

# **INTERNAL CONTROLS FOR SMALL BUSINESSES**

Kirsten Flanagan, CPA, CFE, CFF

Friedman LLP

# Internal Controls for Small Businesses

- ▶ Background Checks
- ▶ Segregation of Duties
- ▶ Policies and Procedures
- ▶ Check Signing
- ▶ Monitor Payments to Vendors
- ▶ Bank Reconciliations
- ▶ Require Vacations
- ▶ Review Financial Information

# Segregation of Duties

- ▶ Different people should handle authorizing transactions, recording transactions, maintaining custody of assets, reconciling accounts
- ▶ Job Sharing
  - ▶ 2 or more employees regularly assigned to one area of the business
  - ▶ Alternate weekly or some other schedule

# Policies and Procedures

- ▶ Document key controls in following cycles:
  - ▶ Sales and accounts receivable
  - ▶ Cash management and banking
  - ▶ Purchases and accounts payable
  - ▶ Payroll and human resources
  - ▶ Financial statement closing and reporting

# Check Signing

- Owner/Manager should sign all checks (including payroll)
- No check signing authority to accountant, bookkeeper, controller
- No rubberstamps

# Monitor Payment to Vendors

- ▶ Approval of invoices is not by the check signer
- ▶ Require detailed invoices
- ▶ Investigate vague language

# Bank Reconciliations

- ▶ Performed monthly
- ▶ Owner/Manager reviews bank statements and reconciliations on a timely basis
- ▶ Review supporting documentation for unfamiliar vendors and amounts over \$xx threshold

# Require Vacations

- Employees working in high-risk areas mandatory vacations
  - Cash receipts & disbursements
  - Receivables
  - Inventory
- Alternate employee performs their duties while they are away



# Review Financial Information

- Create monthly cash flow projections
- Review cash disbursements
  - Compare payments to invoices
  - Watch for duplicate invoices, new vendors, multiple invoices with same vendor in a short time
- Review credit/debit card statements for accuracy
- Review budget to actual amounts and variance reports
  - Key metrics: revenue/expenses/payroll/inventory

# Employee Lifestyle

- ▶ Material possessions (cars, houses)
- ▶ Trips
- ▶ Change in personal situation (divorce)

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QUESTIONS?

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267-886-1735