



Three “Firewalls” To Build In Your Company

What are “internal controls” and how do they protect my company?

Internal controls refers to the systems, processes, and procedures that management puts in place to protect the assets of your company from fraud, theft, misappropriation, or loss. Internal controls are integral to preventing fraud and theft, and can be part of the administrative, accounting, and inventory control systems.

In administration, internal controls may include forms and processes that document the human resources functions: job descriptions, compensation rates, insurance and health benefits, payroll, vacation, and separation/termination duties. From a fraud perspective, solid administrative internal controls can prevent ghost employees, commission and overtime scams, workers compensation, and health-care fraud. Beyond fraud concerns, internal controls can also reduce potential incidents of workplace violence, discrimination, or harassment.

In accounting, internal controls include processes that outline separation of duties, cash deposits, accounts payable/receivable, timekeeping functions, cash flow management, and preparing financial statements. From a fraud perspective, strong internal controls can prevent a host of financial fraud problems, including embezzlement, vendor schemes, cash thefts, and financial statement fraud.

Inventory control systems monitor the processes related to equipment, inventory, supplies, vehicles, uniforms, purchasing, and warehouse duties. From a fraud perspective, inventory control systems reduce the likelihood of inventory “shrinkage” (theft committed internally by employees, externally by customers), misuse of company vehicles, stolen supplies, acts of sabotage, and conversion of company assets to personal use. Inventory control systems also outline proper warehouse processes and procedures, increasing safety and reducing the likelihood of incidents that could result in serious injury or death to employees.

“Internal controls are part of the protective system against fraud. They are designed to prevent irregularities and ensure early detection.”¹ Strong internal controls also contribute to creating a perception of detection, one of the most important fraud prevention tools available to management or a company’s owner.

Call us at **561-687-8381** or visit us at www.radioinvestigator.com for more information about preventing fraud by installing internal controls at your company.

¹ Silverstone and Sheetz, *Forensic Accounting and Fraud Investigation for Non-Experts*, 2nd Edition, Copyright © 2007, John Wiley & Sons, Inc., Hoboken, NJ
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