COMMERCIAL INSURANCE

A COMMERCIAL INSURANCE UPDATE

PCIA

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The material contained in this newsletter is provided for informational purposes only. Before taking any action that could have legal or other important consequences, speak with a qualified professional who can provide guidance that considers your own unique circumstances.

TOP 16 TIPS FOR AVOIDING FRAUD

Article courtesy of Camico www.camico.com

The most common method of fraud detection is a tip or complaint from an employee, vendor, customer or anonymous informant. Although small business frauds have a relatively low detection rate of fraud by audits, it does not accurately reflect the effectiveness of audits as deterrents to fraud by putting personnel on notice that a theft is likely to be detected.

The following list of practical loss prevention tips designed to prevent fraud from occurring has been compiled from a variety of sources.

Internal Controls

1. Separate the duties of receiving funds, disbursing funds, writing checks, signing checks, and reconciling bank accounts. Having one employee responsible for all cash-related functions makes small businesses vulnerable to fraud.

2. Have the monthly bank statement delivered unopened to the owner, who should review it for unusual transactions such as declining deposits and unfamiliar payees.

3. Owners should look for signatures or endorsements that look forged, missing checks, check numbers that are out of order, and checks where the payee listed does not match the name in the check register.

4. Consider an independent review of the cash accounts and bank statements by an anti-fraud specialist.

Employment Conditions

5. Institute background checks on new employees, and notify job applicants that their backgrounds will be checked.

6. Employees who receive regular and recurring training about the detrimental aspects of fraud are more likely to aid in controlling it.

7. Employees who feel well-treated and

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adequately compensated are less likely to commit occupational fraud than those who don't.

8. Employees who hold grudges against their employers—whether or not justified—are more likely turn to occupational fraud and abuse.

Workplace Conditions

9. Insist that employees take a vacation for at least one week every year and use that time to have the books reviewed for discrepancies.

10. Adopt a tip hotline or complaint-reporting mechanism that will enable employees, vendors, customers, or outside sources to report suspected fraud anonymously or without fear of reprisal.

11. Employers can gain valuable information by simply asking questions in a non- threatening, non-accusatory manner.

12. Conduct internal and external audits, especially a "fraud audit" instead of a "general audit" if you suspect fraud.

Automation

13. Have an accounting software program expert, preferably a CPA, do the initial set-up of the program to make sure that helpful features are turned on and unhelpful features are turned off.

14. Access to personnel and vendor master file records should be password protected and restricted by job function.

15. Computer systems should create an audit trail of all changes made to the vendor master file records, including an identification of those who made the changes.

16. Changes to vendor master file records should require supporting documentation, supervisory approval, and independent review.