

Top Ten Internal Controls to Prevent And Detect Fraud!

1. Use a system of checks and balances to ensure no one person has control over all parts of a financial transaction.

- Require purchases, payroll, and disbursements to be authorized by a designated person.
- Separate handling (receipt and deposit) functions from record keeping functions (recording transactions and reconciling accounts).
- Separate purchasing functions from payables functions.
- Ensure that the same person isn't authorized to write and sign a check.
- When opening mail, endorse or stamp checks "For Deposit Only" and list checks on a log before turning them over to the person responsible for depositing receipts. Periodically reconcile the incoming check log against deposits.
- Require supervisors to approve employees' time sheets before payroll is prepared.
- Require paychecks to be distributed by a person other than the one authorizing or recording payroll transactions or preparing payroll checks.
- If the district is so small that you can't separate duties, require an independent check of work being done, for example, by a board member.
- Require accounting department employees to take vacations.

2. Reconcile district bank accounts every month.

- Require the reconciliation to be completed by an independent person who doesn't have bookkeeping responsibilities or check signing responsibilities or require supervisory review of the reconciliation.
- Examine canceled checks to make sure vendors are recognized, expenditures are related to district business, signatures are by authorized signers, and endorsements are appropriate.
- Examine bank statements and cancelled checks to make sure checks are not issued out of sequence.

- Initial and date the bank statements or reconciliation report to document that a review and reconciliation was performed and file the bank statements and reconciliations.
- 3. Restrict use of district credit cards and verify all charges made to credit cards or accounts to ensure they were business-related.**
- Limit the number of district credit cards and users.
 - Establish a policy that credit cards are for business use only; prohibit use of cards for personal purposes with subsequent reimbursement.
 - Set account limits with credit card companies or vendors.
 - Inform employees of appropriate use of the cards and purchases that are not allowed.
 - Require employees to submit itemized, original receipts for all purchases.
 - Examine credit card statements and corresponding receipts each month, independently, to determine whether charges are appropriate and related to district business.
- 4. Provide Board of Directors oversight of district operations and management.**
- Monitor the district's financial activity on a regular basis, comparing actual to budgeted revenues and expenses.
 - Require an explanation of any significant variations from budgeted amounts.
 - Periodically review the check register or general ledger to determine whether payroll taxes are paid promptly.
 - Document approval of financial procedures and policies and major expenditures in the board meeting minutes.
 - Require independent auditors to present and explain the annual financial statements to the Board of Directors and to provide management letters to the Board.
 - Evaluate staff's performance annually against a written job description.
 - Participate in the hiring/approval to hire consultants including the independent auditors.
- 5. Prepare all fiscal policies and procedures in writing and obtain Board of Directors approval. Include policies and/or procedures for the following:**
- cash disbursements
 - attendance and leave

- expense and travel reimbursements
- use of district assets
- purchasing guidelines
- petty cash
- conflicts of interest

6. Ensure that district assets such as vehicles, cell phones, equipment, and other district resources are used only for official business.

- Examine expense reports, credit card charges, and telephone bills periodically to determine whether charges are appropriate and related to district business.
- Maintain vehicle logs, listing the dates, times, mileage or odometer readings, purpose of the trip, and name of the employee using the vehicle.
- Periodically review the logs to determine whether usage is appropriate and related to district business.
- Maintain an equipment list and periodically complete an equipment inventory.

7. Protect petty cash funds and other cash funds.

- Limit access to petty cash funds. Keep funds in a locked box or drawer and restrict the number of employees who have access to the key.
- Require receipts for all petty cash disbursements with the date, amount received, purpose or use for the funds, and name of the employee receiving the funds listed on the receipt.
- Reconcile the petty cash fund before replenishing it.
- Limit the petty cash replenishment amount to a total that will require replenishment at least monthly.
- Keep patient funds separate from petty cash funds.

8. Protect checks against fraudulent use.

- Prohibit writing checks payable to cash.
- Deface and retain voided checks.
- Store blank checks in a locked drawer or cabinet, and limit access to the checks.
- Require that checks are to be signed only when all required information is entered on them and the documents to support them (invoices, approval) are attached.
- Require two signatures on checks above a specified limit. Require board member signature for the second signature

above a higher specified limit. (Ensure that blank checks are not pre-signed.)

- Mark invoices “Paid” with the check number when checks are issued.
- Enable hidden flags or audit trails on accounting software.

9. Protect cash and check collections.

- Ensure that all cash and checks received are promptly recorded and deposited in the form originally received.
- Issue receipts for cash, using a pre-numbered receipt book.
- Conduct unannounced cash counts.
- Reconcile cash receipts daily with appropriate documentation (cash reports, receipt books, mail tabulations, etc.)
- Centralize cash receipts whenever possible.

10. Avoid or discourage related party transactions.

- Require that a written conflict of interest and code of ethics policy is in place and that it is updated annually.
- Require that related party transactions be disclosed and be approved by the Board.
- Require competitive bidding for major purchases and contracts.
- Discourage the hiring of relatives and business transactions with Board members and employees.