

MINIMIZING EXPOSURE TO FRAUD – PART 2: CASH RECEIPTS AND INTERNAL CONTROLS

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Small businesses and nonprofit organizations may have more exposure to fraud since they often do not have the resources or systems available for fraud prevention. The following recommendations can help organizations minimize exposure:

Cash Receipts Controls

- Reconcile Point-Of-Sale Systems on a daily (or per shift) basis.
- A cash deposit should be made for each closing to simplify the tracking of this cash.
- Monitor the cash over/short account for variances between the cash deposit per the POS system and the actual deposit.
- Review voids and coupons entered into the system.
- Implement a policy of providing receipts for all cash purchases.
- This will minimize the opportunity for employees to siphon funds from a cash business.
- Monitor POS reports for cash refunds or credits.
- Consider using a bank “lock box” if you receive a high volume of checks.
- Checks are mailed directly to the bank for deposit.
- Review receivables and pay attention to adjustments or credits that could indicate subverted payments.
- Adhere to a numerical sequence for checks and also for invoices, cash receipts, purchase orders or other documentation.
- Follow up on missing documents.

Employee Reimbursements

- Eliminate petty cash accounts or keep petty cash balances to a minimum.
- If petty cash accounts are used, perform frequent reconciliations of cash and receipts.
- Do not provide employees with company credit/debit cards.
- Employees should use personal credit cards for business expenses and be reimbursed for valid expense receipts.
- Employees who use company credit cards are less likely to submit timely expense reports.
- If reimbursement is needed sooner – Issue cash advances with a signed cash advance agreement that

allows the employer to deduct the advance amount from the employee's paycheck if receipts are not provided.

Separation of Duties

- Make sure that appropriately authorized personnel are responsible for reviewing and approving all supporting documentation related to disbursements.
- Make sure that the person responsible for reconciling bank accounts is not a check signer or preparer of deposits.

Employment Screening and Orientation

- Thoroughly screen individuals and perform criminal background and credit checks before hiring.
- Be wary of recruits who have falsified information about employment history or have poor credit.
- Provide training to new and existing employees.
- Make employees aware of internal control policies and let them see that the control processes are carried out consistently.
- Perception of strong controls can be a deterrent.
- Provide employees with an anonymous way to report fraud.
Report acts of fraud to the appropriate law enforcement agencies.
- Help ensure that other organizations do not hire people who have a history of fraud in positions where they have an opportunity to become repeat offenders.

Internal Audits & Financial Reviews

- Perform internal audits on a periodic basis.
- Having management staff or board members conduct a detailed analysis of bank account activity for a random period of time may uncover acts of fraud, but most importantly it sends a message to staff that procedures are in place to catch those who misappropriate funds.
- Although cancelled checks may not be returned with bank statements, images of cleared checks can usually be viewed via the bank's website and should be reviewed in order to identify inappropriate payees.
- Reports can be provided in printed or PDF format in order to facilitate the review of this information.
- Online access to check images, along with a PDF report of checks recorded in QuickBooks, make it possible for management and/or board members to review this information from anywhere.
- Prepare budgets and review actual activity compared to budget for unusual variances.
- Take action on reports of internal control weaknesses that may be provided by your auditors. Determine if there are ways that the organization can help reduce or eliminate these weaknesses.