

An Internal Control Checklist

Recognizing Warning Signs and Prevention Problem Situations

I. Introduction/Concept

Why are consistent internal controls important?

1. Management decisions, financial reports, and company taxes rely on the accuracy of figures recorded.
2. Gives owner control of dollars in and out.
3. Standardizes good management practices and procedures.

Advantages of improved internal control:

1. Can reveal errors and omissions.
2. Discourages employee theft.
3. Protects assets:

How to use the checklist:

1. Review the concept for each internal control area and answer the questions following each section.
2. Each answer identifies an area that needs stronger internal controls.

II. Segregation of Duties

CONCEPT:

- Certain accounting/bookkeeping functions are designed to cross-reference each other for accuracy. If the same person is responsible for multiple duties, the natural checks and balances of the system are removed.
- Trust is not the issue; verifying business transactions is. Giving a single person unquestioned authority of your finances is not a wise business practice.

CHECKLIST: Each "yes" answer identifies a potential problem area.

1. Is the person who handles your cash also responsible for recording the cash?
2. Does the person who pays or orders inventory also receive the materials?
3. Are two or fewer people responsible for the accounting function?
4. Is only one person responsible for reviewing financial statements each month?
5. Is your review of financial journals sporadic?

III. Bank Reconciliations

CONCEPT:

- Bank statements can only flag discrepancies if they are reconciled on a timely basis. Reconciliations should be done once a month. Bank adjustments need to be tracked care-fully from one month to another.
- Segregating duties is also important in this area. Reconciliations should be performed by one person and reviewed by another. Also, the person who writes the checks should not have the authority to sign checks.

CHECKLIST: Each "no" answer identifies a potential problem area.

1. Do you review canceled checks and endorsements on a monthly basis?
2. Do you compare payroll checks with your current employee records?
3. Do you question funds transferred between bank accounts?
4. Do you track the number of credit card bills you sign per month?
5. Are bank reconciliations performed on a timely basis?
6. Is someone responsible for reviewing the reconciliations each month?
7. Do you verify reconciled items?

IV. Supporting Documentation

CONCEPT:

- Enhances communications and serves as final checkpoint.

CHECKLIST: Each "yes" answer identifies a potential problem area.

1. Do you ever sign blank checks?
2. Do you ever sign checks without original supporting documentation?
3. Do you ever sign checks without canceling supporting documentation?
4. Have funds ever been transferred between accounts without review or verification?
5. Do you ever sign checks for new business vendors without knowing or verifying their name and association with your company?

V. Employees/Personnel

CONCEPT:

- Know your employees and be aware of changes in behavior.

CHECKLIST: Each "yes" answer identifies a potential problem area.

1. Are any of your employees extremely possessive of their work records and reluctant to share their tasks?
2. Are any of your employees apprehensive about vacations and time off, while always being the first in the office and the last out?
3. Have you noticed a substantial change of lifestyle in any of your employees?

4. Do any of your employees have a possible substance abuse problem?
5. Are any of your employees living beyond their means?
6. Have you ever hired an employee before checking references?
7. Do you permit your accounting personnel to work longer than a year without taking a vacation?
8. Do you have any accounting staff or key personnel who have not been secured with a fidelity bond?

VI. Safeguarding Assets

CONCEPT:

- Limit and monitor access to important documents and supplies.

CHECKLIST: Each "no" answer identifies a potential problem area.

1. Are blank check stocks and signature stamps safely secured?
2. Do you restrictively endorse all checks when received?
3. Do you deposit cash and checks daily?
4. Do you maintain a list of office furniture, equipment, and company vehicles?

VII. Other

- Adequate insurance coverage for assets.
- Off-site storage.
- Importance of backing-up information.
- Password restriction and security.