

# Internal Controls



## Safeguarding businesses



## Protecting Your Organization

In today's fast-moving marketplace, businesses face numerous challenges to running efficiently, including management of security risks and fraud. From a breach in online security to misuse of company funds, organizations are susceptible to both internal and external acts of fraud. Small businesses and nonprofit organizations can be the most prone to risk because they often do not have adequate protections in place to guard their assets. The best method to aid in the detection and prevention of fraud, as well as protect your company's assets, employees and customers, is to establish internal controls.

## Internal Controls Help Prevent Fraud

A first step any business can take in the protection against fraud is to adopt internal policies and procedures to reduce the likelihood of a security breach. For less established companies or those with a limited number of employees, proper oversight can be challenging. However, implementing procedures such as the recommendations below can help to minimize security risks.

**Segregation of duties.** Ensure that more than one employee or board member oversees all aspects of finance management. For example, the individual responsible for signing checks should not be the same person who is responsible for reconciling the accounts. Dual signature requirements or a double-entry bookkeeping system can significantly reduce the risk of accounting errors or employee theft. It is important to note that such processes must be implemented internally; banks are unable to monitor or enforce dual signature requirements.

**Technology security.** Utilize a password to protect access to online documents such as electronic signatures or bookkeeping records. Use strong passwords wherever possible; it should include uppercase and lowercase letters, numbers, and special characters.

**Education.** Inform employees about potential threats and discuss precautionary steps to avoid them. Create a forum to share recent news stories, examples of potential threats and best practices. Providing employee training about online best practices and common phishing scams could help safeguard the company.



**Reconcile accounts.** Require all accounts to be reconciled frequently in order to verify balances are accurate. Reconciliation should be conducted at least monthly, and be reviewed by a second person to ensure balances are correct.

**Banking services for fraud prevention.** Financial institutions can provide several services to help safeguard a company's finances. To minimize security risks, limit the number of employees who have access to these tools.

**Inventory of assets.** Keep an inventory of all company assets such as computers, merchandise and office supplies to help ensure accountability and uncover theft or fraudulent activity. Implement a check-out process for equipment or computers assigned to employees so that items can be collected when an employee leaves the company.

**Financial reporting.** Run quarterly and annual financial reports and reviews, which will help to identify any irregularities.

## Banking Services For Fraud Prevention

Minimize security risks with banking services such as the tools listed below. These tools can help to safeguard a company's finances and aid in the early detection and prevention of fraud.

- **Online banking services** allow for regular spot checks of transactions. With single-user access, authorized individuals can keep an eye on transactions between statements. Online banking services also offer check images which can allow designated users to verify that checks have the correct signature.
- **Monthly e-statements** offer secure online access to account statements and are delivered in a more timely manner than paper statements. Statements can be sent to multiple recipients, ensuring more than one person is reviewing these documents.
- **Lockbox services** can work for a business of any size and are intended to improve operating efficiency and cash flow. Designed to limit access to checks and bank accounts, this service offers protection of payments and deposits. Clients can receive daily reports of deposits and remittance information, helping business owners track their business transactions.
- **CD-ROM statements** provide immediate access to account statement documents and transaction details within a designated time period in the form of a CD-ROM.



Protecting businesses against internal and external fraud requires policies for handling company finances and diligent review of all financial documents. Establishing internal controls and employing the use of secure services can help company leaders greatly minimize risk, which can help to protect their company, employees and customers.



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