

Reducing a Company's Risk for Fraud and the Need for Internal Controls

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Reducing a company's risk for fraud starts with strong internal controls, which should be well-documented and successfully implemented in order to safeguard a company's assets. Today we will look at three risk areas for fraud: Expense Reports, Billing Schemes - Altering Accounts Payable (A/P), and Inventory/Purchasing Controls.

Expense Reports. One example of fraud can occur with an employee's expense report and/or the misuse of a company credit card. Here's what you can do to prevent expense fraud:



1. Submitting expense reports in a timely manner, with receipts to payments of approved vendors. If there are any missing receipts, you can request a receipt from the seller or have the employee document the explanation of the expense with a signature and date.
2. Implement guidelines and due dates for expense reports to be submitted and approved, and ensure that these guidelines are communicated to all employees.
3. Enforce the use of a company credit card and discourage employee check reimbursements. This will prevent an employee purchasing something and then returning it and receiving the credit.
4. All expense reports should be reviewed and approved by a manager. You can also set limits for manager approval, e.g. expenses over a specific dollar threshold are approved by the next level of management.
5. Enact and document an Expense Reporting and Reimbursement Policy signed by each employee that is updated each time a policy change is made.

Billing schemes and altering Accounts Payable. One way to safeguard against fraudulent behavior is to put in place an approval process for all invoices. The process should involve multiple approvers, such as supervisors and managers, each of whom must review the invoice, verify it is a legitimate vendor, match the invoice with any purchase orders, and finally, approve the invoice. Furthermore, invoice payment should be done by someone who (1) does not enter the bill into the payment system, (2) does not reconcile any bank accounts, and (3) is not an approver. The person cutting the check does not have the ability or authority to set up new vendors. As a result, no such altering of accounts payable will occur. Payments should be made by using an Accounts Payable system so that there is a proper flow of transactions and approvals. It is also suggested that you limit the amount of check runs per month. Separation of duties is most important within the Accounts Payable process.

Inventory and Purchasing Controls. Inventory fraud is the most common type of fraud. Here is a list of recommended safeguards to prevent warehouse theft:

1. Lock all the doors
2. Install cameras
3. Only allow approved employees have access to the warehouse
4. Perform background checks for those employees with access to warehouse
5. All purchase orders must be approved.
6. When shipments arrive, count the items in the box and verify with the packing slip, purchase order and the vendor invoice. This will prevent employees from stealing out of the box or vendors short shipping or charging for items that may not have been received.
7. Inventory counts should be performed regularly, especially surprise counts.
8. Review if there have been complaints of missing items, there is an increase of damaged good and breakage
9. Review analytical data, such as sales, cost of goods sold, inventory turnover, etc., every month to determine if there are discrepancies that need to be investigated further.



In summary, it is critical that companies enforce internal controls and let employees know the procedures that are in place when they suspect or witness fraud occurring. Provide each employee with a job description with stated procedures for fraud and have them sign off on such procedures. Finally, educate all employees on the Code of Conduct and, each year, have them sign that they have read and understand the Code of Conduct.

Please reach out to marketing@coverrossiter.com if you would like a consultation about how to detect and prevent fraud in your organization. If you suspect fraud is occurring in your business, Cover & Rossiter can assist you with the forensic accounting needed to uncover it.

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