

PERIODIC FRAUD PREVENTION CHECKUPS

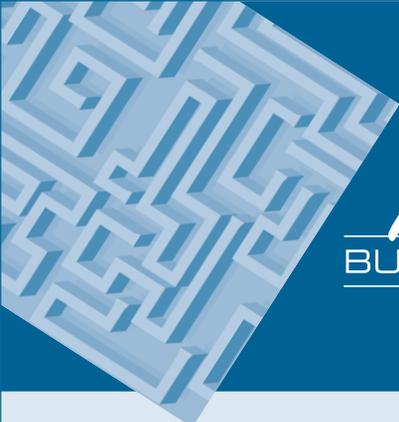
- Use a fraud prevention checkup every 6 to 12 months to evaluate both current status and needed improvements to your systems.
- Consider periodic fraud audits to improve your fraud prevention.

INVENTORY CONTROL

- Strong inventory controls can reduce your incidence of embezzlement and shoplifting. Companies with strong inventory controls will usually be more efficient in all aspects of their business.
- Inventory controls should:
 - ▼ Have a bookkeeping system in place to record and track inventory.
 - ▼ Use pre-numbered documents.
 - ▼ Perform periodic physical counts of the inventory.
 - ▲ A physical count of the entire inventory at least once a year.
 - ▲ Reconcile the physical count and the recorded inventory.
 - ▲ Any discrepancies that are greater than the expected shrinkage should be investigated to determine the cause (items that are of low value need not be investigated if the cost to do so is greater than the benefit).
 - ▲ Monthly surprise random physical counts of selected items.

PROCEDURES MANUAL

- A procedures manual is useful for:
 - ▼ Having a baseline for your procedures.
 - ▼ Allowing testing of your systems.
 - ▼ Holding employees accountable for their performance.
 - ▼ Reducing new employee training costs.
 - ▼ Facilitating easier cross training.
- A procedures manual should include:
 - ▼ Job descriptions.
 - ▼ Detailed listing of job procedures.
 - ▼ Flow charts of job functions and interactions.



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**Fraud
Prevention
TOOLKIT**

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This Fraud Prevention Toolkit is an excellent starting point to evaluate the internal controls that are in your business. It provides cost effective solutions for fraud prevention in your business.

SUGGESTION BOX AND A FRAUD HOTLINE

- A locked Suggestion Box can serve as a means for employees and vendors to anonymously report fraud as well as make suggestions.
- Initiate a Fraud Hotline for employees, vendors, customers and other interested parties to anonymously report fraud, ethics violations, suspicious activities or any other concerns. A third party provider is preferable.

SEGREGATION OF DUTIES

- Use different people for accounts payable, accounts receivable, and payroll functions.
- Use different people for purchasing and receiving functions.
- Implement additional controls if such segregations are not possible.

INDEPENDENT BANK RECONCILIATIONS

- Bank reconciliations need to be performed by someone who does not record accounting transactions. People in charge of the accounts payable (A/P), accounts receivable (A/R) and payroll (P/R) functions should not see the bank statement until after the independent person has reconciled it.
 - ▼ Suggestions for the independent reconciliation person are:
 - ▲ An employee outside of the A/P, A/R and P/R jobs.
 - ▲ The owner of the company.
 - ▲ The owner's spouse or other trusted, knowledgeable individual outside of the company.
 - ▲ The company's external accountant.
 - ▲ A fraud prevention firm.

CHECK SIGNERS

- The signer should have no accounting or recording responsibilities in the company. You have given your company away to the full charge bookkeeper if he/she can sign the checks.
- The signer should be a trustworthy person with high responsibility.
- Consider dual signature requirements.

- Your designated check signer needs to examine the invoices and checks to ensure:
 - ▼ The invoices are for legitimate goods or services purchased by the company.
 - ▼ The check is in the correct amount.
 - ▼ The check is made out to the correct vendor.
- Someone other than the A/P person needs to stuff the envelopes and mail the checks to reduce the risk of the checks being altered or diverted from their intended destination

CONTROLLING DISBURSEMENT DOCUMENTS

- Checks
 - ▼ Pre-numbered.
 - ▼ Control access to the checks.
- Payroll
 - ▼ Know your employees. Do not pay ghost employees.
 - ▼ Control time.
- Credit Cards
 - ▼ Set reasonable spending limits on the cards.
 - ▼ Ensure that all credit card receipts are accounted for.
 - ▼ Reconcile the credit card statements.

OPENING MAIL

- A person separate from accounting should open the mail.
- A log should be kept of all payments from customers.
- The bank statement should be sent unopened to the person responsible for the bank reconciliation.

MANDATORY VACATIONS

- Everyone in the accounting, purchasing and receiving departments should be required to take a minimum of 1-week vacation each year. This provides a greater chance of discovering embezzlement schemes.

REFERENCE CHECKS

- Check all references, prior employment and education of a job applicant.
- Use criminal or credit background checks for appropriate jobs.
- Carefully evaluate potential employees who are not rehirable by previous employers.