

Give your business an internal control checkup

Independent reviews of the bank statement and preparation of the bank reconciliation, division of duties among key personnel, regular taking of vacations by key employees, regularly comparing actual results to budget, unannounced visits to the offices by the outside CPA firm - these and more are the hallmarks of a tightly controlled system. While it is virtually impossible to prevent fraud, there should be systems in place that make it likely to detect such an occurrence at the earliest possible time.

Internal controls are vital to every business. The coffee shop owner needs to be sure that all sales are rung up and that all cash is deposited in the bank. The plumber needs controls to make sure that all time and material costs are captured and assigned to the right job.

Proper internal controls should be part of everyday procedures in a business. They should work in a way that helps prevent fraud and theft or detects them early. Having an audit or review of your financial statements once a year will not necessarily detect fraud.

Every business should be sure it has set up an adequate system to safeguard all its assets - cash, inventory, equipment, etc. - with periodic reviews to be sure the controls are working.

Use the following checklist to review your internal control procedures. The list is not all-inclusive and is no substitute for a thorough internal control analysis.

CASH

- Are cash handling and cash recordkeeping duties segregated?
- Are all expenditures authorized and documented?
- Do you conduct unannounced checks of petty cash and other cash accounts?
- Do you prohibit any single employee from handling a transaction from start to finish?
- Do you deposit all receipts intact to the bank daily?
- Do you prepare bank reconciliations?

SALES

- Do you have proper segregation of duties to preclude an employee from pocketing cash from a sale but never reporting the sale?
- If you have too few employees for adequate segregation of responsibilities, do you play an active role in monitoring sales activities?

ACCOUNTS RECEIVABLE

- Do you have different employees responsible for the various duties associated with accounts receivable? (For example: taking the order, shipping the product, customer billing, collecting receivables, depositing collections in the bank.)
- Do you account for and physically control returned merchandise?
- Do you bill customers promptly?
- Is an accounts receivable aging schedule prepared regularly?
- Do customers receive monthly statements?

INVENTORY

- Are inventories physically counted at least annually?
- Is central control over inventories maintained?
- Are perpetual inventory records maintained?
- Is inventory adequately insured?
- Do you maintain safeguards against theft and pilferage?

FIXED ASSETS

- Are fixed assets acquired only with proper authorization?
- Do you take regular inventory of fixed assets?
- Are discrepancies between physical counts and accounting records resolved?
- Are fixed assets adequately insured?
- Are small tools and supplies properly safeguarded?

CURRENT & LONG-TERM DEBT

- Is there proper authorization for the creation of any debt?
- Are liabilities promptly recorded?
- Are accounts payable checked for accuracy?
- Are bills paid only when the merchandise has actually been received?
- Do you take advantage of vendor discounts?

STOCK

- Are designated officers the only ones allowed to sign stock certificates?
- Are stock certificates prenumbered and carefully accounted for?



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