



**INTERNAL ACCOUNTING
CONTROLS CHECKLIST**

**FOR
NTMA CHAPTERS**

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Internal Accounting Controls Checklist Summary

A fundamental principle of internal control is to segregate duties so that no one person has the ability to initiate, execute, record, and reconcile a transaction from beginning to end.

Bond all accounting employees and others who handle cash receipts, make deposits, have access to securities, responsible for purchasing, and wire transfers. Require mandatory vacations (two consecutive weeks if possible) for the above personnel. Cross train employees so that someone else does the job during the vacation.

Require purchases and sales of securities to be authorized by the board of directors, an executive, or other appropriate party.

Use a "For Deposit Only" endorsement stamp on all checks upon receipt. Make all deposits intact daily and use multi-part deposit slips.

Reconcile bank accounts monthly. Have the Director or manager review the reconciliation.

Require written supervisory approval for write-offs, credit memos, employee additions, terminations, and wage changes, and before customer/members are added to or deleted from the master file.

Attach permanent identification tags to fixed assets and maintain detailed records.

Use physical or software controls to prevent unauthorized access to accounting systems.

Use prenumbered purchase orders, multi-part checks, and debit/credit memos. Periodically verify that their sequence is accounted for.

Use competitive bidding.

Require two signatures for all checks. Limit authorized signors to corporate officers or employees who are independent of the initiator of purchases, approver of purchases, receiving, shipping, preparer of checks, cash receipts, accounts payable, and cash bookkeeping. All back up documentation including the original invoice should accompany the check when sent for signature.

Require bank callback verifications for telephone transfers exceeding a predetermined dollar amount. (Review the transfer activity on the bank statement and look for transfers just under this dollar limit.)

Ensure that wire transfers are subject to the controls over other disbursements (such as requiring original invoices and passwords).

Require time sheets for all employees. Subject these to review and approval by supervisors.

Use a separate imprest bank account for payroll. Deposit only the amount needed to cover the actual payroll for the period.

Never sign blank checks. Prohibit checks written to "cash" or "bearer".

Establish policies for employee expense reimbursement and require employees to submit original receipts for reimbursement. Investigate deviations from the policy. Require review and approval of expense reports before they are paid. Check signers should not approve their own expense reports.

Use monthly budgets and investigate significant variances. Pay particular attention to projects with excessive costs.

Internal Accounting Controls Checklist

Internal accounting control is a series of procedures designed to promote and protect sound management practices, both general and financial. Following internal accounting control procedures will significantly increase the likelihood that:

- financial information is reliable, so that managers and the board can depend on accurate information to make programmatic and other decisions
- assets and records of the organization are not stolen, misused, or accidentally destroyed
- the organizations' policies are followed
- government regulations are met.

The following is a listing of basic controls that you may wish to use to review your internal accounting controls and determine which areas require further improvement.

Cash/Accounts Receivable

Have an employee independent of billing, accounts receivable, and cash handling investigate customer/member complaints.

Compare current cash receipts volumes to historical or expected cash receipts volumes.

Post a toll-free number to which employees and members can make complaints.

Separate the duties of opening daily receipts, preparing deposits, making the deposit slips recording payments, and originating noncash credits to customer/member accounts.

Use a "For Deposit Only" endorsement stamp on all checks upon receipt.

Separate responsibility for cash receipts, accounts receivable, and cash disbursements from responsibility for reconciling the bank statement.

Make all deposits intact daily. (The employee making the deposit should not be the cashier or work in accounts receivable.)

Consider using a lockbox for large volume cash receipts.

Maintain cash receipts separately from cash funds.

Keep undeposited amounts in a safe.

Have someone not involved in making the bank deposit open the daily mail, count the cash and check amounts received, and prepare a list of daily cash receipts. The list should be compared to the amount deposited and the customer/member account postings by someone independent of cash receipts and accounts receivable.

Have the Director/manager or another appropriate person review the bank records each month.

A Director/manager or other appropriate person should make independent comparison of deposits on bank statements to general ledger postings and validated deposit slips.

Cash/Accounts Receivable (cont'd)

Use multi-part deposit slips and compare the amount on the in-house copy to the amount deposited on the bank statement.

Rotate personnel who have physical custody of daily receipts.

Minimize the amount of petty cash kept on hand.

Lock up the petty cash fund.

Require original receipts to support petty cash disbursements and review them closely.

Reconcile and replenish petty cash monthly.

Have someone not involved in making the bank deposit or accounts receivable bookkeeping open the daily mail, count the cash and check amounts received, and report those totals to the Director/manager or another appropriate person, who compares the reported amount to the amount actually deposited.

Have the person who opens the mail use a "for deposit only" endorsement stamp on the back of each check received.

Separate the duties of preparing the deposit slip from making the deposit.

Reconcile all bank accounts monthly, with review by the Director/manager or another appropriate person.

Have someone outside the accounting function review the detailed bank reconciliation documentation and any adjusting entries made to the books.

Use multi-part deposit slips. (One copy should be reviewed and maintained by someone other than the employee who completed it.)

Compare current cash receipts volumes to historical or expected cash receipts volumes.

Regularly reconcile the accounts receivable general ledger balance to the subsidiary ledger, with appropriate supervisory review and follow-up.

Prepare an aged trial balance and have someone other than the person posting accounts receivable call customer/members to follow-up on delinquent accounts.

Require mandatory vacations for all personnel in accounts receivable and cash handling functions. Vacations should be least two weeks long and occur at the end of an accounting cycle. Cross train employees so that someone else does the job during the vacation.

Require supervisory approval before customer/members are added to or deleted from the master file.

Have someone independent of the preparer of the daily deposit list, cash handling, billing, and accounts receivable bookkeeper investigate customer/member complaints and billing questions.

Bond the employees who handle the cash receipts and make deposits.

Separate receivables collections from receivables recordkeeping. Accompany each write-off with a final letter demanding payment. (If the customer/member already paid the bill, he or she will complain.)

Separate duties for maintaining the accounts receivable subsidiary ledger and the general ledger.

Cash/Accounts Receivable (cont'd)

Have a manager without responsibility for the accounting function, review allowances for doubtful accounts, sales returns, and open account balances based on his or her knowledge of the account's history.

Have a manager review the aging reports each month for unusual items, making sure the aging report agrees to the general ledger.

Separate the duties for billing and shipping from cash and accounts receivable bookkeeping.

Require written supervisory approvals for write-offs and credit memos.

Investment Securities

Separate responsibility for securities from the cash receipts and cash disbursement functions.

Separate the duties of authorizing transactions, making trades, maintaining custody of assets, and recordkeeping.

Restrict custodial responsibility for securities and other valuable documents to authorized personnel.

Maintain authorized lists of signators and securities dealers, and update those lists periodically.

Require employees with investment responsibilities to take at least two week vacations, and require other employees to perform those functions in place of the absent employee.

Require purchases and sales of securities to be authorized by the board of directors, a corporate executive, or other appropriate party.

When possible, maintain securities at a brokerage firm in their street name.

If securities are held by the organization, they should be held in the name of the organization unless they are "bearer bonds."

Keep the securities under dual control in a safe or safe deposit box rented in the organization's name.

Maintain an up-to-date list of authorized securities dealers.

Maintain an up-to-date list of all securities held by the organization, including a detailed description (with cusp and certificate numbers).

Limit entry to the safe or safe deposit box to only instances when there are two or more designated representatives present.

Maintain a record of all visits to the safe or safe deposit box.

Have someone who is independent of securities trading and custody periodically count or confirm the securities and reconcile the information to the general ledger.

Have the Director/manager review the reconciliation of the securities count to the general ledger.

Maintain a record of due dates for income (such as bond income) and follow-up if it is not received promptly.

Recalculate interest and dividend income or compare interest and dividend income to a budget.

Bond employees who have access to the securities.

Property and Equipment

Consider changing the locks to sensitive areas when employees are terminated.

Attach permanent identification tags to fixed assets and maintain detailed records.

Separate authority for purchasing assets from approval for disbursements and recordkeeping.

Prohibit employees from taking possession of the entity's assets when they are to be disposed of (that is, even if there is no secondary market for the assets).

Conduct periodic physical inventories of property and equipment and reconcile to detailed property and equipment.

Adopt a policy on personal use of company property and equipment and communicate that policy (for example, include the policy in the employee handbook and discuss it with employees.)

Use a capital budget and follow-up on projects with excessive costs.

Review additions to and deletions from the property and equipment account.

Payables and Disbursements

Separate the purchasing from requisitioning, shipping, and receiving.

Use competitive bidding. All bids should be date stamped when received and two employees should open them at the same time.

Examine contracts with the same vendor for similar items. If there are similar items in two separate contracts, determine that performance has occurred under both contracts.

Notify vendors that you are using a fraud hotline.

Include a right-of-audit and access to vendor's books clause in contracts.

Bond the employees responsible for purchasing, accounts payable processing, cash disbursement, and wire transfer functions.

Periodically have someone outside the purchasing department review purchase prices.

Enforce mandatory vacations for employees in purchasing, accounts payable processing, disbursement, and related recordkeeping functions. The vacations should be at least two weeks long and occur at the end of an accounting cycle. Cross train employees so that someone else does the job during the vacation.

Use prenumbered purchase requisitions, purchase orders, and receiving reports, and periodically verify that their sequence is accounted for.

Require independent documentation of the receipt of acceptable goods or services before payment is made. In the case of professional services or construction, this verification should be made by individuals with the skills necessary to judge satisfactory conformity with the contract.

Separate invoice processing and accounts payable from the general ledger function.

Payables and Disbursements (cont'd)

Separate the requisitioning, purchasing, and receiving functions from the invoice processing, accounts payable, cash receipts, cash disbursements, and general ledger functions.

Separate the duties of check stock custody, check preparation, check signing, bank reconciliation, and accounts payable processing and vendor master file maintenance.

Use physical or software controls to prevent unauthorized access to the check writing and accounts payable systems.

Use an approved vendor list and make sure management approves all changes to the vendor master file.

Reconcile the cash disbursement records to the accounts payable open invoice file.

Reconcile the accounts payable trial balance to the control account. Have the Director/manager review the reconciliation.

Have the Director/manager or another appropriate person review the actual cash disbursements versus expected, or budgeted amounts.

All disbursements (except for petty cash) should be made via check.

Use prenumbered, multi-part checks and prenumbered debit/credit memos. Keep one copy in numerical sequence. Frequently check for missing or out-of-sequence check numbers.

Severely restrict the use of manual checks.

Never sign blank checks.

Lock up unused checks.

Lock up signature stamps or plates.

When checks are voided, they should be defaced and kept in an appropriate location for inspection.

Prohibit checks written to "cash" or "bearer."

Investigate, void, and reissue checks outstanding more than 90 days, if necessary.

Require two signatures for checks above a specified dollar amount. (Checks should not be countersigned in advance and left for the other signor.)

Limit authorized signors to corporate officers or employees who are independent of the initiator of purchases, approver of purchases, receiving, shipping, preparer of checks, cash receipts, accounts payable, and cash bookkeeping.

Check the mathematical accuracy of vendor invoices.

Have personnel receiving purchased goods compare the quantities, brands, and product identification of goods received to the shipper's bill of lading.

Use positive pay or reverse positive pay systems through the bank.

Compare vendor invoices to purchase orders and receiving reports.

Payables and Disbursements (cont'd)

Attach vouchers or vendor invoices, purchase orders and receiving documents to check requests. Agree quantities, brands, and product descriptions. Make sure they are all stamped "paid" and are marked with the check number.

Do not return the signed checks to the employee who drew them or the accounts payable clerk. Have someone independent of these functions mail them.

Reconcile the monthly vendor statement to the accounts payable trial balance.

Prepare aging reports for accounts payable, reconciled to the general ledger. Have them reviewed for unusual amounts or unknown vendors by the Director/manager or an appropriate person.

Arrange for bank statements to be sent directly to the Director/manager or someone who does not have responsibility for the cash receipts and disbursement records (to be reviewed for unusual disbursements, endorsements, etc.)

Have the bank account reconciled each month by someone who does not prepare or sign checks. Have the Director/manager or another appropriate person review the bank reconciliation.

Separate responsibility for cash receipts, accounts receivable, and accounts payable from responsibility for reconciling the bank statement.

Separate authority to contract for an item and authority to approve the invoice.

Lock up any unissued purchase orders and receiving reports.

Use monthly budgets. Compare the actual expense with budgets and follow-up on differences.

Require that personnel approving or processing vendor invoices for payment be alert for excessive quantities of supplies (such as copy machine paper or paper towels) and lower quality goods than traditionally used.

Require that payments to all employees (even those to managers) be authorized.

Require original invoices and receiving reports.

Compare the petty cash reimbursements to the regular reimbursement process to ensure employees are not asking for reimbursement from both.

Use passwords for individuals authorized to make wire transfers.

Require bank callback verifications for telephone transfers exceeding a predetermined dollar amount. (Have the Director or manager review transfer activity on the bank statement. Look for transfers just under this dollar limit.)

Ensure that wire transfers are subject to the controls over other disbursements (such as requiring original invoices).

Payroll and Employee Reimbursement

Have the Director manager or an appropriate senior person sign all payroll checks.

Maintain a weekly count of the number of people on the payroll. Compare the number of payroll checks to that number.

Payroll and Employee Reimbursement (cont'd)

Require supervisory approval for employee additions and terminations.

Require supervisory review of every change to the payroll master file.

Require mandatory vacations of employees in the personnel and payroll functions. Vacations should be at least two weeks long and occur during a payroll cycle. Cross train employees so that someone does the job during the vacation.

Lock up personnel files.

Require time cards for all employees. Subject these time cards to review and approval by supervisors.

Require documentation of supervisor approval for changes in wage rates.

Have an appropriate person extend time sheets/cards.

Separate responsibility for opening the mail from the payroll function.

Designate someone outside the payroll department as the organization's contact with taxing authorities.

Do not return the signed payroll checks to the employee who drew them, or the payroll clerk, or accounts payable clerk. Have someone independent of these functions mail or deliver the checks.

Reconcile total W-2 wages to the general ledger and payroll register wages paid.

Reconcile the payroll registers and the general ledger to the gross and net pay amounts per the payroll tax returns.

Require supervisory approval for changes in amounts of payroll deductions.

Require employees to sign Form W-4 and other appropriate documents to set up withholding.

Perform a physical inventory of all unused payroll checks. Compare the result to the payroll check register and account for the sequence of all checks.

Separate the duties of check stock custody and check signing.

Use direct deposit whenever possible. Have the direct deposit records (including employee account numbers) reviewed by the Director/manager or another appropriate person.

Have a person (who does not prepare the payroll or payroll checks) reconcile the payroll cash account each month by an appropriate person, with review by the Director/manager or other appropriate official.

Maintain a list of unclaimed payroll and expense checks.

Separate responsibility for payroll accounting from the general ledger function.

Separate responsibility for preparing the payroll and personnel duties (for example, timekeeping, distributing paychecks, and hiring employees) and restrict them from access to other payroll data or cash.

Use physical or software controls to prevent unauthorized access to check writing and payroll applications and data files.

Foot payroll registers and agree the amounts to the general ledger.

Payroll and Employee Reimbursement (cont'd)

Have the Director/manager or other appropriate person review payroll check registers. Scan for duplicate payments to employees, unusual pay or withholding amounts paid to the payroll clerk, or for other unusual items.

Have the Director/manager or another appropriate person compare current payrolls with previous payrolls. Investigate any significant variances.

Use budgets. Have the Director/manager periodically compare actual to budgeted payroll and investigate significant variances.

All disbursements (except in prescribed circumstances) should be made via check or direct deposit rather than cash.

Use a separate imprest bank account for payroll. Deposit only the amount needed to cover the actual payroll for the period.

Use prenumbered, multi-part checks. Keep one copy in numerical sequence. Periodically check for missing or out-of-sequence check numbers.

Implement a positive pay or reverse positive pay system.

Lock up unused payroll checks.

Lockup signature stamps.

Never sign blank payroll checks.

When checks are voided, they should not be destroyed. Identify an appropriate location where they should be kept.

Have someone outside the accounting area review the detailed reconciliation documents and any adjusting entries made to the books.

Designate someone independent of the payroll processing function as the client contact with the service organization.

Submit complete and accurate time records to the service organization.

Maintain and reconcile control totals to the information received from the service organization.

Have payroll registers approved by the Director/manager or another appropriate person.

Reconcile the total of paychecks and/or direct deposits with payroll registers.

Designate someone outside the payroll function as the organization's contact at vendors to which amounts withheld from paychecks are sent (for example, insurers, brokerage houses, or banks).

Require employees to sign forms authorizing deductions. Maintain the forms in the appropriate personnel files.

The personnel department should require final interviews on the last day of employment for all terminating employees.

Payroll and Employee Reimbursement (cont'd)

Reconcile monthly credit card invoices to expense reports.

Use preprinted, detailed expense report forms.

Require that original receipts be submitted for each item listed on credit card statements and expense reports.

Require that cash advances be closed out at least monthly.

Establish policies regarding air travel, hotel, and meal guidelines, and limits on entertaining. Investigate deviations from that policy.

Require review and approval of expense reports before they are paid. Check signers should not approve their own expense reports.

Have the Director/manager or other appropriate person periodically review the reimbursable expenses versus budget or expected amounts.

Give the signed expense checks to someone other than the check preparer for distribution.