

FRAUD RISK SELF-ASSESSMENT TOOL

Description	Yes/No	Score* (If not applicable, score is 0)	Score
Human Resource Functions			
Are employment background checks performed? Past Employment, Criminal Background, Eligible for rehire, Drug Testing, Education & Licensing, References		For every yes, add 1 point (max of 5 pts).	
Are employees required to take vacations?		If yes, add 1 point. If no, subtract 1 point.	
Are employees who handle cash bonded?		If yes, add 1 point. If no, subtract 1 point.	
Do employees job-share or rotate positions?		If yes, add 2 points, If no, subtract 1 point.	
Is the hiring process separate from the processing of payroll?		If yes, add 1 point. If so, subtract 1 point.	
Are employee hours worked verified?		If yes, add 2 points. If no, subtract 1 point.	
Is payroll processed internally?		If yes, subtract 2 points. If no, zero points.	
Are any employees paid on commission?		If yes, subtract 2 points. If no, zero points.	
Miscellaneous			
Do employees have access to the company's equipment after business hours?		If yes, subtract 1 point. If no, add 1 point.	
Are company cars or vehicles used after business hours?		If yes, subtract 1 point. If no, add 1 point.	
Have large amounts of equipment been disposed of within the last two years?		If yes, subtract 1 point. If no, zero points.	
Sales and Cash Receipts			
Have sales increased more than 10% from the prior year?		If yes, subtract 1 point. If no, zero points.	
Does the person who handles incoming cash receipts also record transactions?		If yes, subtract 5 points . If no, add 3 points.	
Is a cash register used in the business?		If yes, add 1 point. If no, subtract 1 point.	
Is a bank lockbox used for processing customer payments?		If yes, add 1 point. If no, subtract 1 point.	
Are deposits made daily and secured prior to depositing in a safe?		If yes, add 2 points. If no, subtract 1 point.	
Are incoming checks restrictively endorsed?		If yes, add 1 point. If no, subtract 1 point.	
Is the monthly bank statement received and reviewed by someone other than the person handling the cash and checks?		If yes, add 3 points. If no, subtract 1 point.	
Is a monthly bank reconciliation completed by someone other than the person handling the deposits or with check-signing authority?		If yes, add 3 points. If no, subtract 1 point.	
If credit is extended to customers, is a credit review performed prior to granting credit?		If yes, add 1 point. If no, subtract 1 point.	
Does someone other than the salesperson approve credit?		If yes, add 1 point. If no, subtract 1 point.	
Is there a standard price list?		If yes, add 1 point. If no, subtract 1 point.	
Are discounts or coupons used?		If yes, subtract 2 points. If no or not applicable, zero points.	
If there are discounts/coupons, are they approved by management?		If yes, add 1 point. If no, subtract 1 point. If not applicable, zero points.	
Are returns, voided transactions, and credit memos greater than 10% of all sales transactions?		If yes, subtract 3 points. If no or not applicable, zero points.	

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Are customer complaints directed to the owner with no screening?		If yes, add 1 point. If no, subtract 1 point.	
Do cash transactions exceed 20% of all sales transactions?		If yes, subtract 5 points. If no, zero points.	
Purchasing and Cash Disbursements			
Are inventory or supplies secured in a warehouse of place that is restricted?		If yes, add 1 point. If no, subtract 1 point.	
Are inventory or supplies counted on a periodic basis (at least annually)?		If yes, add 3 points. If no, subtract 1 point.	
Are inventory counts reconciled to the perpetual inventory listing maintained by the company?		If yes, add 3 points. If no, subtract 1 point.	
Is there a perpetual inventory system that is updated after each transaction?		If yes, add 1 point. If no, subtract 1 point.	
Has inventory been missing?		If yes, subtract 2 points. If no, zero points.	
Is there a competitive bidding process?		If yes, add 1 point. If no, subtract 1 point.	
Does the owner approve purchases over a specific dollar amount?		If yes, add 2 points. If no, subtract 1 point.	
Does the owner approve new vendors?		If yes, add 2 points. If no, subtract 1 point.	
Are purchase orders (POs) used for ordering?		If yes, add 1 point. If no, subtract 1 point.	
When inventory or supplies are received, is the amount matched with the purchase order?		If yes, add 2 points. If, no, subtract 1 point.	
When vendor invoices are received, are they reconciled against receiving reports and POs?		If yes, add 2 points. If no, subtract 1 point.	
Are discounts taken for early pay terms?		If yes, add 1 point. If no, subtract 1 point.	
Does the owner sign checks?		If yes, add 5 points. If no, subtract 1 point.	
Are blank or unused checks kept secured (locked cabinet, safe, etc)?		If yes, add 1 point. If no, subtract 1 point.	
Are two signatures ever required on checks?		If yes, add 2 points. If no, subtract 1 point.	
Employee Expense Reimbursement			
Does a travel and business expense reimbursement policy exist?		If yes, add 1 point. If no, subtract 1 point.	
Does the company reimburse employees for business travel?		If yes, subtract 1 point. If no or not applicable, zero points.	
Does the company provide a corporate credit card for employees to use while traveling?		If yes, subtract 2 points. If no or not applicable, zero points.	
Are travel "per diems" permitted?		If yes, subtract 1 point. If no or not applicable, zero points.	
Are actual, itemized receipts required for reimbursement?		If yes, add 1 point. If no, subtract 1 point.	
Is a formal expense report completed?		If yes, add 1 point. If no, subtract 1 point.	
Is a detailed list of the names of guests and the type of business activity or entertainment required for expense reimbursement?		If yes, add 1 point. If no, subtract 1 point.	
Does the owner approve the reimbursement?		If yes, add 2 points. If no, subtract 1 point.	
Is there any comparison of expenses between employees to identify unusual expense patterns?		If yes, add 1 point. If no, subtract 1 point.	
Reporting and Monitoring			
Do you have an external financial statement audit, review, or compilation completed?		If yes, add 10 points. If no, subtract 1 point.	
Are "surprise audits" conducted by management, supervisors, or auditors?		If yes, add 1 point. If no, subtract 1 point.	

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Are employees encouraged to report concerns about fraudulent activities to the owner?		If yes, add 2 point. If no, zero points.	
Is there a fraud hotline?		If yes, add 1 point. If no, subtract 1 point.	
Is the owner or president typically at the company on a regular basis?		If yes, add 3 points. If no, subtract 3 points.	
Does the business have a code of ethics and conflict-of-interest policy, with a mechanism for employees to report ethical problems and conflicts of interest?		If yes, add 1 point. If no, subtract 1 point.	
Is there an internal audit function?		If yes, add 10 points. If no, zero points.	
Are financial statements prepared each month or quarter and reviewed by the owner?		If yes, add 3 points. If no, subtract 1 point.	
Are accounts (accounts receivable to general ledger, accounts payable to the general ledger) reconciled each month and reviewed by the owner?		If yes, add 1 point. If no, subtract 1 point.	
Are financial statements submitted to banks?		If yes, add 3 points. If no, zero points.	
Is a cash flow statement prepared for the company?		If yes, add 3 points. If no, zero points.	
Are there any reward programs for employees or others to report concerns?		If yes, add 1 point. If no, zero points.	

*Scoring: For any questions that do not apply to your organization, indicate not applicable (NA) and do not add or subtract points.

Score is greater than 50: The company has strong controls, and fraud risk is reduced.

Score is between 49 and 10: Controls can be improved.

Score is less than 9 or negative: Fraud risk is high. Inventory and cash could be at risk for theft.