

# EMPLOYEE FRAUD OPPORTUNITIES CHECKLIST

## Recognizing Warning Signs and Preventing Problem Situations

**Why are consistent internal controls important?**

1. Management decisions, financial reports, and company taxes rely on the accuracy of figures recorded.
2. Gives owner control of dollars in and out.
3. Standardizes good management practices and procedures.

**Advantages of Improved Internal control:**

1. Can reveal errors and omissions
2. Discourages employee theft
3. Protects assets

**How to use the checklist:**

1. Review the concept for each internal control area and answer the questions following each section.
2. Each answer identifies an area that needs stronger internal controls.

| PART 1 – SEGREGATION OF DUTIES AND REVIEW OF ACCOUNTING ACTIVITIES |  |     |    |     |
|--|--|-----|----|-----|
| <b>Concepts:</b>   |  |     |    |     |
| a.   | Certain accounting/bookkeeping functions are designed to cross-reference each other for accuracy. If the same person is responsible for multiple duties, the natural check and balance of the system is removed. |     |    |     |
| b.   | Trust is not the issue, verifying accounting transactions is! Giving a single person unquestioned authority over finances is not a wise business practice.   |     |    |     |
| <b>Questions:</b>  |  |     |    |     |
| Ref.   | Question (Note: each “no” answer identifies a potential problem!)  | Yes | No | N/A |
| 1.   | Is the person who handles cash different from the person who is responsible for recording the cash?  |     |    |     |
| 2.   | Is the person who pays for inventory different from the person who receives the inventory?   |     |    |     |
| 3.   | Is the person who orders inventory different from the person who receives the inventory?   |     |    |     |
| 4.   | Are two or more people responsible for the accounting function?  |     |    |     |
| 5.   | Are financial statements prepared for each month of the year that presents the month and year-to-date amounts along with a comparison to the prior year month and year-to-date amounts?                          |     |    |     |
| 6.   | Does the owner receive and review the financial statements each month?   |     |    |     |
| 7.   | Are copies of all adjusting and correcting journal entries presented to owner for review and approval?   |     |    |     |
| <b>Explanations:</b>   |  |     |    |     |
| Ref.   | Explanation  |     |    |     |
| 1.   |  |     |    |     |
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**PART 2 – BANK RECONCILIATIONS**

**Concepts:**

- |    |  |
|----|--|
| a. | Bank statements can only flag discrepancies if they are reconciled on a timely basis. Reconciliations should be done once a month. Bank adjustments need to be tracked carefully from one month to another.        |
| b. | Segregating duties is also important in this area. Reconciliations should be performed by one person and reviewed by another. Also, the person who writes the checks should not have the authority to sign checks. |

**Questions:**

| Ref. | Question (Note: each “no” answer identifies a potential problem!)  | Yes | No | N/A |
|------|--|-----|----|-----|
| 1.   | Does Company receive copies of all cancel checks, front and back, from bank with monthly bank statement?   |     |    |     |
| 2.   | Does the owner of Company or a senior manager outside of accounting review canceled checks and endorsements on a monthly basis?  |     |    |     |
| 3.   | Are bank reconciliations performed on a timely basis?  |     |    |     |
| 4.   | Does the owner or a senior manager outside of accounting review the bank reconciliations each month?   |     |    |     |
| 5.   | Are reconciling items reviewed with supporting documentation?  |     |    |     |
| 6.   | Does the owner or a senior manager outside of accounting receive and open the bank statement(s) prior to turning it over to the person who performs the bank reconciliation? |     |    |     |

**Explanations:**

| Ref. | Explanation |
|------|-------------|
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**PART 3 – SIGNING CHECKS AND SUPPORTING DOCUMENTATION FOR CHECKS**

**Concept:**

a. Enhances communications and serves as final checkpoint.

**Questions:**

| Ref. | Question (Note: each “no” answer identifies a potential problem!)  | Yes | No | N/A |
|------|--|-----|----|-----|
| 1.   | Is there a policy of prohibiting the signing of checks in blank and is policy followed?  |     |    |     |
| 2.   | Is there an IT control that prevents a check number from being used more than once?  |     |    |     |
| 3.   | Is there an IT control that prevents the reprinting of a check with the same check number?   |     |    |     |
| 4.   | Does entity prevent use of check “signature” stamps?   |     |    |     |
| 5.   | Does the company have a policy of not returning a signed check to the preparer of the check or the accounting department for mailing or delivery?                  |     |    |     |
| 6.   | Is there a policy of prohibiting a payment to a credit card company unless the credit card account is in the Company’s name?                                       |     |    |     |
| 7.   | Are checks for credit card statements always signed with the supporting statement attached?  |     |    |     |
| 8.   | With respect to payment of credit card balances, is credit card number for credit card account being paid always entered on check?                                 |     |    |     |
| 9.   | Is there a policy of prohibiting the direct payment to a credit card company for a balance on a credit card account owned by an employee and is policy followed?   |     |    |     |
| 10.  | Are checks to suppliers and vendors always signed with the original supporting documentation attached?   |     |    |     |
| 11.  | Are checks to employees for travel, expense, and other reimbursements (other than payroll) always signed with the original supporting documentation attached?      |     |    |     |
| 12.  | When check is signed with supporting documentation attached, is supporting documentation “marked” so that it cannot be reused?                                     |     |    |     |
| 13.  | Is there a policy requiring check signer to verify an unknown vendor’s name and whether vendor is a legitimate vendor before signing check and is policy followed? |     |    |     |
| 14.  | Does entity prevent use of check “signature” stamps?   |     |    |     |

**Explanations:**

| Ref. | Explanation |
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**PART 4 – EMPLOYEE/PERSONNEL**

**Concept:**

- a. Know your employees and be aware of changes in behavior.

**Questions:**

| Ref. | Question (Note: each “no” answer identifies a potential problem!)   | Yes | No | N/A |
|------|---|-----|----|-----|
| 1.   | Do all accounting staff and key personnel appear to be willing to share work records and share their tasks?   |     |    |     |
| 2.   | Do all accounting staff and key personnel appear to be free from apprehensive about taking vacations, time off and/or not being the first person to arrive and last person to leave each day? |     |    |     |
| 3.   | Have all accounting staff and key personnel who have had a sudden substantial change of lifestyle been investigated to determine the reason(s)?   |     |    |     |
| 4.   | Is the owner and senior management trained to recognize possible employee substance abuse?  |     |    |     |
| 5.   | Do all accounting staff and key personnel appear to be free of substance abuse?   |     |    |     |
| 6.   | Do all accounting staff and key personnel appear to be living within their means based on what is believed to be their household income?  |     |    |     |
| 7.   | Does the company monitor more closely employees known to be going through hardships (divorce, sick children, etc.)?   |     |    |     |
| 8.   | Is a verification of education history made before hiring all employees?  |     |    |     |
| 9.   | Is a verification of work history made before hiring all employees?   |     |    |     |
| 10.  | Is a check for criminal history made before hiring all employees?   |     |    |     |
| 11.  | Is a check of credit history made before hiring all employees?  |     |    |     |
| 12.  | Is there a policy prohibiting employees from working longer than a year without taking a vacation of at least one week and is the policy followed?  |     |    |     |
| 13.  | <b>Have all accounting staff and key personnel been secured with a fidelity bond?</b>   |     |    |     |

**Explanations:**

| Ref. | Explanation |
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**PART 5 – SAFEGUARDING ASSETS**

**Concept:**

- a. Limit and monitor access to important documents and supplies.

**Questions:**

| <b>Ref.</b> | <b>Question (Note: each “no” answer identifies a potential problem!)</b>   | <b>Yes</b> | <b>No</b> | <b>N/A</b> |
|-------------|--|------------|-----------|------------|
| 1.          | Are blank check stocks and signature stamps safely secured?  |            |           |            |
| 2.          | Are all checks restrictively endorsed when received?   |            |           |            |
| 3.          | Are cash and checks deposited daily?   |            |           |            |
| 4.          | Must owner of Company authorize bank transfers of funds between bank accounts?   |            |           |            |
| 5.          | Is a list of office furniture and equipment, with serial numbers if applicable, maintained on a current basis?   |            |           |            |
| 6.          | Is an annual inventory taken of office furniture and equipment   |            |           |            |
| 7.          | Is there adequate insurance coverage for assets?   |            |           |            |
| 8.          | Are all systems backed up on a daily basis and is backup stored off-site?  |            |           |            |
| 9.          | Is there password restriction and security for all computer systems and programs?  |            |           |            |
| 10.         | Are passwords changed at least every six months?   |            |           |            |
| 11.         | Is there a policy prohibiting employees from maintaining company records/documents on non-company owned electronic devices (e.g. – computers, cell phones, etc.) and is policy enforced? |            |           |            |
| 12.         | Is there a policy prohibiting employees from conducting business on non-company owned electronic devices (e.g. – computers, cell phones, etc.) and is policy enforced?                   |            |           |            |

**Explanations:**

| <b>Ref.</b> | <b>Explanation</b> |
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