

INTERNAL CONTROL CHECKLIST

Recognizing Warning Signs and Preventing Problem Situations

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.

Advantage of improved internal control:

1. Can reveal errors and omissions.
2. Discourage employee theft.
3. Protect assets.

How to use the checklist:

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

SEGREGATION OF DUTIES

CONCEPTS:

1. Certain accounting/bookkeeping functions are designed to cross-reference each other for accuracy. If the same person is responsible for multiple duties, the natural check and balance of the system is removed.
2. 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 cash?
2. Does the person who pays or orders inventory also receive the material?
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?

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BANK RECONCILIATIONS

CONCEPTS:

1. 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 carefully from one month to another.
2. 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?
8. **Does the owner receive and open the bank statement prior to turning it over to the person who performs the bank reconciliation?**

SUPPORTING DOCUMENTATION

CONCEPT:

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

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EMPLOYEES/PERSONNEL

CONCEPT:

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

CHECKLIST (each “yes” answer identifies a potential problem):

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 in 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 or conducting background checks?
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 are not secured with a fidelity bond?

SAFEGUARDING ASSETS

CONCEPT:

1. Limit and monitor access to important documents and supplies.

CHECKLIST (each “no” answer identifies a potential problem area):

1. Are blank check stock 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?
5. Do you have adequate insurance coverage for assets?
6. Are all systems backed up on a daily basis and is backup stored off-site?
7. Is there password restriction and security for all computer systems and programs?
8. Are passwords changed at least every six months?