

[Date]

To: [Name of Management/Board of Directors]

From: [Auditor Name/Internal Audit Department]

Subject: Management Letter on Fraud Risks in Cash Disbursement Processes

Dear [Name],

During our recent review of the organization's financial internal controls, we identified specific areas within the cash disbursement process that present elevated risks of fraud. We are providing this letter to highlight these vulnerabilities and recommend corrective actions.

1. Identified Risks

- **Lack of Segregation of Duties:** We noted that individuals responsible for initiating payments also have the authority to approve them and reconcile bank statements.
- **Weak Vendor Master File Controls:** There is currently no formal process for verifying new vendors or preventing unauthorized changes to vendor bank details.
- **Inadequate Documentation:** Several disbursements were processed without original invoices or proof of receipt of goods/services.
- **Manual Check Handling:** Blank check stock is not consistently secured, increasing the risk of unauthorized issuance.

2. Recommendations

- Implement a strict "Three-Way Match" (Purchase Order, Receiving Report, and Invoice) before any payment is authorized.
- Enforce Segregation of Duties so that the person handling the accounting entries is not the same person signing checks or managing electronic fund transfers (EFT).
- Perform periodic audits of the Vendor Master File to identify duplicate addresses or bank accounts linked to employees.
- Transition to electronic payments with multi-factor authentication and dual-approval workflows.

3. Management Response

[Space for Management to provide comments and implementation timelines]

We remain available to discuss these findings in further detail and assist in strengthening your control environment.

Sincerely,

[Signature]

[Title]