

BDO Consulting Segregation of Duties Checklist



BDO Consulting's Fraud Prevention practice is pleased to present the **2009 Segregation of Duties Checklist**. We have developed this tool to assist organizations in identifying fraud risks due to a lack of segregation of duties.

Segregation of duties is one of the key concepts of internal controls. It is also one of the most effective internal controls in combating employee fraud. Segregation of duties contributes to an organization's system of checks and balances. The concept of segregation of duties is to separate the following responsibilities in each business process:

- Custody of assets
- Record keeping
- Authorization
- Reconciliation

Ideally, no individual employee should handle more than one of the above-noted functions in a process. When an organization separates these functions among its employees, it has implemented a strong internal control, which may deter and prevent employee fraud.

When duties cannot be segregated, compensating controls should be considered. Compensating controls can be preventative, detective or monitoring controls that are executed by an independent, supervisory-level employee who does not have custody, record-keeping, authorization or reconciliation responsibilities for the process. In the checklist below, we have provided examples of several such compensating controls.

We appreciate this opportunity to provide guidance on segregating duties and recommended practices. We welcome the opportunity to discuss these concepts and our other fraud prevention services with your organization.

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Notes

When evaluating segregation of duties, an employee's user access and ability to execute transactions in the system should also be considered. This checklist does not, however, provide segregation of duties for all Information Technology or system access controls. User access controls are only mentioned for processes and responsibilities included in the checklist.

The checklist is intended solely for illustrative purposes and is not intended to constitute professional advice for any particular organization. The checklist may not be appropriate for all organizations. Please discuss this checklist with professional advisors or other professionals who are familiar with segregation of duties within your organization prior to implementing any of the information set forth herein.

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Business Cycle

Cash Receipts

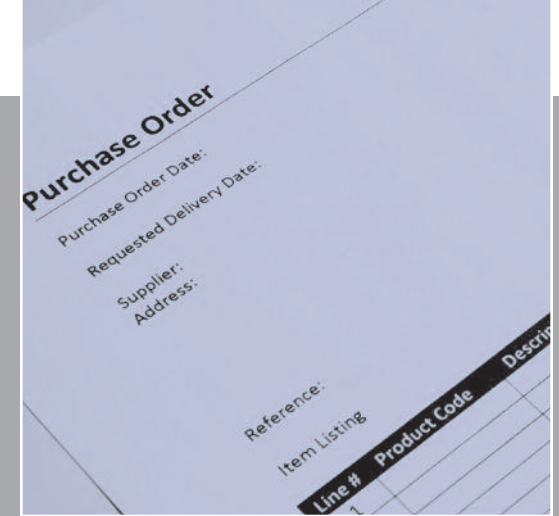
Process	Control Considerations	Recommendation	Examples of Compensating Control
Customer Payments Received	<p>Does the employee responsible for opening customer payments/remittances also perform any of the following duties:</p> <ul style="list-style-type: none"> Record payments Record or authorize write-offs or adjustments to customer accounts in the accounts receivable ledger Reconcile the bank account(s) 	<p>The employee who is responsible for the receipt of cash should not have access to record or authorize transactions in the accounts receivable ledger and customer accounts. In addition, the person receiving the cash or preparing the deposit should not be responsible for recording cash transactions or preparing the bank reconciliation.</p>	<p>To enhance controls over the cash receipt process, the following compensating controls can be utilized:</p> <ul style="list-style-type: none"> A lockbox system should be implemented to receive customer payments. Two employees should receive and open customer payments, create a listing of customer payments and prepare the deposit.
Customer Payments Received	<p>Does the employee responsible for preparing the deposit also perform any of the following duties:</p> <ul style="list-style-type: none"> Record payments Record or authorize write-offs or adjustments to customer accounts in the accounts receivable ledger Reconcile the bank account(s) 	<p>The employee preparing the deposit should not be responsible for recording cash transactions in the accounts receivable ledger and customer accounts. In addition, the bank reconciliation should be prepared by an employee who is not involved in cash receipt or cash disbursement activities.</p>	<p>To enhance controls over the cash receipt process, the following compensating controls can be utilized:</p> <ul style="list-style-type: none"> A lockbox system should be implemented to receive customer payments. Two employees should receive and open customer payments, create a listing of customer payments and prepare deposits. Daily reconciliations of cash receipts to bank deposits, including lockbox receipts, should be performed. An employee who is independent of the cash receipts and deposit process should perform a detailed review of the accounts receivable aging or trial balance. Internal audit or an employee who is independent of the cash receipts process should periodically confirm accounts receivable balances with customers.



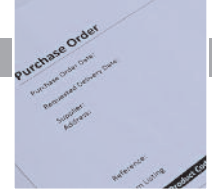
Process	Control Considerations	Recommendation	Examples of Compensating Control
Customer Adjustments	Is the employee responsible for initiating adjustments (e.g., sales staff requests a credit) to customer accounts able to both record as well as authorize the adjustments to the customer account?	Adjustments and write-offs to customer accounts should be reviewed and approved by an employee who does not have responsibility for recording these transactions. In addition, this employee should not be responsible for preparing the reconciliation of the accounts receivable subsidiary ledger to the general ledger account balance.	At month-end, an accounts receivable ledger system report of adjustments or write-offs recorded to customer accounts is generated for review and approval by a supervisory-level employee who does not have access to record these transactions.
Customer Adjustments	Does the employee responsible for initiating and/or recording adjustments to customer accounts also perform any of the following duties: <ul style="list-style-type: none"> • Receive customer payments • Prepare the deposits 	Employees responsible for recording adjustments to customer accounts should not have access to customer payments or prepare the deposit.	
Bank Reconciliations	Does the employee responsible for preparing bank reconciliations also have any of the following cash receipt or disbursement responsibilities: <ul style="list-style-type: none"> • Receive cash receipts • Prepare cash deposits • Generate or print checks • Execute or authorize wire transfers • Sign checks • Have access to blank check stock • Review and approve the bank reconciliation 	The preparer of bank reconciliations should not have the responsibility for recording cash receipt or disbursement transactions. In addition, bank reconciliations should be reviewed and approved by an employee other than the preparer. As a best practice, the reviewer should be in a supervisory-level position.	To enhance controls over the bank reconciliation process, the following compensating controls can be utilized: <ul style="list-style-type: none"> • Perform a review of cash receipt and cash disbursement entries in the general ledger. • Perform a regular analytical review of the cash receipts and disbursements entries. • Compare cash receipts and disbursement amounts to budgets.

Business Cycle

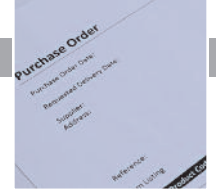
Procurement



Process	Control Considerations	Recommendation	Examples of Compensating Control
Purchasing	Does the employee initiating the purchase requisition also have the authority to approve the purchase requisition?	<p>Purchase requisitions should be reviewed and approved by someone other than the employee initiating the purchase requisitions.</p> <p>NOTE: Purchase requisitions are an internal purchase request that is sent to the purchasing department. Purchase orders are documents sent to vendors by the purchasing departments. Generally, large companies utilize both purchase requisitions and purchase orders. In the majority of small to midsize companies, only purchase orders are used.</p>	A supervisory-level employee independent of the purchasing function reviews a report of total purchases as well as purchases over a predetermined threshold amount from new vendors. This report should be generated outside of the purchasing function (e.g., payments processed through the cash disbursement system).
Purchasing	Are the employees responsible for initiating a purchase requisition also responsible for initiating the purchase order presented to the vendor?	Purchase orders should only be generated by employees in the purchasing department. These employees should not have access to generate or authorize purchase requisitions.	
Purchasing	Are the employees responsible for initiating the purchase order also responsible for reviewing and authorizing the purchase order?	Employees responsible for authorizing purchase orders should not have access to initiate these purchase orders.	<p>A system report of all purchase orders issued to vendors should be generated and reviewed by a supervisory-level employee who is not involved in initiating purchase orders with vendors.</p> <p>NOTE: For large companies, this review can be limited to analytical review of purchases by vendor; product and unit cost of the product.</p>



Process	Control Considerations	Recommendation	Examples of Compensating Control
Purchasing	<p>Do the same employees who are responsible for initiating or approving a purchase order also perform any of the following duties:</p> <ul style="list-style-type: none"> • Modify the Vendor Master File • Record vendor invoices in the cash disbursement system • Receive vendor goods physically or in the system • Modify inventory records • Reconcile inventory records 	<p>Employees involved in the purchasing function should not have record-keeping responsibilities in the cash disbursement system. Specifically, these employees should not be able to modify the Vendor Master File, record vendor invoices, receive goods, reconcile or write-off inventory or obtain custody of inventory either directly or by influencing the shipment of inventory.</p> <p>NOTE: Employees in the purchasing department should not be involved in the receiving of goods in the system. Since these employees are responsible for negotiating the vendor payment terms and placing the order with the vendor, they should not be responsible for documenting the number of goods actually received by the vendor.</p>	<p>A system report of purchase orders issued to vendors should be generated and reviewed by a supervisory-level employee who is not involved in initiating purchase orders with vendors.</p>
Purchasing	<p>Are the same employees responsible for approving the purchase order also responsible for approving the vendor invoice for payment?</p>	<p>Employees involved in the purchasing process should not be responsible for approving vendor invoices. Instead, this approval should be restricted to the employee who initiated and authorized the purchase requisition or a person independent of the purchasing function.</p>	
Receiving	<p>Do employees involved in receiving the goods from the vendor also perform any of the following duties:</p> <ul style="list-style-type: none"> • Involved in the purchasing process (authorization or record-keeping responsibilities) • Modify the Vendor Master File or any relevant record-keeping function • Record invoices • Record returns 	<p>Employees who are responsible for the receipt of goods from vendors should not be involved in the purchasing or cash disbursement process.</p>	<p>An employee independent of the purchasing process checks the bills of lading to the receiving reports to inventory accounting.</p>



Process	Control Considerations	Recommendation	Examples of Compensating Control
Cash Disbursement Processing	Does the employee performing the three-way match of purchase order, receiving document, and vendor invoice also perform any of the following duties: <ul style="list-style-type: none"> • Involved in the purchasing or receiving process • Modify the Vendor Master File • Has record-keeping responsibilities for inventory, purchases, payables or returns 	Employees involved in recording vendor invoices in the cash disbursement system should perform the three-way match of purchase order, receiving document and vendor invoice.	

Business Cycle

Cash Disbursements



Process	Control Considerations	Recommendation	Examples of Compensating Control
Vendor Set-up	<p>Does the employee responsible for Vendor Master File maintenance (i.e., adding, deleting or modifying vendor accounts) also perform any of the following duties:</p> <ul style="list-style-type: none"> • Record vendor invoices • Approve vendor invoices • Print checks • Sign checks • Execute wire transfers • Authorize wire transfers 	<p>The employee with responsibility for modifying the Vendor Master File should not be responsible for entering vendor invoices in the cash disbursement system or have the ability to generate and authorize cash disbursements.</p> <p>NOTE: In some cash disbursement systems, the functions of recording vendor invoices and printing checks cannot be segregated. In these instances, steps should be taken to ensure that the employee responsible for authorizing cash disbursement payments is not involved in any other cash disbursement process.</p>	<p>An employee independent of the accounts payable and disbursement process performs a review of a systems report outlining the Vendor Master File changes.</p>
Vendor Set-up	<p>Is the vendor change report that outlines all changes made to the Vendor Master File (e.g., changes to vendor addresses or names and additions to the Vendor Master File) for a specified period of time reviewed and approved by someone who does not have responsibility for modifying the Vendor Master File?</p>	<p>The Vendor Master File change report should be reviewed by a supervisory-level employee who does not have access or responsibility to perform these functions.</p>	
Cash Disbursements	<p>Do the employees responsible for approving invoices and payments also have the ability to record payables?</p>	<p>Employees responsible for authorizing vendor invoices and payments should not have the responsibility for recording invoices in the cash disbursement system.</p>	<p>To enhance controls over the cash disbursement process, the following compensating controls can be utilized:</p> <ul style="list-style-type: none"> • Perform a regular analytical review of the cash disbursements. • Require cash disbursement checks to have dual signatures.

Cash Disbursements continued



Process	Control Considerations	Recommendation	Examples of Compensating Control
Cash Disbursements	<p>Do the employees responsible for recording vendor invoices have the ability to:</p> <ul style="list-style-type: none"> • Print checks • Sign checks • Access blank check stock • Execute wire transfers • Distribute vendor checks 	<p>Employees responsible for printing vendor checks should not have responsibility for recording disbursements. In addition, employees responsible for distribution of vendor checks should not be involved in the cash disbursement process. Under best practices, this task should be assigned to an administrative person such as the receptionist.</p> <p>NOTE: In some cash disbursement systems, the functions of recording vendor invoices and printing vendor checks cannot be segregated. In these instances, steps should be taken to ensure that the employee responsible for authorizing cash disbursement payments (i.e., signing checks) is not involved in any other cash disbursement process.</p>	<p>A positive pay system is implemented. An employee who is not involved in the cash disbursement process creates an electronic file of the printed checks from the system and forwards the file to the bank. This employee should then receive notification of all discrepancies between the checks presented at the bank and checks listed in the positive pay file.</p>
Cash Disbursements	<p>If a facsimile or check signature stamp is used for signing checks, is the signature stamp maintained by the employee authorized to sign checks?</p>	<p>The employee whose name is on the signature stamp should maintain the custody of the stamp in a secure location.</p>	
Cash Disbursements	<p>Do the employees responsible for printing checks or who have access to blank check stock also perform any of the following duties:</p> <ul style="list-style-type: none"> • Create the positive pay file • Transmit the positive pay file to the bank • Have access to bank notifications about discrepancies between the positive pay file and checks presented at the bank • Respond to bank notifications about discrepancies between the positive pay file and checks presented at the bank • Prepare the bank reconciliation(s) • Review and approve the bank reconciliation(s) 	<p>Employees responsible for printing vendor checks should not have responsibility for creating and/or transmitting positive pay files to the bank. In addition, they should not be responsible for addressing and resolving bank notifications regarding discrepancies between the positive pay file and the checks presented at the bank. These employees should not prepare or approve the bank reconciliations.</p>	

Cash Disbursements continued



Process	Control Considerations	Recommendation	Examples of Compensating Control
Cash Disbursements	<p>Do the employees authorized to sign checks also perform any of the following duties:</p> <ul style="list-style-type: none"> • Create the positive pay file • Transmit the positive pay file to the bank • Have access to bank notifications about discrepancies between the positive pay file and checks presented at the bank • Respond to bank notifications about discrepancies between the positive pay file and checks presented at the bank • Prepare the bank reconciliation(s) • Review and approve the bank reconciliation(s) 	<p>Employees responsible for signing vendor checks should not have access to create and transmit positive pay files to the bank. In addition, they should not be responsible for addressing and resolving bank notifications regarding discrepancies between the positive pay file and the checks presented at the bank. These employees should also not prepare or approve the bank reconciliations.</p>	
Cash Disbursements	<p>Is the employee responsible for creating, transmitting and resolving discrepancies between the positive pay file and the checks presented to the bank involved in any of the following duties:</p> <ul style="list-style-type: none"> • Record vendor invoices • Create the check file • Sign checks • Maintain custody of the signature plate (if one is used) • Have access to the blank check stock 	<p>The employee responsible for the positive pay file should not be involved in recording vendor invoices, nor should they be able to generate or sign checks. In addition, this employee should not have access to the blank check stock or have the ability to initiate wire transfers.</p>	<p>To enhance controls over the cash disbursement and positive pay process, the following compensating controls can be utilized:</p> <ul style="list-style-type: none"> • The bank reconciliation is prepared by an employee independent of the cash disbursement and positive pay process. • An analytical review of the cash disbursements is regularly performed. • A review of the budget to actual variances is performed.
Cash Disbursements – Wire Transfers	<p>Can one employee initiate and approve (release) a wire transfer?</p>	<p>Initiation and approval (release) of wire transfers should be segregated between two employees.</p> <p>NOTE: Best practices suggest a tiered-level approval should be implemented so that wire transfers above a certain threshold are reviewed, approved and released by additional authorizers who have been granted authority in the organization to release payments over that threshold.</p>	

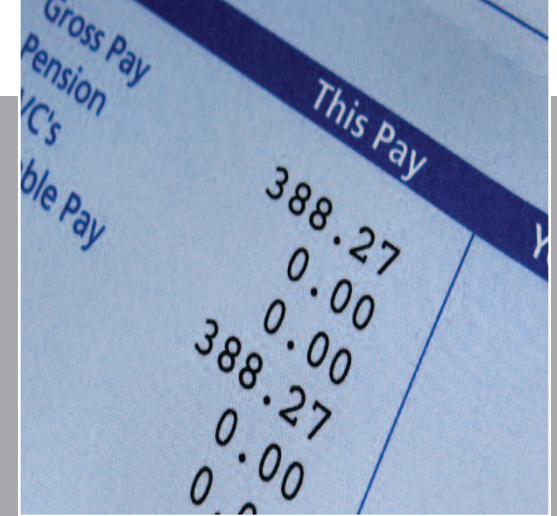
Cash Disbursements continued



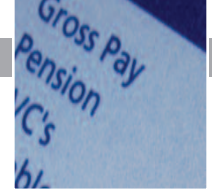
Process	Control Considerations	Recommendation	Examples of Compensating Control
Cash Disbursements – Wire Transfers	<p>Does the person responsible for approving (releasing) wire transfers also perform any of the following duties:</p> <ul style="list-style-type: none"> • Prepare bank reconciliations • Review and approve the bank reconciliations • Record invoices in the cash disbursement system • Review and authorize journal entries in the general ledger • Modify the Vendor Master File 	The employee responsible for approving and releasing the wire transfer payments to the vendor should not have responsibility for modifying the Vendor Master File, recording vendor invoices and journal entries, or be involved in the bank reconciliation process.	
Accounts Payable Reconciliation	Is the employee who is responsible for recording accounts payable transactions in the cash disbursement system also responsible for reconciling the cash disbursement sub-ledger to the general ledger?	An employee who is independent of the cash disbursement process should reconcile transactions to the general ledger.	
Accounts Payable Reconciliation	Is the reconciliation of the cash disbursement sub-ledger to the general ledger reviewed and approved by someone other than the preparer of the reconciliation?	Account reconciliations should be reviewed and approved by someone other than the preparer of the reconciliation.	

Business Cycle

Payroll

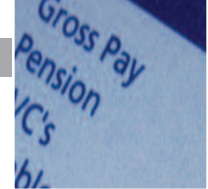


Process	Control Considerations	Recommendation	Examples of Compensating Control
Human Resources	Does the employee responsible for initiating modifications (e.g., add/delete employees, changes to employee information) to the Employee Master File also have the ability to approve or record these changes?	All changes to the Employee Master File should be reviewed and approved by a supervisory-level employee (other than the employee initiating the change) in the Human Resources department prior to being recorded in the system. NOTE: Best practices suggest that no one employee should be able to record modifications to the Employee Master File. The modifications should be initiated by one employee and reviewed and authorized in the system by a separate employee.	A system report of all changes to the Employee Master File should be generated for review. A supervisory-level employee who does not have access to modify the Employee Master File should review this report and match the changes to approved Personnel Action Forms.
Human Resources	Do the employees responsible for maintaining the Employee Master File (e.g., adding/deleting employees, changes to compensation) also perform any of the following functions: <ul style="list-style-type: none"> • Make decisions regarding hiring or termination of personnel • Have access to the payroll system (or payroll module) • Involved in the payroll process • Generate payroll checks • Receive payroll checks for distribution 	Employees responsible for modifying the Employee Master File should not have access to the payroll system, be involved in the payroll process, distribute payroll checks or make hiring or termination decisions. NOTE: In some instances, the Human Resources module and the payroll module may be part of the same system. However, the employees responsible for processing the payroll should not have access to the Human Resources module or the Employee Master File and vice versa. NOTE: For smaller companies where one employee maintains the Employee Master File and processes payroll, this employee should not be able to authorize and execute the pay run (i.e., generate payroll checks) or distribute payroll checks.	To enhance controls over the payroll process, the following compensating controls can be utilized: <ul style="list-style-type: none"> • A supervisory-level employee who is not involved in the payroll process reviews and approves the pre-payment payroll report as well as the final payroll reports after the payroll has been processed. • Distribution of payroll checks is conducted by a supervisory-level employee without payroll responsibilities, and checks not distributed are investigated. • Gross wages, per the payroll journals and the general ledger, are reconciled to the W-2s.



Process	Control Considerations	Recommendation	Examples of Compensating Control
Time Entry	Are employees able to review and approve their own hours worked or time entered in the timekeeping system?	Hours worked should be reviewed and approved by the employee's supervisor prior to being recorded or transmitted to the payroll department.	
Payroll	<p>Do the same employees responsible for preparing payroll for processing also perform any of the following duties:</p> <ul style="list-style-type: none"> • Modify the Employee Master File • Approve the payroll • Generate payroll checks • Distribute payroll checks • Receive final payroll reports (e.g., payroll registers) for review and approval <p>NOTE: If an outside payroll service is used for payroll processing, the same employee responsible for communicating changes to payroll master file data to the outside payroll service provider should not be involved in recording the payroll entries in the general ledger; preparing payroll reconciliations or distributing payroll checks. This employee should also not receive the copies of the final payroll reports (e.g., payroll registers) from the outside payroll service.</p>	The file prepared for processing payroll should be reviewed and approved by an employee who is not involved in the preparation of this payroll file or part of the human resources function.	<p>To enhance controls over the payroll process, the following should be considered:</p> <ul style="list-style-type: none"> • Use of an outside payroll service provider. • Use of direct deposit instead of payroll checks. • Perform a periodic analytical review of the payroll expense, including but not limited to budget to actual variance analysis. • Perform an analysis of head count to revenue ratios.
Payroll	<p>Does the same employee responsible for reviewing and authorizing the file prepared for processing payroll also perform any of the following functions:</p> <ul style="list-style-type: none"> • Generate payroll checks • Distribute payroll checks • Receive final payroll reports for review and approval 	A supervisory-level employee who is separate from the payroll processing and human resources functions should receive and review the payroll reports (e.g., payroll registers) and payroll checks for distribution.	
Payroll	Are undistributed payroll checks and rejected payroll direct deposits investigated and reconciled by a supervisory employee outside of the payroll function in a timely manner?	Employees not involved in the payroll or human resources function should maintain custody as well as investigate and reconcile the returned payroll checks.	

Payroll continued



Process	Control Considerations	Recommendation	Examples of Compensating Control
Payroll	Does the employee responsible for recording the payroll expense entry in the general ledger perform any of the following functions: <ul style="list-style-type: none"> • Modify the Employee Master File • Prepare or authorize payroll • Generate payroll checks • Distribute payroll checks 	An employee outside of the payroll and human resources functions should post the payroll journal entry to the general ledger.	
Payroll	Does the employee responsible for reconciling the general ledger to the payroll system also have the ability to record entries in or make adjustments to the payroll system?	Reconciliations should be performed by an employee who does not have modification rights to the payroll system.	
Payroll	When using an outside payroll service to calculate and remit payroll withholding tax, does the employee responsible for receiving the payroll tax refund checks perform any of the following functions: <ul style="list-style-type: none"> • Prepare and process payroll, including but not limited to communicating changes in the payroll master file data to the outside payroll provider • Authorize payroll • Prepare payroll reconciliations 	The payroll withholding tax refund checks should not be received by an employee who is involved in the payroll process.	

Business Cycle

Inventory



Process	Control Considerations	Recommendation	Examples of Compensating Control
Purchasing & Warehousing	<p>Do the employees involved in receiving goods from vendors also perform any of the following duties:</p> <ul style="list-style-type: none"> • Involved in the purchasing process • Modify the Vendor Master File • Record invoices in the cash disbursement system 	<p>Employees who receive and sign off on goods received from vendors should not be involved in the purchasing or cash disbursement process.</p>	
Inventory	<p>Do the employees with custody of and access to inventory have the responsibility to perform any of the following functions:</p> <ul style="list-style-type: none"> • Perform physical inventory counts • Modify perpetual inventory records • Reconcile the physical inventory counts to the perpetual inventory records • Reconcile perpetual inventory records to the inventory balance per the general ledger • Record manual adjustments (i.e., write-offs) in the perpetual inventory system or the general ledger • Calculate and record the inventory reserves 	<p>Employees who have access to the physical inventory should not be responsible for performing inventory counts. In addition, these employees should not be responsible for modifying the perpetual inventory records or the general ledger.</p>	<p>To enhance controls over the inventory process, the following compensating controls can be utilized:</p> <ul style="list-style-type: none"> • Analytical review of inventory usage should be performed and reviewed by a supervisory-level employee. • Modifications to inventory records are reviewed and approved by a supervisory-level employee who is independent of the inventory process.



Process	Control Considerations	Recommendation	Examples of Compensating Control
Inventory	Are physical inventory counts performed by an independent party who does not have the responsibility for maintaining the physical inventory?	Physical inventory counts should be performed by an employee who does not have day-to-day responsibility for maintaining the physical inventory or inventory record-keeping and reconciliation responsibilities.	If month-end physical counts cannot be completed by an independent employee, the following compensating controls can be utilized: <ul style="list-style-type: none"> • A count is performed by two employees. • Spot checks are completed on the physical count by an individual who does not maintain the inventory, such as an employee in the finance department. This employee should not have record-keeping responsibilities for the inventory. • Surprise counts are completed by employees without inventory record-keeping and reconciliation responsibilities once a quarter to verify the accuracy of the perpetual inventory records.
Inventory	Can one employee initiate, authorize and record a manual adjustment in the perpetual inventory system?	All manual adjustments to the perpetual inventory system should be reviewed and approved by a supervisory employee prior to being recorded.	A system report of all manual adjustments to the perpetual inventory system should be generated for review and authorization by a supervisory-level employee who is not involved in the inventory process, e.g., does not have custody of the inventory and/or responsibility for inventory record-keeping and reconciliation.
Inventory	Does the employee who has the responsibility for modifying the perpetual inventory system also have the ability to record journal entries and reconcile the perpetual inventory to the physical inventory counts and the general ledger?	The employee who has modification rights to the perpetual inventory system should not have access to record entries in the general ledger. In addition, the reconciliation of the perpetual inventory system to the physical inventory counts and the general ledger should be completed by someone who does not have the responsibility for modifying the perpetual inventory system.	The reconciliation of the perpetual inventory system to the physical inventory counts and the general ledger should be reviewed and approved by a supervisory-level employee who is not involved in the inventory process.

Inventory continued



Process	Control Considerations	Recommendation	Examples of Compensating Control
Inventory	Can the same employee identify, approve and dispose of scrapped goods and/or obsolete inventory?	A supervisory-level employee should review and approve all disposals or sales of scrapped goods and obsolete inventory. In addition, the employee initiating the disposal/sale request should not be responsible for physically disposing of or selling the scrap inventory or have any record-keeping responsibility for scrap or obsolete inventory.	
Inventory	Do employees who initiate and/or authorize the disposal of scrapped goods or obsolete inventory also record or authorize the adjustment for scrap in the perpetual inventory system or the general ledger?	Employees should not be able to both initiate and approve inventory disposals and record these adjustments in the inventory records.	
Inventory	Do the employees responsible for the sale of scrapped goods also invoice the buyer and collect payments for these sales?	An independent employee in the accounting department should invoice the buyer.	

Business Cycle

Fixed Assets



Process	Control Considerations	Recommendation	Examples of Compensating Control
Fixed Assets	<p>Are the employees responsible for approving the purchase or disposal of the fixed assets responsible for any of the following functions:</p> <ul style="list-style-type: none"> Record the transaction (e.g., add, delete, write-off or dispose assets) in the fixed asset ledger Determine the useful life of the fixed asset Determine the company's depreciation policy Record or adjust the calculated depreciation on the fixed asset Disposal of the fixed asset 	<p>Employees responsible for purchases or disposals of fixed assets should not have access to record transactions in the fixed asset ledger.</p> <p>The useful life of the fixed asset (i.e., the life over which the asset is depreciated) should be determined based on generally accepted accounting principles and entered in the system by a finance employee responsible for maintaining the fixed asset ledger.</p> <p>NOTE: In the event that the computerized fixed asset system calculates the depreciation based on useful life by asset category, access to the master files of asset categories and depreciation tables should be restricted to an employee who is not responsible for authorizing, recording or reconciling fixed assets.</p>	<p>To enhance controls over the fixed asset process, the following compensating controls can be utilized:</p> <ul style="list-style-type: none"> A system report of all fixed asset additions and disposals is generated for review and approval by a supervisory-level employee who is not involved in decisions about the purchase and disposals of fixed assets. This employee should not have access to record transactions in the fixed asset or general ledgers. An employee who does not have record-keeping or purchase/disposal authorization performs a periodic reconciliation of physical fixed assets to the general ledger. The useful life by asset category should be pre-populated in the computerized fixed asset system. Responsibility for changing the useful life of a fixed asset should be restricted to supervisory-level finance employees without record-keeping or authorization responsibilities. A system report of useful life by asset category should be generated, reviewed and approved by a supervisory-level employee who is not involved in recording, authorizing or reconciling fixed assets. A system report of all changes to the master file in the fixed asset system should be generated and reviewed by a supervisory-level employee who is not involved in recording, authorizing or reconciling fixed assets.



Process	Control Considerations	Recommendation	Examples of Compensating Control
Fixed Assets	Are employees with physical custody of fixed assets able to dispose of the assets without review and authorization from a supervisory-level employee?	Fixed asset disposals should be made after review and authorization from a supervisory-level employee.	A system report of all fixed asset additions and disposals is generated for review and approval by a supervisory-level employee who is not involved in decisions about the purchase and disposal of fixed assets. This employee should not have access to record transactions in the fixed asset or general ledgers.
Fixed Assets	Are the employees with access to fixed assets responsible for periodic physical counts of the fixed assets?	Periodic physical counts of fixed assets should be conducted by employees without record-keeping or authorization responsibilities, such as a finance department employee or an outside inventory service.	
Fixed Assets	Is the employee who records adjustments related to discrepancies between the physical count and the fixed asset system also responsible for any of the following functions: <ul style="list-style-type: none"> • Reconcile the fixed asset system to the physical count • Authorize purchases or disposals of inventory • Maintain physical custody of fixed assets 	Adjustments to the fixed asset system should be reviewed and approved by a supervisory-level employee who is not involved in the physical count of the fixed assets and maintenance of the fixed asset system.	A system report of all adjustments recorded to the fixed asset system is generated for review and approval by a supervisory-level employee who is not involved with the physical count or maintenance of the fixed asset system.
Fixed Assets	Does the employee who is responsible for the maintenance of the fixed asset system also reconcile the general ledger to the fixed asset system?	The reconciliation of the general ledger fixed asset balance to the fixed asset system should be completed by someone who does not maintain the fixed asset system.	The reconciliation of the general ledger to the fixed asset system should be reviewed and approved by a supervisory-level employee who is not involved in recording, authorizing or reconciling fixed assets.
Fixed Assets	Is the reconciliation of the fixed asset system to the general ledger reviewed and approved by someone other than the preparer of the reconciliation?	Account reconciliations should be reviewed and approved by someone other than the preparer of the reconciliation.	

Business Cycle

Sales



Process	Control Considerations	Recommendation	Examples of Compensating Control
Sales	Are new customer accounts approved by employees outside of the sales department prior to processing the sales order?	New customers should be vetted by the finance department or by employees outside of the sales department to ensure that: <ul style="list-style-type: none"> • Customers are financially sound. • Customers are not a related party. 	
Sales	Do sales employees have the ability to create customer accounts and enter sales contracts in the sales or accounts receivable systems? NOTE: This question assumes that if the company uses a separate sales system, then the accounts receivable ledger is automatically updated through an IT process once information is entered in the sales system.	Customer accounts and sales contracts should be entered in the sales or accounts receivable systems by an employee in the finance department or an employee who is independent of the sales function.	A sales or accounts receivable system report of all changes to the Customer Master File should be generated for review and approval by a supervisory-level employee who is not involved in the sales process. Modifications to customer accounts should be traced and agreed to authorized customer set-up and change forms.



Process	Control Considerations	Recommendation	Examples of Compensating Control
Sales	<p>Do employees who initiate customer orders also perform any of the following functions:</p> <ul style="list-style-type: none"> • Approve sales orders and contracts • Modify the Customer Master File (e.g., add/delete customer accounts, change customer payments, change discount terms) • Modify the Pricing Master File within the Customer Master File • Issue, maintain or authorize customer credit limits • Generate customer invoices 	<p>To enhance the control process, we recommend the following:</p> <ul style="list-style-type: none"> • Sales contracts should be approved by a supervisory-level employee within the sales department prior to processing the customer order. The supervisory-level employee should be independent of the sales order being processed. • Employees who process sales orders should not have the ability to modify the Customer Master File. • Employees who issue, maintain or authorize customer credit limits should not be involved in generating and recording sales. • Customer invoices should be generated by someone in the finance department and/or by an employee who is not involved in the sales process. 	<p>As compensating controls, change reports from the sales or accounts receivable system can be generated for independent review. Specifically:</p> <ul style="list-style-type: none"> • A report of all changes to the Customer Master File should be generated for review and approval by a supervisory-level employee who is not involved in the sales process. Modifications to customer accounts should be traced and agreed to authorized customer set-up and change forms. • A report of all changes to customer credit limits should be generated for review and approval by a supervisory-level employee who is not involved in generating or recording sales.
Sales	Do employees in the shipping department have the ability to initiate or authorize a sales order?	Employees in the shipping department should not have access to initiate or authorize a sales order.	
Sales Returns	Do employees who initiate customer orders also receive sales returns from customers?	Sales returns for merchandise should be received by the shipping department and forwarded to the finance department, where returns can be promptly recorded in the sales and accounts receivable systems.	A system report of sales returns should be generated from the shipping department and compared to the sales return report per the sales system.
Sales Returns	Is the employee responsible for recording sales returns in the sales system independent of the sales process?	Sales returns should be recorded in the system by an employee who is independent of the sales process.	
Sales Reconciliation	Is the employee responsible for recording sales transactions in the sales system also responsible for reconciling the sales system to the general ledger?	An employee who is independent of the sales process should reconcile sales transactions to the general ledger.	
Sales Reconciliation	Is the reconciliation of the sales system to the general ledger reviewed and approved by someone other than the preparer of the reconciliation?	Account reconciliations should be reviewed and approved by someone other than the preparer of the reconciliation.	



Process	Control Considerations	Recommendation	Examples of Compensating Control
Accounts Receivable	Do employees responsible for issuing, maintaining and authorizing credit limits for customers also have access to record adjustments to customer accounts in the accounts receivable system (i.e., adjustments to the balances owed by customers)?	Employees responsible for issuing, maintaining and authorizing credit limits for customers should not have the ability to record adjustments to customer accounts in the accounts receivable system.	A system report of all adjustments to customer accounts should be generated for review and approval by a supervisory-level employee who does not have access to the Customer Master File or who is not responsible for recording transactions in the accounts receivable system.
Invoicing	Do the employees responsible for initiating and processing invoices also have access to modify any of the following: <ul style="list-style-type: none"> • Sales pricing • Customer contracts • Customer accounts (e.g., access to the Customer Master File) 	Access to modifying sales pricing should be restricted to the employees responsible for recording customer contracts in the Customer Master File.	
Accounts Receivable	Do employees who have the ability to post payments or record adjustments to customer accounts also receive customer payments?	Employees who have the ability to modify the accounts receivable balance should not receive customer payments.	
Accounts Receivable	Can employees record an adjustment to a customer account without review and approval of the adjustment by a supervisory-level employee?	A supervisory-level employee who is not involved in recording transactions in the accounts receivable system should review and authorize adjustments to customer accounts.	A system report of all manual adjustments recorded in the accounts receivable system should be generated for review and approval by a supervisory-level employee who is not involved in recording accounts receivable transactions.
Accounts Receivable	Do the employees responsible for collection on delinquent accounts also receive customer payments?	Employees responsible for collections should not have access to customer payments, since these employees are generally able to record adjustments to customer accounts receivable balances.	
Accounts Receivable	Can the employees responsible for collections on delinquent accounts also modify existing invoices? Specifically, can they modify any of the following fields: <ul style="list-style-type: none"> • Invoice amount • Invoice date • Payment terms • Calculation of aging buckets (i.e., accounts receivable ledger) 	Employees involved in the collection process should not be able to modify existing invoices. Instead, access for these employees should be restricted to documenting notes in the customer account database and the recording of credit adjustments. NOTE: Credit adjustments should be reviewed and approved by a supervisory-level employee. Also see "Customer Adjustments" in the Cash Receipts section.	



Process	Control Considerations	Recommendation	Examples of Compensating Control
Accounts Receivable Reconciliation	Is the employee responsible for recording transactions in the accounts receivable system also responsible for reconciling the accounts receivable system to the general ledger?	An employee who is independent of the accounts receivable process should reconcile accounts receivable transactions to the general ledger.	
Accounts Receivable Reconciliation	Is the reconciliation of the accounts receivable system to the general ledger reviewed and approved by someone other than the preparer of the reconciliation?	Account reconciliations should be reviewed and approved by someone other than the preparer of the reconciliation.	

Business Cycle

Treasury and Investments



Process	Control Considerations	Recommendation	Examples of Compensating Control
Treasury	Is the employee who initiates requests to open bank accounts able to authorize such requests with the bank?	Bank resolutions should indicate that two members of the senior management team must authorize the opening of bank accounts.	
Treasury	Is the employee who coordinates and opens bank accounts able to authorize changes in bank signatories and the authorization levels of those signatories?	All changes to bank accounts must be authorized by the employees identified in the bank resolutions.	
Treasury	Can someone outside of the Treasury department open and establish bank accounts in the company name?	Establishment of all bank accounts should be coordinated by authorized personnel in the Treasury department.	
Treasury	Is the employee responsible for opening and establishing bank accounts also responsible for ensuring that new bank accounts are entered in the general ledger?	The bank should be asked to forward the confirmation of new accounts to the Treasury department as well as to a senior member of the finance team.	
Treasury	Can the employee responsible for establishing bank accounts also perform any of the following functions: <ul style="list-style-type: none"> Record transactions in the general ledger Receive cash Generate cash disbursements Initiate and authorize wire transfers Prepare bank reconciliations 	The employee responsible for establishing bank accounts should be restricted from recording transactions in the general ledger and preparing the bank reconciliations.	
Investments	Are banks and investment vehicles that are identified for use reviewed and authorized by someone other than the employee responsible for corporate investments?	Bank and investment venues selected by the Treasury department should be reviewed and approved by a member of the senior management team prior to being utilized.	



Process	Control Considerations	Recommendation	Examples of Compensating Control
Investments	Can the employee responsible for corporate investments initiate and authorize these transactions?	Corporate investments should be reviewed and approved by a member of the senior management team prior to investing funds.	
Investments	Is the employee responsible for recording investment transactions also responsible for initiating and authorizing these transactions?	Investment activity should be recorded in the general ledger by someone other than the employee responsible for initiating and authorizing these transactions.	
Investments	Are investments (e.g., stock certificates) maintained by someone who is not involved in any of the following duties: <ul style="list-style-type: none"> • Initiate investment transactions • Authorize investment transactions • Record investment transactions • Reconcile investment transactions to the general ledger 		
Investments	Does the employee responsible for reconciling investment accounts also perform any of the following functions: <ul style="list-style-type: none"> • Initiate investment transactions • Authorize investment transactions • Record investment transactions • Maintain investments (e.g., stock certificates) 	An employee who is involved in investment reconciliation should be independent of the investment process. This employee should not have custody of investment assets, initiate or authorize investment transactions or be responsible for recording these transactions in the general ledger.	

Business Cycle

Loans



Process	Control Considerations	Recommendation	Examples of Compensating Control
Loans in the Name of the Corporation	Is one employee able to obtain loans in the name of the corporation without authorization from another senior member of management?	Bank resolutions should restrict the ability for one employee to obtain loans from the bank without written authorization from another senior member of management or the Board of Directors.	
Loans in the Name of the Corporation	Do employees other than the persons involved in obtaining a loan record the loan in the general ledger?	Loan documents should be forwarded to an employee in the finance department who is responsible for recording such activity in the financial statements.	
Loans	Does the employee initiating a loan request from the employee, vendor, customer or third party also have the ability to authorize such a request?	<p>Loan requests from employees, vendors and customers should be directed to a senior member of the management team.</p> <p>NOTE: Best practices state that loans should not be given to employees. In the event that a company has a policy to give advances and loans to its employees, such advances and loans should be reviewed and approved by a senior member of the management team. In addition, loans to senior management of publicly traded companies should be prohibited.</p> <p>If loans are granted to senior management in private companies, the loan amount and terms of the loan should be reviewed and approved by the Board of Directors of the company.</p>	



Process	Control Considerations	Recommendation	Examples of Compensating Control
Loans	<p>Do employees responsible for disbursing loan funds also perform any of the following functions:</p> <ul style="list-style-type: none"> • Initiate loan transactions • Authorize loan transactions • Record adjustments to loan balances in the general ledger • Maintain custody of loan documents • Maintain custody of collateral (if any is provided) 	<p>Employees responsible for disbursing loan payments should not be able to initiate and authorize loan transactions. In addition, these employees should not be able to record adjustments to loan balances in the general ledger.</p> <p>NOTE: Loan documents and custody of collateral for loans should be maintained by employees not involved in the loan process, such as members of the Treasury department.</p>	
Loans	<p>Do employees responsible for recording loans and related activity in the general ledger also perform any of the following functions:</p> <ul style="list-style-type: none"> • Initiate loan requests • Authorize loan requests • Disburse loan funds • Receive cash receipts related to loan payments • Maintain custody of loan documents • Maintain custody of collateral (if any is provided) 	<p>Employees responsible for recording loans in the general ledger should not be involved in initiating or authorizing loan requests.</p> <p>NOTE: Activity in loan accounts should be monitored closely by a member of the senior management team.</p> <p>If loans are granted to senior management in private companies, activity in the loan accounts should be presented to the Board of Directors for review and approval.</p>	
Loans	<p>Are employees who receive loan payments also responsible for recording these payments or adjustments to loan balances in the general ledger?</p>	<p>Loan payments and adjustments to loan balances should be recorded in the general ledger by an employee who does not have access to cash receipts.</p>	
Loan Reconciliation	<p>Is the composition and activity in loan accounts reviewed and approved by a member of the senior management team?</p>	<p>Activity in loan accounts should be reviewed and approved by someone other than the employee responsible for recording transactions in this account.</p> <p>NOTE: Activity in loan accounts should be monitored closely by a member of the senior management team.</p> <p>If loans are granted to senior management in private companies, the activity in the loan accounts should be presented to the Board of Directors for review and approval.</p>	



Business Cycle

Financial Statement Close Process

Process	Control Considerations	Recommendation	Examples of Compensating Control
Modifications to General Ledger	<p>Does the employee who inputs modifications such as adding, deleting or mapping general ledger accounts to financial statements also perform any of the following duties:</p> <ul style="list-style-type: none"> • Maintain ownership of the accounts (i.e., responsible for general ledger account reconciliations) • Record or authorize transactions in the general ledger • Approve changes to the chart of accounts or the account mapping 	<p>Accounting department personnel as well as the Controller or Chief Financial Officer (“CFO”) should not have access to modify general ledger accounts or the mapping of these accounts to the financial statements. The access to modify the chart of accounts should be restricted to the IT department. However, all such requests should be approved by the Controller or CFO.</p>	<p>The general ledger system generates a report of all changes to the chart of accounts at month-end for review and approval by an employee who does not have responsibility for modifying the general ledger. All changes should be reviewed to ensure that they were properly approved by the appropriate party and have a valid business purpose.</p>
Recording and Authorization of Journal Entries	<p>Does the employee responsible for initiating and preparing journal entries also perform any of the following duties:</p> <ul style="list-style-type: none"> • Record journal entries • Authorize journal entries • Prepare account reconciliations 	<p>The employee responsible for preparing and/or initiating a journal entry in the accounting system should not have responsibility for recording or approving journal entries.</p> <p>NOTE: In some general ledger systems, the ability to initiate and record a journal entry cannot be segregated. In these instances, the approval of journal entries recorded in the system is often manual and occurs after the journal entry has already been recorded in the general ledger. In these instances, it is important that a compensating control is implemented.</p>	<p>At month-end, the general ledger system generates a report of all journal entries recorded in the period for review and approval by an employee who does not have access to record transactions in the system. Journal entries should be reviewed/tested for accuracy, completeness, supporting documentation and appropriate account coding.</p>



Process	Control Considerations	Recommendation	Examples of Compensating Control
Consolidations	In a decentralized organization, does the individual responsible for preparing the consolidated financials have the ability to modify, prepare, or approve the subsidiary level general ledger and financial statements?	Subsidiary financial packages should be reviewed and approved by management at the subsidiary level and provided to the consolidating entity for consolidation. The individual responsible for consolidation should not have ability to: <ul style="list-style-type: none"> • Prepare subsidiary financial statements • Modify subsidiary ledgers • Approve subsidiary financial statements 	An individual who does not have access to modify or the responsibility for preparing the subsidiary financial statements (e.g., the Controller or CFO) will be responsible for the receipt and review of subsidiary financial information and review of top-side adjustments.
Consolidations	Does the individual responsible for preparing the financial statements also responsible for giving the final approval on the financial statements?	Consolidated financial statements should be prepared by someone at the consolidating entity level (e.g., Controller) and provided to a superior for review and approval (e.g., CFO or CEO).	



Process	Control Considerations	Recommendation	Examples of Compensating Control
Consolidations	In a decentralized organization, does the employee responsible for preparing the consolidated financial statements have the ability to modify, prepare or approve divisional-level general ledger and financial statements?	Divisional financial packages should be reviewed and approved by management at the subsidiary level and provided to the consolidating entity for consolidation. The employee responsible for consolidation should not have the ability to perform any of the following functions: <ul style="list-style-type: none"> • Prepare subsidiary financial statements • Modify subsidiary ledgers • Approve subsidiary financial statements 	To enhance controls over the financial statement close process, the following compensating controls can be utilized: <ul style="list-style-type: none"> • An employee who does not have access to modify or have the responsibility for preparing subsidiary financial statements (e.g., the Corporate Controller or CFO) should be responsible for review of subsidiary financial information and review of top-side adjustments. • An independent party performs a review of all top-side entries. • The audit committee reviews the financial statements.

Our Investigations and Fraud Prevention Services

Investigations

BDO Consulting's Investigations practice provides public, private-sector and not-for-profit clients with a wide range of investigations and compliance services. We are experienced in assisting major clients and their counsel with significant investigations across a variety of industries. We also field teams of seasoned professionals domestically and globally in rapid response to allegations of suspected fraud, wrongdoing and corporate misconduct and in the protection and recovery of assets.

Our services include:

- Anti-corruption compliance & investigations
- Anti-money laundering
- Computer forensics & e-discovery
- Corporate investigations
- Employee misconduct investigations
- Fidelity bond crime claims
- Emergency Economic Stabilization Act (EESA) and Troubled Asset Relief Program (TARP)
- Financial institution consulting
- Investigative due diligence
- Independent Private Sector Inspector Generals (IPSIGs) and Monitorships
- Mergers & acquisitions
- Mortgage lending investigations
- Regulatory compliance

Fraud Prevention

With full support from an organization and proper implementation, an effective anti-fraud program can serve to significantly reduce the risk of fraud and increase the likelihood that if fraud does occur, it will be detected at an early stage. BDO Consulting's fraud prevention services assist in promoting best practices designed to encourage an environment that reduces the risk of fraud and allows it to be exposed early should it occur. Seasoned fraud investigators developed BDO Consulting's Fraud Prevention practice based on the skills and insights they gained through conducting numerous fraud investigations. An anti-fraud program can help an organization identify, remediate and monitor the specific risk factors that set the stage for fraud.

Based on our investigative experience, certain conditions involving a lack of awareness or inadequate practices can create a fertile environment for fraud within an organization. Such conditions include:

- Lack of awareness of fraud risk factors
- Inadequate control activities for identified fraud risks
- Insufficient knowledge of the warning signs of fraud
- Inadequate screening practices (for employees, vendors and customers)
- Insufficient understanding of ethical duties at all levels
- Ineffective mechanisms for reporting and investigating fraud
- Ineffective board and audit committee oversight

BDO Consulting's fraud prevention services are designed to identify and address these conditions so that an organization can proactively manage its fraud risks. An organization can implement individual fraud prevention elements or a comprehensive anti-fraud program.

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Partner

Glenn Pomerantz is a Partner in the New York office of BDO Consulting. He is a Certified Public Accountant and Certified in Financial Forensics with over twenty-five years of forensic accounting, auditing and consulting experience. Mr. Pomerantz is experienced in conducting forensic accounting investigations, advising organizations on fraud prevention and providing litigation and dispute resolution services to clients on matters involving complex economic damages and insurance claims.

Expertise & Career Highlights

- Mr. Pomerantz has overseen numerous financial reporting fraud investigations, including matters related to revenue recognition, earnings management, related-party transactions and stock option backdating.
- He has also led several investigations concerning alleged acts of employee dishonesty, embezzlement and corruption involving the preparation or evaluation of claims under fidelity bonds and employee dishonesty insurance coverage.
- Mr. Pomerantz has served as a court-appointed neutral on multiple matters involving valuation and damage issues and as an arbitrator in a post-acquisition dispute.
- He has authored numerous articles and presented at national, regional and local conferences on numerous topics, including fraud investigations, corporate governance and fraud prevention, complex economic damages, risk assessments and insurance claims.

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American Institute of Certified Public Accountants
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Director

Nidhi Rao is a Director in the New York office of BDO Consulting. She is a Certified Public Accountant and a Certified Fraud Examiner with more than eleven years of experience in conducting internal audits and forensic investigations involving complex accounting and auditing issues. She has experience providing services to organizations in the hospitality, not-for-profit, government contractor, retail, restaurant, media and advertising industries.

Expertise & Career Highlights

- Ms. Rao has led high-profile investigations on matters involving issues related to subprime mortgages, earnings management, and frauds committed against organizations by employees and management. Ms. Rao has experience with securities litigation and financial statement fraud cases and has provided assistance to counsel in the review and interpretation of auditing, accounting, and financial reporting issues.
- She has conducted internal and external investigations of alleged or suspected fraudulent activity for Fortune 500 organizations. She has participated in and managed investigations involving employee embezzlement and fraudulent financial reporting.
- Ms. Rao assists clients with the implementation of fraud prevention programs that are designed to proactively prevent and detect fraud within an organization to reduce the risk of fraud and maximize stakeholder value. Her fraud prevention work involves conducting fraud risk assessments, providing fraud education, and monitoring of anti-fraud programs and controls.
- She has corporate governance review experience and has evaluated internal controls, Audit Committee charters, and the internal audit functions across a broad array of industries.

Professional Affiliations

American Institute of Certified Public Accountants
Association of Certified Fraud Examiners
Texas State Board of Public Accountancy
Association of Certified Internal Auditors



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