

Internal Financial Controls

1. **Purpose of an Internal Control System**
 - A. Minimize potential loss due to theft (intentional)
 - B. Minimize potential losses due to error (unintentional)
 - C. Increase the efficiency of your operation

2. **A Good Internal Control System**
 - A. Provides for the segregation of duties so that people responsible for the custody of business assets (cash, inventory, etc.) are not the same individuals responsible for record keeping and recording transactions
 - B. Is as simple as possible
 - C. Includes controls that are based on job descriptions, not people
 - D. Provides for final review and authorization by you, the owner
 - E. Is enforced and applied consistently
 - F. Is changed or enhanced as the business changes

3. **Control Procedures – Cash Receipts**
 - A. Someone other than the bookkeeper (owner or receptionist) should:
 1. Open the mail and list all cash receipts
 2. Stamp all checks “*For Deposit Only*”
 - B. Deposits should be made daily whenever possible
 - C. Someone other than the person opening the mail should record the receipts to the accounts receivable ledger
 - D. Cash sales should be controlled by a cash register and/or pre-numbered cash receipts forms
 - E. Bank reconciliation should be done monthly by someone not responsible for cash transactions (best to do it yourself!)

4. **Control Procedures – Cash disbursements**
 - A. Cash disbursements (except petty cash) should be by pre-numbered checks
 - B. Unused checks should be safeguarded
 - C. A check protector can prevent alteration
 - D. All voided checks should be mutilated and retained
 - E. Check signers should be limited
 - F. Supporting documents should be attached and reviewed when you sign the checks

5. **Control Procedures – Inventory**
 - A. Physical counts should be made periodically and reconciled to the books
 - B. Someone other than the bookkeeper should be responsible for inventory quantities
 - C. Install physical safeguards – locks, fences, etc.

6. **Control Procedures – Payroll**
 - A. Maintain personnel files noting rates and increases (approval required)
 - B. Use time clocks or time sheets
 - C. Approve, sign and distribute paychecks

7. **Control Procedures – General**
 - A. Receive bank statement direct and unopened, review it, check out unusual items
 - B. Use a double entry bookkeeping system (One Write System)
 - C. Understand all aspects of your record keeping system
 - D. Have procedures that require your approval/authorization
 - E. Look at everything before you sign it
 - F. Never use your personal account for the business
 - G. Restrict access to cash
 - H. Evaluate account balances

Authorize, Verify, Approve, Review!