

Internal controls ensure that your processes run smoothly and are free from risk disruptions. They are an easy way to protect your business. They mitigate the risk of inefficiencies and threats.

Here are my top 5 internal control recommendations:

First, let's talk about segregation of duties, which means no one employee should have access to both the physical assets and the related accounting records, or to all phases of the transaction. It might seem efficient to have one person handle multiple aspects, but that means there are no checks and balances in the process. For instance, the person who approves the purchase of goods should not be the person who reconciles the monthly financial reports. The authorization, the custody of assets, recording of transactions, and the reconciliation should not all be the same person. The duties should be disbursed among several staff members.

Monthly account reconciliations is the second control. Reconciliations often take up a large portion of your monthly closing process, but the benefit far exceeds the time involved. Be sure to include an independent review step in that process.

Next let's talk about the importance of limiting access to system controls. Job roles and responsibilities should be clearly defined, and security controls should be aligned to the specific job role. Grant permission rights and approval authorization only to limited staff with that specific authority and do not allow shared access. Develop a process for new users and periodically review your access controls to ensure they are still appropriate. Be sure you can review system activities by each user.

The fourth control concerns vendor validation and periodic review. When new vendors are added, there should be a systematic review by another staff member. This eliminates the potential for fake vendors being added and payments processed to them. Establish a periodic review of all vendor accounts and look for red flags where payments are made that might not seem legit.

And lastly, create a process for review and approval of manual journal entries. There should always be a double check of all manual entries in your system. Whether it is by mistake or on purpose, manual journal entries can be manipulated to alter your financials.

These are just a few of the internal controls every business should have in place. Consider having an outside advisor perform an internal control risk assessment for your company.

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