



Internal Controls - Safeguarding Your Cash

By: Karen M. Velligan, C.P.A.

We've all heard the stories of employee dishonesty or carelessness leading to the loss of thousands of dollars. Some of us have even experienced it first hand. There are some precautions you can take to prevent this type of loss. Good internal controls are essential to the protection of your business assets including cash, inventory, fixed assets and supplies.

Cash is the asset most vulnerable to employee theft. Therefore internal controls start with safeguarding cash. Simple and effective internal controls include separation of duties among those who handle receipts and record accounts receivable. Have one person open the mail and record checks received, and another post the receipts on your books. A third person should reconcile the checking account. If you receive cash, have only one person operate the cash register and have a second person count the receipts after each shift. The more you separate these duties, the higher your chances of one employee detecting errors or improprieties made by another. While two employees conceivably might collude, the chance of three or more employees colluding is more remote. Further, good internal controls help employees to catch their own errors in the normal course of per-

forming their duties. If your company is so small that you cannot separate some of these tasks, keep a closer eye on these activities yourself. For example, sign all checks yourself and make sure you receive the bank statement each month before it is opened. Scan the check copies returned with your bank statement to assure they weren't altered or forged. Insist that bank statements are reconciled to your books immediately and any discrepancies are followed up.

Don't forget to keep an eye on the petty cash box. Missing receipts and frequent replenishment are alarm signals. Small amounts taken over an extended period can add up to a significant sum.

Consider asking your accountant to perform an internal control review of your business and make recommendations for improving safeguards.

And remember, the very best internal control is hiring people with integrity. Know your employees. Perform thorough background checks on all new hires, including credit checks for anyone who will be handling cash.

A few simple steps and added vigilance can help you prevent a potentially devastating and unnecessary hardship to the business you've worked so hard to build.

Easy 10 Step Checklist For Improved Internal Controls

- All unused “blank” or imprinted check stock is stored in a secure (locked) location.
 - All checks are signed by the Owner or Manager.
 - All Bank Statements are given Un-Opened to the business Owner or Manager for initial review.
 - Business Owner or Manager reviews the bank statements within 48 hours of receipt.
 - Owner or Manager “scans” all bank statements to confirm that all transactions are legitimate.
 - Bank Statements are reconciled by someone other than the person responsible for issuing checks.
 - Any discrepancies identified on the bank statement are immediately followed-up on.
 - “Separation of Duties” is being practiced among those employees that handle receipts and those that record accounts receivables.
 - Petty Cash use and receipts are being closely monitored.
 - Business carefully selects its staff and performs background checks on all new hires – including credit checks on those staff members responsible for handling cash.
-