

Fraud Risk Assessment Tool

Module #11 – Theft of Inventory and Equipment

Theft of Inventory and Equipment schemes include:

- Fake sale schemes, which occur when an accomplice of an employee “buys” merchandise, but the employee does not ring up the sale and the accomplice takes the merchandise without making any payment
- Purchasing schemes, which occur when an employee with purchasing authority uses that authority to purchase and misappropriate merchandise
- Receiving schemes, which occur when an employee misappropriates assets purchased by the company as they are received at the company
- False shipment schemes, which occur when an employee creates false sales documents and false shipping documents to make it appear that missing inventory was not actually stolen, but rather sold
- Misuse of company assets, which occurs when an employee borrows company assets for personal use without authorization
- Larceny schemes, which occur when an employee takes inventory from the company premises without attempting to conceal the theft in the accounting records

Questionnaire Key

1. Has a recent inventory of company equipment, listing serial numbers and descriptions, been completed?

Companies should inventory company equipment and maintain a list of the equipment, serial numbers, and descriptions.

2. Does the company assign an individual from outside of the department to conduct the department's inventory?

An employee who doesn't work in the department should be assigned to conduct the department's inventory.

3. Are unexplained entries to the inventory records examined for source documentation?

Unexplained entries to the inventory records should be examined for source documentation.

4. Is the company experiencing sizeable inventory increases without comparable sales increases?

Sizeable inventory increases without comparable sales increases may indicate an inventory overstatement fraud scheme and should be investigated.

5. Are analytical reviews of beginning inventory, sales, cost of goods sold, and ending inventory conducted periodically to look for unexplained differences?

Analytical reviews of beginning inventory, sales, cost of goods sold, and ending inventory should be conducted periodically. Any discrepancies should be investigated.

6. Is there an unusual volume of inventory adjustments, write-offs, or disposals?

Any unusual volume of inventory adjustments, write-offs, or disposals should be investigated.

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7. *Does the organization have written inventory instructions and orders?*

Organizations should document and implement inventory instructions and orders.

8. *Does someone independent of the purchasing, receiving, and warehousing functions physically count the inventory?*

Physical inventory counts should be conducted by someone independent of the purchasing, receiving, and warehousing functions.

9. *Are pre-numbered inventory tags used?*

Pre-numbered inventory tags should be used.

10. *Are the inventory tags controlled and accounted for?*

Inventory tags should be controlled and accounted for.

11. *Do the inventory procedures prevent double counting?*

Organizations should implement inventory procedures that prevent double counting.

12. *Are inventory counts subject to independent recounts?*

Inventory counts should be subject to independent recounts.

13. *Is the inventory reasonably identifiable for proper classification in the accounting system, such as description, condition, or stage of completion?*

The inventory should be reasonably identifiable for proper classification in the accounting system, such as description, condition, or stage of completion.

14. *Are differences between physical counts and inventory records investigated before inventory records are adjusted?*

Differences between physical counts and inventory records should be investigated before inventory records are adjusted.

15. *Is scrap inventoried and is scrap disposal accounted for?*

Scrap should be inventoried and scrap disposal should be accounted for.

16. *Are the following duties segregated: requisition of inventory, receiving of inventory, disbursement of inventory, writing off of inventory as scrap, and receipt of proceeds from the sale of scrap inventory?*

The following duties should be segregated: requisition of inventory, receiving of inventory, disbursement of inventory, writing off of inventory as scrap, and receipt of proceeds from the sale of scrap inventory.

17. *Is a receiving report prepared for all purchased goods?*

A receiving report should be prepared for all purchased goods.

18. *Are copies of receiving reports sent directly to the purchasing and accounting departments?*

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Copies of receiving reports should be sent directly to the purchasing and accounting departments.

19. Is the receiving department provided with a copy of the purchase order on all items to be received?

The receiving department should be provided with a copy of the purchase order on all items to be received.

20. Are partial shipments annotated on purchase orders or attached as separate sheets?

Partial shipments should be annotated on purchase orders or attached as separate sheets.

21. Are overage, shortage, and damage reports completed and sent to the purchasing and accounting departments?

Overage, shortage, and damage reports should be completed and sent to the purchasing and accounting departments.

22. Are quantities of materials received counted and compared to purchase orders?

Quantities of materials received should be counted and compared to purchase orders.

23. Is there a written policy allowing management to inspect all desks, file cabinets, and other containers on company property?

Companies should document and implement a written policy allowing management to inspect all desks, file cabinets, and other containers on company property.

24. Is there an equipment removal authorization policy requiring written management approval to remove any company equipment from the company premises?

Companies should document and implement an equipment removal authorization policy requiring written management approval to remove any company equipment from the company premises.

25. Is there a policy requiring the inspection of packages, boxes, and other containers before they leave the company premises?

Companies should document and implement a policy requiring the inspection of packages, boxes, and other containers before they leave the company premises.

26. Is the removal of trash and trash receptacles periodically monitored?

Companies should periodically monitor the removal of trash and trash receptacles.

27. Are the shipping and receiving areas adequately supervised to prevent theft?

Shipping and receiving areas should be adequately supervised to prevent theft.

28. Are high value items stored in secure or continuously monitored areas?

High value items should be stored in secure or continuously monitored areas.

29. Is the shipping function separate from the purchasing and inventory functions?

The shipping function should be separate from the purchasing and inventory functions.

30. Are shipping documents pre-numbered and accounted for?

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Shipping documents should be pre-numbered and accounted for.

31. Are shipping orders matched with sales orders and contracts?

Shipping orders should be matched with sales orders and contracts to prevent inventory and vendor schemes.

32. Are shipments of goods required to have authorized sales orders and contracts prior to shipping?

Shipments of goods should be required to have authorized sales orders and sales contracts prior to shipping.

33. Are shipping documents forwarded directly to the accounting department for recording inventory reduction and cost of sales?

Shipping documents should be forwarded directly to the accounting department for recording inventory reduction and cost of sales.

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	Yes	No	Not Applicable
Has a recent inventory of company equipment, listing serial numbers and descriptions, been completed? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the company assign an individual from outside of the department to conduct the department's inventory? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are unexplained entries to the inventory records examined for source documentation? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is the company experiencing sizeable inventory increases without comparable sales increases? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are analytical reviews of beginning inventory, sales, cost of goods sold, and ending inventory conducted periodically to look for unexplained differences? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is there an unusual volume of inventory adjustments, write-offs, or disposals? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does the organization have written inventory instructions and orders? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does someone independent of the purchasing, receiving, and warehousing functions physically count the inventory? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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	Yes	No	Not Applicable
Are pre-numbered inventory tags used? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are the inventory tags controlled and accounted for? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do the inventory procedures prevent double counting? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are inventory counts subject to independent recounts? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is the inventory reasonably identifiable for proper classification in the accounting system, such as description, condition, or stage of completion? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are differences between physical counts and inventory records investigated before inventory records are adjusted? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is scrap inventoried and is scrap disposal accounted for? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are the following duties segregated: requisition of inventory, receiving of inventory, disbursements of inventory, writing off of inventory as scrap, and receipt of proceeds from the sale of scrap inventory? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is a receiving report prepared for all purchased goods? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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	Yes	No	Not Applicable
Are copies of receiving reports sent directly to the purchasing and accounting departments? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is the receiving department provided with a copy of the purchase order on all items to be received? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are partial shipments annotated on purchase orders or attached as separate sheets? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are overage, shortage, and damage reports completed and sent to the purchasing and accounting departments? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are quantities of materials received counted and compared to purchase orders? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is there a written policy allowing management to inspect all desks, file cabinets, and other containers on company property? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is there an equipment removal authorization policy requiring written management approval to remove any company equipment from the company premises? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is there a policy requiring the inspection of packages, boxes, and other containers before they leave the company premises? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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	Yes	No	Not Applicable
Is the removal of trash and trash receptacles periodically monitored? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are the shipping and receiving areas adequately supervised to prevent theft? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are high value items stored in secure or continuously monitored areas? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is the shipping function separate from the purchasing and inventory functions? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are shipping documents pre-numbered and accounted for? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are shipping orders matched with sales orders and contracts? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are shipments of goods required to have authorized sales orders and contracts prior to shipping? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are shipping documents forwarded directly to the accounting department for recording inventory reduction and cost of sales? Comments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>