

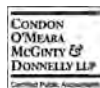


Don't Be "Clubbed" by Your Employees. Will You Be Embarrassed?  
Stop Fraud and Embezzlements Before They Happen!



## Overview

- Current Developments
  - Sarbanes Oxley
  - Senate Finance Committee Proposals
  - Panel on the Nonprofit Sector
  - SAS#99
  - Audit Committee
  - Conflict of Interest Statement



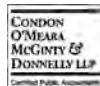
## Sensitive Areas for Defalcations

- Petty Cash
- Cash Payments/Sales
- Checks Made Out to "Cash"
- Check Signing Policies
- Approval of Write-Off's and Adjustments to Members' Accounts
- Theft of Inventory
- Theft of Equipment
- Fictitious Vendors
- Kickbacks
- Bogus Employees
- Misuse of Credit Cards



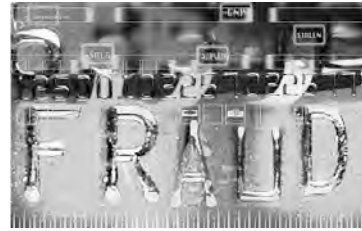
## Who Steals

- Disgruntled Employee
- Employee with Personal Problems
- Employee with Psychological Problems
- Fraud triangle (Fraud Risk Factors)
- Incentive or Pressure
- Opportunity
- Rationalization or Attitude



## Warning Signs

- Sloppy Records
- Not Ready for Audit
- Bank Reconciliations Not Done or Unusual Items on Bank Reconciliations
- Checks Missing from Bank Statement
- Unauthorized Debits on Bank Statement
- Tax Penalty Notices
- Blame Computer
- Extravagant Life Style
- Control
- Hyper Personality (could be misleading)
- Works Excessively and Never Takes Vacation



## How to Prevent Defalcations

- Establish "Tone at the Top"
- Establish System of Internal Controls
- Segregation of Duties
- Accounting Procedures Manual
- Eliminate Cash Transactions
- Keep Petty Cash Banks to a Minimum and Monitor
- Require Dual Signatures on Checks
- Review of Bank Reconciliations
- Review an Unopened Bank Statement – On a Test Basis
- Rotate Distribution of Payroll Checks



## How to Prevent Defalcations (cont.)

- Payroll Payoff
- Examine General Journal Entries and Other Adjustments
- Hiring Process
- Drug Testing
- Check References
- Background and Criminal Checks
- Credit Checks
- Bond Employees
- Install Cameras
- Change Locks Periodically



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## How to Prevent Defalcations (cont.)

- Comparative Monthly Financial Statements
  - To Budget
  - To Prior Year
- Audit
- Address Management Letter Comments
- Point-of-Sale Computer System (at least reduces errors)
- Employee Dishonesty Insurance



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## Role of the General Manager

- Set the Tone
- Review Payroll
- Verify that Controls are Being Followed
- Establish Good Purchasing Procedures
- Approve All Invoices



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## Role of the Controller

- Establish a Written Internal Control Procedures Manual
- Monitor that Controls are Being Followed
- Control All Cash Receipts Until Deposited



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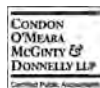
## Role of the Auditor

- Statement on Auditing Standards No. 99 – “*Consideration of Fraud in a Financial Statement Audit*”
- Auditor Must Plan and Perform Audit to Obtain Reasonable Assurance that Financial Statements are Free of Material Misstatements, Including Fraud
- Maintain Professional Skepticism
- “Brainstorming Session” of Potential Misstatement Due to Fraud
- Inquiry of Client Personnel
- Evaluate Client’s Programs and Controls
- Communication About Fraud Matters



## Reporting Illegal Acts

- Do Not Falsely Accuse
- Interview with a Witness
- Consult Legal Counsel
- Contact Insurance Carrier



Thank you!