

# An Internal Control Checklist

Recognizing warning signs and preventing problem situations

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## 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?  Yes  No
2. Does the person who pays or orders inventory also receive the materials?  Yes  No
3. Are two or fewer people responsible for the accounting function?  Yes  No
4. Is only one person responsible for reviewing financial statements each month?  Yes  No
5. Is your review of financial journals sporadic?  Yes  No

### 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 carefully 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?  Yes  No
2. Do you compare payroll checks with your current employee records?  Yes  No
3. Do you question funds transferred between bank accounts?  Yes  No
4. Do you track the number of credit card bills you sign per month?  Yes  No
5. Are bank reconciliations performed on a timely basis?  Yes  No
6. Is someone responsible for reviewing the reconciliations each month?  Yes  No
7. Do you verify reconciled items?  Yes  No

### 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?  Yes  No
2. Do you ever sign checks without original supporting documentation?  Yes  No
3. Do you ever sign checks without canceling supporting documentation?  Yes  No
4. Have funds ever been transferred between accounts without review or verification?  Yes  No
5. Do you ever sign checks for new business vendors without knowing or verifying their name and association with your company?  Yes  No

### 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?  Yes  No
2. Are any of your employees apprehensive about vacations and time off, while always being the first in the office and the last out?  Yes  No
3. Have you noticed a substantial change of lifestyle in any of your employees?  Yes  No
4. Do any of your employees have a possible substance abuse problem?  Yes  No
5. Are any of your employees living beyond their means?  Yes  No

6. Have you ever hired an employee before checking references?  Yes  No
7. Do you permit your accounting personnel to work longer than a year without taking a vacation?  Yes  No
8. Do you have any accounting staff or key personnel who have not been secured with a fidelity bond?  Yes  No

## 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?  Yes  No
2. Do you restrictively endorse all checks when received?  Yes  No
3. Do you deposit cash and checks daily?  Yes  No
4. Do you maintain a list of office furniture, equipment, and company vehicles?  Yes  No

## VII. Other

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