

An Internal Control Checklist Recognizing Warning Signs and Preventing Problem Situations

Internal controls, or a system of internal “checks and balances” are an important means of ensuring that accurate information is available for management decisions. But they are also critical tools for safeguarding company assets. Used properly, good internal controls can help standardize management practices and procedures, reveal errors and omissions, discourage employee theft, and help protect company assets.

We encourage you to review your company’s system of internal controls using this checklist.

Checked items may indicate a potential problem area.

Segregation of Duties

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; you are striving to verify business transactions. Giving a single person unquestioned authority to manage your finances is not a wise business practice.

Check any statements that are **true** in your business.

- The person who handles your cash is also responsible for recording the cash.
- The person who pays or orders inventory also receives the materials.
- Two or fewer people are responsible for the accounting function.
- Only one person is responsible for reviewing financial statements each month.
- Financial journals are reviewed only sporadically.

Bank Reconciliations

Bank statements can spotlight discrepancies, but only if they are reconciled on a timely basis. Reconciliations should be prepared once a month with any adjustments being tracked carefully from one month to another.

Segregation of duties is important when you are dealing with cash and bank accounts. Reconciliations should be performed by one person and reviewed by another. The person who writes checks should not also have the authority to sign the checks.

Check any statements that are **false** in your business.

- I review canceled checks and endorsements on a monthly basis.
- I compare payroll checks with current employee records.
- I question funds transferred between bank accounts.
- I track the number of credit card bills signed per month.
- Bank reconciliations are performed on a timely basis.
- Someone reviews the reconciliations each month.
- I verify reconciled items.
- I have bank statements sent to my home address.

Supporting Documentation

Supporting documents enhance communication and serve as final checkpoint.

Check any items that are **true** in your business.

- I sign blank checks.
- I sign checks without original supporting documentation.
- I sign checks without canceling supporting documentation.
- Funds have been transferred between accounts without review or verification.
- I have signed checks for new business vendors without knowing or verifying their name and association with my company.

Employees/Personnel

Know your employees and be aware of any changes in their behavior. Check any items that are **true** in your business.

- I have employees who are extremely possessive of their work records and reluctant to share their tasks.
- I have employees who are apprehensive about vacations and time off, while always being the first in the office and the last out.
- I have noticed a substantial change of lifestyle in one of my employees.
- I have employees who may have a substance abuse problem.
- I have employees who appear to be living beyond their means.
- I have hired an employee before checking references.
- I permit my accounting personnel to work longer than a year without taking a vacation.
- I have accounting staff or key personnel who have not been secured with a fidelity bond.

Safeguarding Assets

Limit and monitor access to important documents and supplies. Check any items that are **false** in your business.

- Blank check stocks and signature stamps are safely secured.
- All checks are restrictively endorsed when received. (They have "for deposit only" on them.)
- Cash and checks are deposited daily.
- Office furniture, equipment, and company vehicles are tracked on a detailed list.