

**NORTHEAST INSTITUTE FOR QUALITY COMMUNITY ACTION**

**FRAUD PREVENTION CHECKLIST**

According to the most recent research by the Association of Certified Fraud Examiners\*:

* The median loss to corporations caused by organizational fraud was $140,000 and in 50% of these cases, the organization was unable to recoup any of the loss;
* On average the fraud lasted for 18 months;
* The majority of the perpetrators had never been previously charged or convicted of a fraud-related offense;
* Perpetrators were most often associated with organizational accounting and billing functions;
* The most common characteristics of the perpetrator was living beyond one’s means or an individual experiencing financial difficulties (63%);
* Routine independent organizational audits only detected fraud in 3% of the cases reported.
* Any organization is vulnerable to fraud but smaller companies are at higher risk due to inadequate controls and resources.

**Fraud Prevention Checklist:**

According to the ACFE, the ***most cost-effective way to limit fraud losses is to prevent fraud from occurring.*** Their checklist is designed to help organizations test the effectiveness of their fraud prevention measures.

**1. Is ongoing anti-fraud training provided to all employees of the organization?**

❑❑Do employees understand what constitutes fraud?

❑❑Have the costs of fraud to the company and everyone in it — including lost profits, adverse

publicity, job loss and decreased morale and productivity — been made clear to employees?

❑❑Do employees know where to seek advice when faced with uncertain ethical decisions, and do they

believe that they can speak freely?

❑❑Has a policy of zero-tolerance for fraud been communicated to employees through words and actions?

**2. Is an effective fraud reporting mechanism in place?**

❑❑Have employees been taught how to communicate concerns about known or potential wrongdoing?

❑❑ Is there an anonymous reporting channel available to employees, such as a third-party hotline?

❑❑Do employees trust that they can report suspicious activity anonymously and/or confidentially and

without fear of reprisal?

❑❑Has it been made clear to employees that reports of suspicious activity will be promptly and thoroughly

evaluated?

❑❑Do reporting policies and mechanisms extend to vendors, customers and other outside parties?

**3. To increase employees’ perception of detection, are the following proactive measures taken and**

**publicized to employees?**

❑❑ Is possible fraudulent conduct aggressively sought out, rather than dealt with passively?

❑❑Does the organization send the message that it actively seeks out fraudulent conduct through fraud

assessment questioning by auditors?

❑❑Are surprise fraud audits performed in addition to regularly scheduled audits?

❑❑ Is continuous auditing software used to detect fraud and, if so, has the use of such software been made

known throughout the organization?

**4. Is the management climate/tone at the top one of honesty and integrity?**

❑❑Are employees surveyed to determine the extent to which they believe management acts with honesty

and integrity?

❑❑Are performance goals realistic?

❑❑Have fraud prevention goals been incorporated into the performance measures against which

managers are evaluated and which are used to determine performance-related compensation?

❑❑Has the organization established, implemented and tested a process for oversight of fraud risks by the

board of directors or others charged with governance (e.g., the audit committee)?

2012 **Report to the Nations** on Occupational **Fraud** and Abuse 71

**5. Are fraud risk assessments performed to proactively identify and mitigate the company’s vulnerabilities**

**to internal and external fraud?**

**6. Are strong anti-fraud controls in place and operating effectively, including the following?**

❑❑ Proper separation of duties

❑❑Use of authorizations

❑❑ Physical safeguards

❑❑ Job rotations

❑❑Mandatory vacations

**7. Does the hiring policy include the following (where permitted by law)?**

❑❑ Past employment verification

❑❑Criminal and civil background checks

❑❑Credit checks

❑❑Drug screening

❑❑ Education verification

❑❑References check

**8. Are employee support programs in place to assist employees struggling with addictions, mental/**

**emotional health, family or financial problems?**

**9. Is an open-door policy in place that allows employees to speak freely about pressures, providing**

**management the opportunity to alleviate such pressures before they become acute?**

**10. Are anonymous surveys conducted to assess employee morale.**

**\* “Report to the Nations: 2012 Global Fraud Study. Association of Certified Fraud Examiners**