

# Fraud Risk Assessment Tool

## Module # 1 – Employee Assessment

The employee assessment questions are designed to assess the probability of a fraudulent event occurring within the organization based on:

- Internal controls
- Internal control environment
- Resources available to prevent, detect, and deter fraud

## Questionnaire Key

### *1. Are employees provided formal written job descriptions?*

In addition to clarifying what employees are responsible for, job descriptions signify what employees are not responsible for. Employees who perform duties outside of their job descriptions represent a significant red flag.

### *2. Are employees provided with an organizational chart that shows lines of responsibility?*

Organizational charts provide employees with a snapshot of an organization's division of work, levels of management, and reporting relationships.

### *3. Does the company have written accounting policies and procedures?*

Accounting policies and procedures, including those related to fraud, should be documented, implemented, and communicated to employees.

### *4. Is there a formal policy covering approval authority for financial transactions, such as purchasing or travel?*

In order to safeguard assets and financial reporting, companies should develop and implement policies for determining how financial transactions are initiated, authorized, recorded, and reviewed.

### *5. Does the company have an ethics statement?*

The company should implement a formal ethics statement that (1) defines conduct that is unethical, (2) states that unethical acts will be punished, and (3) provides information on reporting unethical conduct.

### *6. Does senior management exhibit and encourage ethical behavior?*

Senior management sets the tone for ethical conduct throughout the organization. The tone should signal that fraud will not be tolerated.

### *7. Does the company have written fraud policies and procedures?*

The company should document and implement fraud policies and procedures that describe (1) fraudulent conduct, (2) punishment for engaging in fraudulent conduct, and (3) how to report fraudulent conduct.

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8. *Is a senior member of management responsible for compliance with fraud policies?*

The responsibility for compliance with fraud and ethics policies should be assigned to a senior member of management.

9. *Does the organization educate employees about the importance of ethics and anti-fraud programs?*

All employees should receive training on the ethics and anti-fraud policies of the company. The employees should sign an acknowledgment that they have received the training and understand the policies.

10. *Does the organization provide an anonymous way to report suspected violations of the ethics and anti-fraud programs?*

Organizations should provide employees, vendors, and customers with a confidential system for reporting suspected violations of the ethics and anti-fraud policies.

11. *Are fraud incidents promptly and thoroughly investigated?*

Promptly and thoroughly investigating all reported incidents of fraud can minimize losses.

12. *Does the company maintain a record of fraud incidents?*

A formal record of all reported incidents of fraud, including documentation of investigative activities and final disposition of each incident, should be maintained.

13. *Does the company conduct pre-employment background checks?*

Before offering employment to an applicant, a company should conduct a pre-employment background check.

14. *Does the company have a loss prevention function?*

Responsible personnel should be trained to perform loss prevention functions.

15. *Does the company have an internal audit function?*

Internal audits that focus on high-risk areas for fraud can identify new vulnerabilities, measure the effectiveness of internal controls, and signal that fraud prevention is a high priority for the company.

16. *Are the duties related to authorization, custody of assets, and recording or reporting of transactions segregated?*

The company should segregate the duties related to authorization, custody of assets, and recording or reporting of transactions.

17. *Is compliance with internal controls audited periodically?*

Periodic audits of compliance with internal controls send the message to employees that the company is proactive in its anti-fraud efforts.

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*18. Do employees feel they are treated and compensated fairly?*

Management should establish appropriate lines of communication with employees (such as surveys, exit interviews, and open-door policies) to assess their attitudes toward the organization.

*19. Do any employees have large personal debts or credit problems?*

Employees with large personal debts or credit problems are a red flag of potential fraud and should be monitored by management.

*20. Do any employees appear to be spending far more than they are earning?*

Management should be observant of signs of employees spending far more than they are earning. It is common for employees who steal to use the proceeds for lifestyle improvements, including expensive cars and extravagant vacations.

*21. Do any employees gamble excessively?*

Employees who gamble excessively pose a potential fraud risk to the company and should be monitored by management. Employee assistance programs can be made available to help employees with gambling addictions.

*22. Do any employees use alcohol or drugs excessively?*

Employees who use alcohol or drugs excessively pose a potential fraud risk to the company and should be monitored by management. Employee assistance programs can be made available to help employees with alcohol or drug addictions.

*23. Do any employees resent their superiors?*

Employees who resent their superiors should be monitored by management, as they pose a potential fraud risk to the company.

*24. Do any employees have a close association with vendors or competitors?*

Employees with a close relationship to a vendor or competitor should be monitored for potential conflict of interest.

*25. Do any employees have outside business interests that might conflict with their duties at the company?*

Employees should be required to provide annual financial disclosures that list outside business interests. Outside interests that conflict with the organization's interests should be prohibited.

*26. Is the company experiencing high employee turnover?*

High employee turnover, especially in areas particularly vulnerable to fraud, is a warning sign of fraud that should be investigated.

*27. Are employees required to take annual vacations?*

Requiring employees to take annual vacations can aid an employer in detecting an ongoing fraud scheme because the employer is more likely to discover a perpetrator running such a scheme when the perpetrator is removed from the scene.

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28. *Is the company dominated by a small group of individuals?*

If control is centered in the hands of a few key employees, those individuals should be under heightened security for compliance with internal controls and other policies and procedures.

29. *Does the company have unrealistic productivity measurements and expectations?*

Unrealistic productivity measurements and expectations can place undue pressure on employees and result in employees committing fraudulent acts in order to meet them.

30. *Does management fail to give employees positive feedback and recognition for job performance?*

Providing positive feedback and recognition to employees helps to reduce the likelihood of internal fraud and theft through boosting morale. Employees with positive feelings about an organization are less likely to commit fraud against the organization.

31. *Are employees afraid to deliver bad news to supervisors or management?*

Management should promote a culture in which employees aren't afraid to deliver bad news. After all, the sooner management receives the bad news, the sooner it can respond.

32. *Is there a lack of communication between employees and management?*

Management can improve communication with employees by creating an atmosphere that encourages open communication. Employees should feel safe in sharing any thoughts, comments, complaints, or suggestions.

33. *Is there a lack of clear organizational responsibilities in the company?*

A lack of clear organizational responsibilities can lead to confusion and frustration for employees. Organizational charts and job descriptions can be used to clarify organizational responsibilities.

34. *Does management not seem to care about or reward appropriate employee behavior?*

Management that does not seem to care about or reward appropriate employee behavior can contribute to low employee morale and increased risk of fraud against the company by employees.

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	Yes	No	Not Applicable
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Are employees provided with an organizational chart that shows lines of responsibilities? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Is compliance with internal controls audited periodically? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do employees feel they are treated and compensated fairly? <b>Comments:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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