

## Internal Control Checkup

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### **Definition:**

The assessment and improvement of the internal control system at a company. A process to ensure internal controls are working as management intends.

### **Benefits:**

Internal controls in business are necessary to ensure the reliability of accounting records and help reduce the risk of fraud to an “acceptable” level. It cannot be assumed that internal controls are working effectively. They need to be checked continuously and modified as risks are identified. An internal control checkup ensures employees are adhering to management policies and procedures and that adequate safeguards are in place to protect assets in order to prevent and detect fraud.

### **Process:**

- We begin by reviewing any current internal control system documentation.
- We then review the job descriptions of all accounting department employees and perform individual interviews with key staff.
- Next, we gain an understanding of the flow of all transactions and documents through your accounting system
- We then scrutinize all information collected during our interview processes (any time requirements by the clients or staff in this step?)
- We provide you with written recommendations designed to strengthen your internal control system and assist with their implementation.

### **Case Example:**

A manufacturer engaged Barnes Wendling CPAs to perform an internal control study shortly after their financial controller left the company. The owners wanted to ensure transactions were being properly recorded; they also wanted to gain a better understanding of the accounting side of their business.

We conducted several interviews with the owners and accounting clerks to gain an understanding of the current flow of transactions. While designing effective internal controls, we revealed major weaknesses in their current system. The system did not include segregation of duties and had very few management reviews. The prior controller had check writing and signing privileges, new vendor setup and approval privileges and prepared the bank reconciliations for all cash accounts.

After further investigation we determined that the prior controller had set up three fictitious vendors and funneled over \$40,000 to himself through these companies. We immediately implemented controls to reduce the risk of this type of fraud.