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*By Ben Sherry, Inc. (TNS)*

If you don't think that maintaining your financial records and transactions is a vital part of your life as an entrepreneur, just look at FTX. In a recently released [report](#) by the once-lauded cryptocurrency exchange's debtors, newly installed FTX CEO John J. Ray III laid out how a lack of financial and accounting controls helped to doom the company.

Here are a few lessons from the report on what NOT to do when bookkeeping.

# 1. Don't hire a generalist accountant for a

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When FTX learned in 2020 that in order to be listed on NASDAQ, the company would need to have its policies and procedures audited, senior management allegedly scrambled to fraudulently make up policies that could be shown to auditors within just 24 hours. The majority of FTX's accounting was conducted by a small external firm, which Ray says had no specialized knowledge relating to cryptocurrencies or international financial markets.

It should go without saying, but it's important to hire accountants, auditors, and financial risk professionals that can create policies to safeguard your organization from both internal and external fraud, and ensure that you at least know where your assets are.

## 2. Don't use just any accounting system.

FTX also faltered in its near-complete lack of accounting systems. In the report, Ray writes that 56 entities within FTX did not produce financial statements of any kind, while 35 entities used QuickBooks.

Because of this, FTX had difficulty even understanding its own positions. A June 2022 "portfolio summary" claiming to model cryptocurrency positions held by Sam Bankman-Fried's Alameda hedge fund stated, with respect to valuation inputs for certain tokens, that personnel should "come up with some numbers? Idk."

Bankman-Fried himself acknowledged the situation at FTX, writing in an internal communication that Alameda was "hilariously beyond any threshold of any auditor being able to even get partially through an audit," adding that "we sometimes find \$50m of assets lying around that we lost track of; such is life."

To be clear, such is NOT life. Companies with operations as large as FTX normally use either off-the-shelf advanced enterprise resource planning systems or their own

proprietary systems tailored to their own specific needs, such as, say, a

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Yes, expenses and invoices for FTX were submitted on Slack and approved via emoji, leaving debtors in the dark about what the transfers were for or where they were transferred to. The report claims that messages sent on Slack and secure messaging apps like Signal and Telegram were used to procedure approval for the transfer of tens of millions of dollars.

This total lack of reporting and documentation has made it extremely difficult for FTX's debtors to even get a sense of how much they've lost in assets. The debtors have had to reconstruct the company's historical data from scratch and are now just trying to "make sense of the numerous resulting discrepancies, anomalies, and undocumented positions."

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