Fraud Prevention Checklist

The most cost-effective way to limit fraud losses is to prevent fraud from occurring. This 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?

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 fraud 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)?

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 internal audit department, if one exists, have adequate resources and authority to operate effectively and without undue influence from senior management?**

8. **Does the hiring policy include the following?**

    ❏ Past employment verification

    ❏ Criminal and civil background checks

    ❏ Credit checks

    ❏ Drug screening

    ❏ Education verification

    ❏ References check

9. **Are employee support programs in place to assist employees struggling with addictions, mental/emotional health, family or financial problems?**

10. **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?**

11. **Are anonymous surveys conducted to assess employee morale?**