Authorized Maker

The Scenario

An agency received several complaints from vendors that invoices for services provided were not being paid. The agency took the vendors' allegations seriously and relied upon auditors to investigate the vendors' claims, especially since the vendor invoices appeared paid on the subledger.

To determine whether the vendors' allegations could be substantiated, the auditors reviewed policies and procedures, interviewed employees involved in the invoice payment process, and performed walkthroughs to gain an understanding about the segregation of duties that were in place. They also performed procedures which included a review of canceled checks, invoices, and other supporting documentation.

The auditors deemed the segregation of duties inadequate because the employee with check-signing authority, also known as the authorized maker, was also responsible for sending the checks to the mailroom. Also, during their review, the auditors discovered that the checks in question were not made payable to the vendor, instead they were made payable to a former employee of the agency.

These instances were considered red flags of possible fraud, so the auditors researched the addresses the checks were mailed to and discovered the following:

- The checks were sent to the same P.O. Box.

- Vendor addresses in the mailing records did not match what was in the agency's accounting systems.

Due to the address discrepancies, the auditors decided to compare the address the checks were sent to, to the addresses of the agency's employees. It was discovered the address used for the vendors' payments matched the authorized maker's address.

The auditors presented their findings to the appropriate agency personnel and after further interviews with the authorized maker, the auditors concluded that once the checks were presented to be signed, the authorized maker altered the payee information, made the check payable to the former employee, who was indentified to be an accomplice, and sent the payments to a personal mailbox. The amount of the check was split between the two individuals to pay for personal expenses. The authorized maker thought this type of fraudulent activity would be difficult to detect because the check signer was relied on to serve as a control.

General Comments / Lessons Learned: In an authorized maker scheme, checks are approved and signed by the person with signature authority. To prevent an authorized maker scheme, segregation of duties is paramount in check processing operations. Authorized makers can write or alter the checks for their own benefit and cause the agency to issue an inappropriate payment through a fraudulent check.

FRAUD INDICATORS

- **Invoices appear paid on the subledger, but the vendor complains they did not receive payment.**
- **Segregation of duties are inadequate.**
- **Checks made payable to a former employee.**
- **Check's payee information is altered.**
- **Disbursements to various vendors are sent to the same P.O. Box.**
- **Vendor's address in mailing records does not match what is in the agency's accounting systems.**
- **Mailing address for vendor disbursements matches an employee's address.**