

## FINANCIAL MANAGEMENT CONTROLS

Persistence and balance are required to effectively manage the finances of a growing business. The management of your business finances involves virtually all of the activities of your company. This includes raising capital, maximizing income potential, allocating resources effectively, and monitoring the results through various accounting and reporting documents.

All businesses require a working knowledge of all available financial reports and the ability to interpret these reports in a useful manner. These financial reports must be based upon accurate internal reporting so that the integrity of the reporting vehicle is not compromised. This can only be done by implementing and maintaining strict internal financial controls. Not to consider this very serious part of the management of your business is to open yourself and your business to mismanagement and possible fraud. Below are some basic questions that should be asked. Your answer to most of these vital questions should be yes. If your answer is no, you must consider immediate changes to your internal financial control system.

### GENERAL

- a) Is a chart of accounts used?
- b) Is it detailed enough to give adequate management information?
- c) Is a double entry bookkeeping system used?
- d) Who approves journal entries?
- e) Does the owner understand the form and contents of the financial statements?
- f) Does the owner use budgets and cash projections?
  - i) Are they compared to actual results?
  - ii) Are major discrepancies investigated?
- g) Are comparative financial statements produced?
- h) Are the books and records kept up-to-date and balanced?
- i) Who is responsible for producing financial information?

- j) Are reasonable due dates imposed?
- k) Is staff cross-trained in accounting functions?
- l) Are annual vacations required?
- m) Are storage facilities safe from fire, etc.?
- n) Is access to accounting records restricted when appropriate?
- o) Are employees bonded?
- p) Is insurance coverage regularly reviewed?
- q) Is a records retention schedule used?
- r) Is the owner satisfied that all employees are competent and honest? Are job references checked?

## **REVENUES**

- a) Is there a policy for credit approval?
- b) Are credit files kept current?
- c) Are credit checks done regularly?
- d) Are sales orders approved for:
  - i) Price?
  - ii) Terms?
  - iii) Credit?
  - iv) Account balance limits?
- e) Are all sales orders recorded on pre-numbered forms, and are all numbers accounted for?
- f) Are sales invoices compared to shipping documents?
- g) Are sales invoices recorded promptly?
- h) Are credit memos pre-numbered, accounted for, approved?

- i) Are monthly statements for outstanding balances reviewed by the owner? Mailed by the owner or responsible employee other than the bookkeeper?
- j) Is accounts receivable subsidiary ledger balanced monthly to control account?
- k) Is an aging schedule of customers' accounts prepared monthly?
- l) Are write-offs and other adjustments to customer accounts authorized by the owner?

### **CASH RECEIPTS**

- a) Does the owner or a responsible employee other than the bookkeeper or person who maintains accounts receivable detail:
  - i) Open the mail and pre-list all cash receipts before turning them over to the bookkeeper?
  - ii) Stamp all checks with restrictive endorsement "for deposit only" before turning them over to the bookkeeper?
  - iii) Compare daily pre-listing of cash receipts with:
    - Cash receipts journal?
    - Duplicate deposit slip?
- b) Are cash receipts deposited intact on a daily basis?
- c) Are cash receipts posted promptly to appropriate journals?
- d) Are cash sales controlled by cash registers or pre-numbered cash receipts forms?

### **CASH DISBURSEMENTS**

- a) Are all disbursements except for petty cash made by check?
- b) Are checks pre-numbered and all numbers accounted for?
- c) Are all checks recorded when issued?
- d) Are all unused checks safeguarded, with access limited?
- e) Is a mechanical check protector used to inscribe amounts as a precaution against alteration?

- f) Are voided checks retained and mutilated?
- g) Are all checks signed by the owner?
- h) If a signature plate is used, is it under the sole control of the owner?
- i) Are supporting documents, processed invoices, receiving reports, and purchase orders presented with the checks and reviewed by the owner before he or she signs the checks?
- j) Are supporting documents for checks properly cancelled to avoid duplicate payment?
- k) Are checks payable to “cash” prohibited?
- l) Are signed checks mailed by someone other than the person who writes the checks?
- m) Are bank statements and cancelled checks:
  - i) Received directly by the owner?
  - ii) Reviewed by the owner before they are given to the bookkeeper?
- n) Are bank reconciliations prepared:
  - i) Monthly for all accounts?
  - ii) By someone other than the person authorized to sign checks or use a signature plate if he or she is other than the owner?
- o) Are bank reconciliations reviewed and adjustments of cash accounts approved by the owner?
- p) Are all disbursements from petty cash funds supported by approved vouchers?
- q) Is there a predetermined maximum dollar limit on the amounts of individual petty cash disbursements?
- r) Are petty cash funds on an impress basis and:
  - i) Kept in a safe place?
  - ii) Reasonable in amount so that the fund ordinarily requires reimbursement at least monthly?
  - iii) Controlled by one person?

- iv) Periodically counted by someone other than the custodian?

## **ACCOUNTS PAYABLE**

- a) Are vendor invoices:
- i) Matched with applicable purchasing orders?
  - ii) Matched with applicable receiving reports?
  - iii) Reviewed for correctness of:
    - Quantities received?
    - Prices charged?
    - Clerical accuracy?
    - Account distribution?
- b) Are all available discounts taken?
- c) Is there written evidence that invoices have been properly processed before payment, e.g. stamped?
- d) Are there procedures that provide that direct shipments to customers, if any, are properly billed to them?
- e) Does the owner verify that the trial balance of accounts payable agrees with the general ledger control account?
- f) Are expense reimbursement requests:
- i) Submitted properly?
  - ii) Adequately supported?
  - iii) Approved before payment?

## **RECEIVING**

- a) Are all materials inspected for condition and independently counted, measured, or weighed when received?
- b) Are receiving reports used and prepared promptly?

- c) Are receiving reports subjected to the following:
  - i) Prenumbering and accounting for the sequence of all numbers?
  - ii) Copies promptly provided to those who perform the purchasing and accounts payable function?
  - iii) Controlled so that liability may be determined for materials received but not yet invoiced?

## **PAYROLL**

- a) Are all employees hired by the owner?
- b) Are individual personnel files maintained?
- c) Is access to personnel files limited to the owner or a designee who is independent of the payroll or cash functions?
- d) Are wages, salaries, commission, and piece rates approved by the owner?
- e) Is proper authorization obtained for payroll deductions?
- f) Is gross pay determined using authorized rates and:
  - i) Adequate time records for employees paid by the hour?
  - ii) Piecework records for employees whose wages are based on production?
  - iii) Are piecework records reconciled with sales records?
  - iv) Are salesperson's commission records reconciled with sales records?
- g) If employees punch time clocks, are the clocks located so they may be watched by someone in authority?
- h) Are time records for hourly employees approved by a foreman or supervisor?
- i) Would the owner be aware of the absence of any employee?
- j) Is the clerical accuracy of the payroll checked?
- k) Are payroll registers reviewed by the owner?
- l) Does the owner approve, sign, and distribute payroll checks?

- m) If employees are paid in cash, does the owner compare the cash requisition to the net payroll?
- n) Does the owner maintain control over unclaimed payroll checks?