

Internal control and fraud checklist

Occupational fraud, also known as workplace fraud, internal fraud, or employee fraud includes three general categories:

1. Misappropriation of assets.
2. Corruption.
3. Financial statement fraud.

Business owners need to protect themselves and the following checklist will help you evaluate your practice's risk of internal fraud.

Answer each question with a **Y** for Yes, **N** for No, or **DK** for Don't Know.

If you have a significant number of "no" and "don't know" responses, consider whether a more formal review is warranted.

Cash receipts and accounts receivable			
Y	N	DK	Does the practice use a lockbox or are the majority of deposits transmitted electronically to the practice's bank account?
Y	N	DK	Do different people prepare the billings, open the cheques from the mail, make out the deposit slip, make the deposit and post the deposit to your receivable ledger?
Y	N	DK	Are restricted endorsements placed on cheques upon receipt (e.g., "For Deposit Only")?
Y	N	DK	Does someone compare the posting of the customer accounts to the cash receipts?
Y	N	DK	Are cash receipts deposited promptly and stored in a secure location until they are deposited?
Y	N	DK	Are pre-numbered receipts used for actual cash receipts?

Y	N	DK	Are patients billed promptly?
Y	N	DK	Does an individual without accounts receivable duties complete collection calls for the practice?
Y	N	DK	Are there authorization procedures in place for writing off uncollectible accounts, and is that handled by someone other than the accounts receivable clerk?
Y	N	DK	Are system-generated accounts receivable reports (accounts receivable aging schedules) examined and compared to the general ledger?
Cash disbursements and accounts payable			
Y	N	DK	Are all disbursements made by cheque or EFT except for minor petty cash disbursements?
Y	N	DK	Do you conduct unannounced checks of petty cash?
Y	N	DK	Is the person signing the cheque someone other than the initiator of the cheque or the accounts payable staff?
Y	N	DK	Are expenses properly approved?
Y	N	DK	Is a second signature required for cheques over a pre-determined dollar amount?
Y	N	DK	Are blank cheques stored in a secure location and are they pre-numbered?
Y	N	DK	If signature stamps are used, are they in a secure location and used only by the individual whose signature is on the stamp?
Y	N	DK	Are vendor lists periodically reviewed by owners or upper management to ensure there are no fictitious or unusual vendors?

Y	N	DK	Is Positive Pay (a treasury function offered by most financial institutions that ensures that the cheques clearing the account are legitimate) used by the practice?
Y	N	DK	Are there controls in place for the use of practice credit cards (i.e. proper authorization of expense before the card is used)?
Y	N	DK	Are actual expenses compared to budgets, and are variations investigated?
Y	N	DK	Are system-generated accounts payable reports such as accounts payable aging schedules examined and compared to the general ledger?

Online banking/electronic funds transfer (EFT), and payment systems

Y	N	DK	Does your agreement with the bank require involvement of a practice owner to enable EFT debits, credits and wire transfers?
Y	N	DK	Are daily transaction limits set up for EFT payments?
Y	N	DK	Does the practice's payment (EFT) system require more than one person in the process to make a payment (i.e. is the EFT payment approved before the payment is sent)?
Y	N	DK	Do individuals at the appropriate level in the practice have access to the online banking function?
Y	N	DK	Are the controls or safeguards that are in place through your bank for EFT transactions and other financial transactions documented and reviewed on occasion to determine the ongoing appropriateness of the controls?

Payroll

Y	N	DK	Are pay rates of employees reviewed regularly by owners or upper management to determine the accuracy?
Y	N	DK	Are employee payroll records reviewed by owners or upper management to determine whether there are any fictitious employees and to confirm that time charged by hourly employees is reasonable?

Y	N	DK	Is an outside payroll service provider used?
Y	N	DK	Are any self-directed employee savings plans periodically reviewed to determine that the withholding from the employee matches the contribution going into the employee's self-directed account?
Y	N	DK	Is there a proper system in place for authorizing pay rate changes and adding new employees into the payroll system?
Y	N	DK	Do you run reference and background checks for all new hires?
Y	N	DK	Are there procedures in place to ensure payroll tax liabilities are paid on time?

General controls

Y	N	DK	Are vacations for the individuals in your accounting department required, and does someone else do their job while they are gone?
Y	N	DK	Are all employees who handle cash receipts and disbursements bonded, or do you have adequate insurance coverage for employee misconduct?
Y	N	DK	Are only authorized individuals given access to the accounting system and general ledger, and are appropriate user names and passwords used?
Y	N	DK	Do practice employees know that owners and upper management take an active role in reviewing financial data and transactions?
Y	N	DK	Are employees prohibited from taking home confidential documents?
Y	N	DK	Are bank accounts reconciled regularly by someone without cash receipt and disbursement duties, and are the reconciliations reviewed by someone other than the preparer on a periodic basis?
Y	N	DK	Do you have a mechanism in place for employees to report suspected fraud anonymously?

Y	N	DK	Do you have strict security procedures for terminated employees?
Y	N	DK	Do you know who has keys or access to your office?
Y	N	DK	Do you provide ethics and fraud-awareness training to all employees?

Although there is no formula to quantify each practice's fraud risk based on responses to the checklist, if you have a significant number of "no" and "don't know" responses, we suggest that you discuss them with a financial professional experienced with medical practices and fraud prevention to determine whether a more formal internal control review is warranted.