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Six Steps to Prevent Desktop Fraud in AP

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By Bob Lovallo

Without proper controls and oversight, AP—and its financial spreadsheets—is completely unprotected from fraud or serious errors. In the course of my career I have uncovered spreadsheet fraud and numerous spreadsheet errors that could have been easily prevented had just some basic controls been incorporated. We all agree that such desktop tools are too valuable a resource not to be used in today's day-to-day operations. Yet we sometimes rush their implementation or we've become so accustomed to their presence that we may not have properly protected them from tampering and errors. So where do we start?

1) Use your street smarts. We all realize that larcenous individuals who see or can create an opportunity will attempt to commit fraud. We should also understand that computer-centric fraud often shows that the person responsible for the fraud may be the very person who established the system or spreadsheet and/or now controls its operations and modifications. If you have worked in financial management positions you know that your staff has a high degree of latitude in working with and creating spreadsheets. So it never hurts to periodically spend the time to satisfy yourself

that the internal and user controls regarding desktop computing environment are being properly implemented.

2) Incorporate appropriate segregation of duties. One major deficiency I've observed is giving one person full responsibility for the control and modification of spreadsheets used within a disbursement process. Segregation of duties is a fundamental and basic concept of internal control that reduces the opportunity for fraud.

3) Verify controls. Not verifying that internal controls actually exist and are present within the spreadsheet or desktop application is another common flaw. Untested spreadsheets and desktop applications can result in design flaws that result in miscalculations (overpayments), mechanical and/or logic errors (overpayments), lack of or incomplete audit trails, balancing and reconciliation anomalies, or even fraud.

4) Document your processes. Supporting the desktop spreadsheet application with current and thorough desk procedures is another basic internal control. I have found written procedures surrounding the spreadsheet application that are incomplete or vague. How modifications are to be made and approved for application security should be clearly spelled out.

5) Monitor desktop applications. As



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I perform disbursement recovery reviews, I like to help my clients strengthen their internal controls surrounding the use of desktop AP spreadsheet applications. I find management can be convinced that desktop applications must be monitored and I often recommend they begin by adopting a more formal and structured top-down approach. Start by establishing accountability.

6) Establish departmental standards for new applications. Adopt written standards and procedures for developing new applications addressing their layout, documentation, internal controls, testing, modification, security, and staff activities. Once these are adopted they will be ready to incorporate in all new desktop applications.

Bringing It All Together

Before implementation, however, it's a must to conduct a independent application/spreadsheet assessment to ensure they possess the necessary internal controls, security, data integrity, and adhere to those established standards and procedures. Next, identify and correct all major deficiencies, then inspect that all corrections were properly made. This closes the internal control loop from development to implementation.

But it doesn't end there. Monitoring ongoing activities involving desktop applications is the last component of good internal controls in this area. Periodic monitoring determines whether desktop spreadsheets or applications are operating as intended and whether modifications or corrective actions are necessary.

Finally, remember controls over end user or desktop computing environments are only as good as those instituted by the user group. **AP N&T**

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