Report Example

A/P Aging Detail Report							
Craig's Design and Landscaping Services							
As of June 30, 2025							
Date ↕	Transaction Type ↕	Num ↕	Vendor Display Name ↕	Due Date ↑	Past Due ↕	↕ Amount	↕ Open Balance
▼ 1 - 30 days past due (4)							
05/10/2025	Bill	-	PG&E	06/09/2025	42	86.44	86.44
06/24/2025	Bill	-	Robertson & Associates	06/24/2025	27	315.00	315.00
06/24/2025	Bill	-	Norton Lumber and Building M...	06/24/2025	27	205.00	205.00
06/17/2025	Bill	-	Brosnahan Insurance Agency	06/27/2025	24	241.23	241.23
Total for 1 - 30 days past due						\$847.67	\$847.67
▼ CURRENT (1)							
06/22/2025	Bill	-	Diego's Road Warrior Bodyshop	07/22/2025	-1	755.00	755.00
Total for CURRENT						\$755.00	\$755.00
TOTAL						\$1,602.67	\$1,602.67



Key Reports to Detect Fraud in QuickBooks, Continued

Check Detail

This report will provide:

- Vendor Name
- Check Number
- Date check was written
- Whether the check has cleared the bank or not





Check Detail Report Example

Check Detail Report						
Craig's Design and Landscaping Services						
June 2025						
Transaction Date	Transaction Type	Num	Name	Memo/Description	Cleared	Amount
▼ Checking (15)						
▼ 79 (2)						
06/03/2025	Bill Payment (Check)	7	Hicks Hardware	-	Uncleared	-250.00
06/03/2025	Bill Payment (Check)	7	Hicks Hardware	-	-	-250.00
▼ 80 (2)						
06/06/2025	Expense	8	Hicks Hardware	-	Uncleared	-24.36
06/06/2025	Expense	8	Hicks Hardware	-	-	-24.36
▼ 84 (2)						
06/15/2025	Check	-	Tony Rondonuwu	-	Uncleared	-100.00
06/15/2025	Check	-	Tony Rondonuwu	Consulting	-	100.00
▼ 133 (2)						
06/16/2025	Check	70	Chin's Gas and Oil	-	Uncleared	-185.00
06/16/2025	Check	70	Chin's Gas and Oil	-	-	185.00
▼ 104 (2)						
06/17/2025	Bill Payment (Check)	11	Hall Properties	-	Uncleared	-900.00
06/17/2025	Bill Payment (Check)	11	Hall Properties	-	-	-900.00



Key Reports to Detect Fraud in QuickBooks, Continued

Deposit Detail

This report will provide:

- Date of Deposit
- Customers applied payments
- Amount of total deposit
- Whether the deposit has cleared the bank or not





Deposit Detail Report Example

Deposit Detail

Craig's Design and Landscaping Services
June 15-30, 2025

Transaction Date ▾	Transaction Type ▾	Num	Customer Full Name	Vend...	Memo/Description	Cleared	Amount
▼ Checking (7)							
▼ 61 (2)							
06/17/2025	Payment	1886	Cool Cars	-	-	Uncleared	694.00
06/17/2025	Payment	-	Cool Cars	-	-	-	-694.00
▼ 11 (2)							
06/19/2025	Sales Receipt	10264	Dylan Sollfrank	-	-	Uncleared	337.50
06/19/2025	Sales Receipt	-	Dylan Sollfrank	-	Custom Design	-	337.50
▼ 33 (2)							
06/22/2025	Payment	-	Freeman Sporting Goods:55 Tw...	-	-	Uncleared	50.00
06/22/2025	Payment	-	Freeman Sporting Goods:55 Tw...	-	-	-	-50.00
▼ 40 (2)							
06/22/2025	Payment	2064	Travis Waldron	-	-	Uncleared	103.55
06/22/2025	Payment	-	Travis Waldron	-	-	-	-103.55
▼ 62 (3)							
06/22/2025	Deposit	-	-	-	-	Uncleared	218.75
06/22/2025	Deposit	-	Diego Rodriguez	-	-	Uncleared	-140.00
06/22/2025	Deposit	-	Pye's Cakes	-	-	Uncleared	-78.75



Key Reports to Detect Fraud in QuickBooks, Continued

Journal Entry

This report will provide:

- Date of Journal Entry
- General Ledger Account
- Description
- Amount
 - Each line item of the Journal Entry
 - Total amount of Journal Entry





Journal Entry Report Example

Journal

Craig's Design and Landscaping Services
June 30, 2025

Transaction date ↑	Transaction type ⇅	Num...	Name...	Memo/Description	Full name ⇅	Debit	Credit
▼ 145 (3)							
06/30/2025	Journal Entry	PP063025	-	To adjust prepaid to actual	Insurance	500.00	-
06/30/2025	Journal Entry	PP063025	-	To adjust prepaid to actual	Insurance:Workers Compensation	225.00	-
06/30/2025	Journal Entry	PP063025	-	To adjust prepaid to actual	Prepaid Expenses	-	725.00
Total for 145						\$725.00	\$725.00
▼ 146 (2)							
06/30/2025	Journal Entry	JunDep	-	To record June Depreciation	Depreciation	550.00	-
06/30/2025	Journal Entry	JunDep	-	To record June Depreciation	Truck:Accumulated Depreciation	-	550.00
Total for 146						\$550.00	\$550.00
TOTAL						\$1,275.00	\$1,275.00

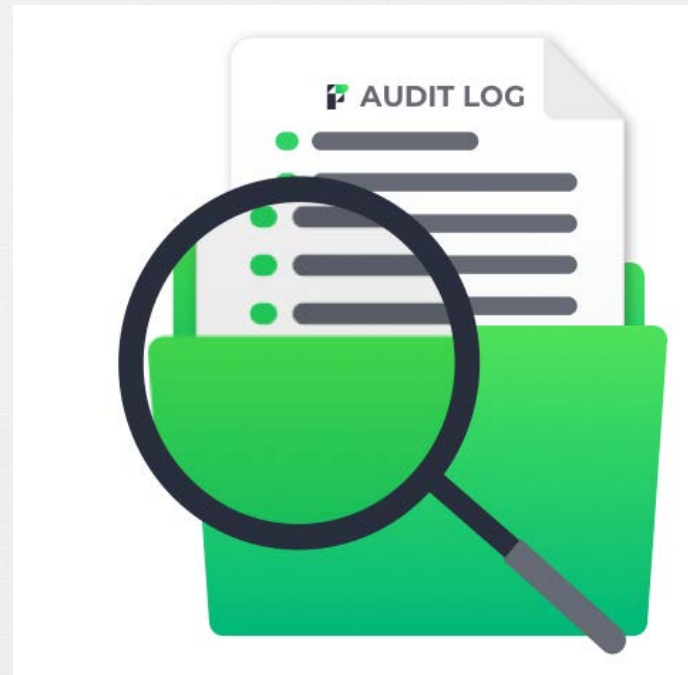


Key Reports to Detect Fraud in QuickBooks, Continued

Audit Log

This report will provide:

- Date of original transaction
- Timestamp of original transaction
- User completing the task
- Date & time stamp of edited transaction





Audit Log Example

Audit Log

User

Date Changed

Events

All Users

This Month

All events

DATE CHANGED ↓	USER	EVENT	HISTORY
Jul 21, 2025, 8:37 am Eastern Daylight Time	Craig Carlson	Edited user Craig Carlson	View
Jul 21, 2025, 4:11 am Eastern Daylight Time	Craig Carlson	Signed Out.	
Jul 21, 2025, 4:07 am Eastern Daylight Time	Craig Carlson	Signed In.	
Jul 20, 2025, 8:55 pm Eastern Daylight Time	Craig Carlson	Edited Timesheet to John Johnson	View
Jul 20, 2025, 8:55 pm Eastern Daylight Time		Added Timesheet to Emily Platt	View
Jul 20, 2025, 8:55 pm Eastern Daylight Time	Craig Carlson	Edited Timesheet to Emily Platt	View
Jul 20, 2025, 8:55 pm Eastern Daylight Time		Added Timesheet to John Johnson	View
Jul 20, 2025, 8:55 pm Eastern Daylight Time		Added Timesheet to Emily Platt	View
Jul 20, 2025, 8:55 pm Eastern Daylight Time	System Administration	Changed settings	



Save the Date for Part 2!

Wednesday, August 20, 2025

10:00 – 11:00 AM EST

In this session, you will learn:

- Best practices for configuring QuickBooks with fraud prevention in mind
- How to structure user roles and permission effectively
- Utilizing Audit trails and automated alerts
- Simple but powerful internal controls every organization should implement

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View past seminars on our YouTube Page!



Questions





Sean T. Daughton, CPA, CFE

Audit Partner

sdaughton@dmcpas.com



Christine N. Petrone, CPB

Accounting and Advisory Services

Director

cpetrone@dmcpas.com

DM Financial Plaza, 221 S. Warren St.
Syracuse, New York 13202

315-472-9127 | www.dmcpas.com

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