

CONTROLS TO PREVENT FRAUD

Detecting Lapping of Sales or Receivables

Lapping can usually be detected by comparing the dates of the customer's payments with the dates the customer's accounts are posted. This requires an examination of the source documents, such as the composition of bank deposits. Discrepancies should be investigated.

Confirmation of customers' accounts is another method that might detect lapping.

Skimming Controls

The discovery of thefts of checks and cash involves proper controls on the receipt process. Deficiencies in the answers to these typical audit-program questions may be red flags:

- Is mail opened by someone independent of a cashier, accounts receivable bookkeeper, or other accounting employees who initiate or post journal entries?
- Is the delivery of unopened business mail prohibited to employees having access to the accounting records?
- Does the employee who opens the mail perform the following: Place restrictive endorsements ("For Deposit Only") on all checks received? Prepare a list of the money, checks, and other receipts? Forward all remittances to the person who prepares and makes the daily bank deposit? Forward the total of all remittances to the person who compares it to the authenticated deposit ticket and amount recorded?
- Is a lock box used?
- Do cash sales occur? If so, are cash receipts prenumbered and is an independent check of prenumbered receipts done daily and reconciled to cash collections?
- Do cash refunds require approval?
- Are cash receipts deposited intact daily?
- Are employees who handle receipts bonded?
- Is the accounts receivable bookkeeper restricted from performing the following activities: Preparing the bank deposit? Obtaining access to the cash receipts book? Having access to collections from customers?
- Are banks instructed not to cash checks drawn to the order of the company?
- Is the cashier restricted from gaining access to the accounts receivable records and bank and customer statements?
- Are areas where physical handling of cash occurs reasonably safeguarded?
- Is the person who makes postings to the general ledger independent of the cash receipts and accounts receivable functions?
- Does someone independent of the cashier or accounts receivable functions handle customer complaints?