

DAM, SNELL AND TAVEIRNE, LTD.

Certified Public Accountants

"Preventing Employee Embezzlement" Internal Control Warning Checklist

One result of today's frenzied economic times is an increase in employee embezzlement. Documented local instances include theft of cash collections (covered by lapping of accounts receivable), writing of additional payroll checks, and diversion of invested funds through improper and unauthorized bank transfers. Embezzlement has taken place at all types of employers from retailers to government bodies.

Upon discovery, funds lost through defalcation can sometimes be recovered from the perpetrator, banks, clearing unauthorized transactions, or surety bond coverage. Without detection, however, the loss will generally continue unabated. Action on your part is necessary to prevent such incidents from taking place.

The checklist below is designed to help you identify those practices which constitute weaknesses in your system of internal controls. Assets should be safeguarded by limiting access to important documents, inventories, and supplies. Certain accounting duties should be segregated among employees to maintain system checks and balances.

Bank reconciliations and cash procedures should be monitored. Proper review of supporting documentation prevents unauthorized transactions. Knowing your employees helps identify behavioral changes which might be indicative of embezzlement.

*{Please Print this page for reference. You will need 2-3 sheets of paper.
You may check the boxes On Line and print or print and check boxes with a pen.
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"Safeguarding Assets" (*"No" indicates a potential problem*)

- | | | |
|--|------------|-----------|
| 1. Are blank check stocks and signature stamps secured? | Yes | No |
| 2. Do you restrictively endorse all checks when received? | Yes | No |
| 3. Do you deposit your cash and checks daily? | Yes | No |
| 4. Do you maintain and monitor a list of property subject to theft? | Yes | No |
| 5. Do you maintain physical controls over inventories, shipping, and receiving areas? | Yes | No |

"Segregation of Duties" (*"Yes" indicates a potential problem*)

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|---|------------|-----------|
| 1. Is the person handling your cash also responsible for recording the cash? | Yes | No |
| 2. Is the person ordering materials also responsible for receiving? | Yes | No |
| 3. Are two or fewer persons responsible for the accounting function? | Yes | No |
| 4. Is your review of the financial statements sporadic? | Yes | No |
| 5. Is your review of the financial journals sporadic? | Yes | No |

"Bank Reconciliations" (*"No" indicates a potential problem*)

1. Do you review canceled checks and endorsements monthly?	Yes	No
2. Do you compare payroll checks with employee records?	Yes	No
3. Do you question funds transferred between bank accounts?	Yes	No
4. Are bank reconciliations prepared on a timely basis?	Yes	No
5. Do you review bank reconciliations monthly?	Yes	No
6. Do you verify reconciling items?	Yes	No

"Supporting Documentation" (*"Yes" indicates a potential problem*)

1. Do you ever sign blank checks?	Yes	No
2. Do you ever sign checks without reviewing invoices, etc.?	Yes	No
3. Do you ever sign checks without canceling paid invoices?	Yes	No
4. Have funds ever been transferred between accounts without verification?	Yes	No
5. Do you ever sign checks for new vendors without knowing or verifying their name and association with your company?	Yes	No

"Knowing Your Employees" (*"Yes" indicates a potential problem*)

1. Are any of your employees possessive of their work records and reluctant to share their tasks?	Yes	No
2. Are any of your employees apprehensive about vacations and time off, while always being the first in the office and the last out?	Yes	No
3. Are any of your employees living beyond their means, or in personal financial difficulty?	Yes	No
4. Do any employees have a possible substance abuse problem?	Yes	No
5. Do you hire employees without checking references?	Yes	No
6. Do you permit accounting personnel to work longer than a year without taking a vacation?	Yes	No
7. Do you have any accounting staff or key personnel who have not been secured with a fidelity bond?	Yes	No

If you have questions, contact Doug Taveirne at 847-587-3022.