



Solid Internal Controls Can Help Fight Fraud

Jeff Peak, Manager
jpeak@dmllo.com

Employee fraud, theft and embezzlement are costly problems for all businesses. According to the Association of Certified Fraud Examiners, the typical organization loses 5% of its revenue to fraud each year.

Ways to tighten controls

An effective strategy for minimizing fraud is to tighten your internal controls. Here are some ways to do so:

Conduct surprise audits and job-site visits. These visits can not only help detect fraud, but also send a strong message that combating fraud is a priority — which is a powerful deterrent.

Segregate duties. Avoid situations in which one person handles multiple financial or accounting tasks. For example, the person who processes cash transactions shouldn't also prepare the company's bank deposits.

Use a lockbox. Your bank's lockbox services can secure and streamline the receipt and deposit of checks.

Review bank statements. Have monthly bank statements sent to you or a manager independent of the accounting function. Canceled checks should be reviewed for unfamiliar payees, forged signatures, unusually large dollar amounts and other suspicious activity.

Require dual signatures. Having two signatures on all checks (or on checks above a specified dollar amount) can help prevent fraud and facilitate management review of large transactions.

Review purchases. Name someone other than the purchasing agent (you or an estimator, for instance) to review vendor invoices, purchase orders and other documents. Use prenumbered purchase orders. Physically check materials and supplies to ensure they correspond to what was ordered in terms of quantity and quality.

Analyze budgets. Prepare annual budgets — for the company and for each job — and regularly compare actual results to budgets. Scrutinize large or unanticipated discrepancies.

Keep an eye on payroll. Have someone independent of the accounting function review and verify the names and pay rates on your payroll. Consider using direct deposit — not paper

checks — to expose any “ghost employees” and avoid distributing more than one check to the same employee.

Adopt a mandatory vacation policy. Fraud is often exposed when the perpetrator isn’t there to cover it up.

More than one benefit

These are just a few examples of the many internal controls contractors and other organizations should implement. In addition to preventing and revealing fraud, solid internal controls can help avoid accounting errors, reduce waste and boost cash flow by making billing, purchasing and other processes more efficient.