



## **Avoid being bamboozled this holiday season – review your internal controls.**

As year end approaches, it's time to take a fresh look at your internal policies and procedures to ensure you are minimizing your business's exposure to fraud. It's not a matter of trusting or not trusting people, rather, it's about creating a system of checks and balances. By following a few basic procedures, you can not only reduce the opportunity for fraud, you can also improve the accuracy and reliability of your transactions.

Once financial records have been altered, it is extremely difficult to uncover problems. Many standard accounting practices are not designed to uncover internal problems that can lead to embezzlement. Since fraud is easier to prevent than to detect, your best option is to safeguard your assets by addressing any weaknesses in your internal procedures.

The following business practices can help you minimize potential internal control problems:

- **Segregation of Duties.** Certain accounting functions should be divided among multiple people so that balances can be compared and inconsistencies become obvious. No single person should initiate, approve, and record a transaction. Typical jobs to be separated include:
  - writing and signing checks
  - ordering, paying, and receiving materials
  - handling and recording cash
- **Reconcile and Review.** Bank statements should be mailed to the owner for inspection of checks and endorsements, transaction tracking, review of payroll checks, and inquiries regarding any unusual items. Accounts should be reconciled on a timely basis every month.
- **Start at the Source.** Insist on reviewing original documentation for signing checks. Verify the names of vendors and employees occasionally and make notations on originals once checks have been signed.
- **Lock and Protect.** Keep blank checks and signature stamps secured and deposit cash and checks daily. Secure fidelity bonds and insurance for all accounting and key personnel.
- **Observe Employees.** Always verify employee references before hiring. Once hired, watch for changes in employee lifestyle, living beyond means, or possessiveness of work.
- **Secure physical assets.** Limit access to inventory and equipment so that high value items are not easily removed.

- **Encourage vacations.** Insist that employees take all available vacations. Often criminals will stay at their job so that others don't have an opportunity to discover their crimes.
- **Set the tone.** By having a high expectation for ethical behavior and acting swiftly in cases where people do not adhere to your policies, you will create a culture of responsibility and accountability.

Internal controls can help you reveal many discrepancies, as well as identify training and reward opportunities for your staff. Our firm can help you develop and implement these and other important controls and review your operational procedures. Please contact us if you have any questions.