



**INTERNAL
CONTROL
PRACTICES
SOME EXAMPLES**

Some examples for Internal Control Best Practices

- ① Cash Receipts
- ① Purchasing cycle



Cash Receipts

◎ Separation of duties

- Objective: To separate cash handling duties among different people → no single person has control over the entire cash process and try to minimize the number of people who actually handle cash before it's deposited.
- **Best practice** is to have different people as follows:
 - Receive and deposit cash
 - Record cash receipts
 - Reconcile cash receipts to the deposits and GL
 - Follow up on collection of returned checks

Cash Receipts

◎ Separation of duties (cont.)

- Potential consequences if duties are not separated:
 - Concealed errors or irregularities going unchecked
 - Lost or stolen cash receipts

Cash Receipts

◎ Authorization and approval

- Objective: To ensure that cash is properly documented and secured, and traceable to specific cash handlers
- **Best practices**:
 - Record cash receipts when received
 - Keep cash secured
 - Give receipts to each customer
 - Give each cashier a separate cash drawer with password

Cash Receipts

◎ Authorization and approval (cont.)

- Best practices (cont.):
 - Supervisors verify cash deposits.
 - Supervisors approve all voided refunded transactions.
- Potential consequences if authorization and approval do not exist:
 - Lost or stolen cash receipts

Cash Receipts

◎ Security of assets

● Best practices:

- Conduct the proper background checks on prospective cash handlers
- Follow physical layout standards prescribed by policy
- Restrict access of cash to as few people as possible
- Lock cash in a secure location like a safe or locked storage facility
- Provide combinations, passwords only to authorized personnel

Cash Receipts

◎ Security of assets (cont.)

● Best practices:

- Change combinations, passwords annually, or when someone leaves
- Minimize the amount of cash held overnight
- Use a buddy system when taking cash from one location to another
- Count cash in a non-public area not easily visible to others

● Potential consequences if cash is not secured:

- Lost or stolen cash receipts

Cash Receipts

◎ Review and reconciliation

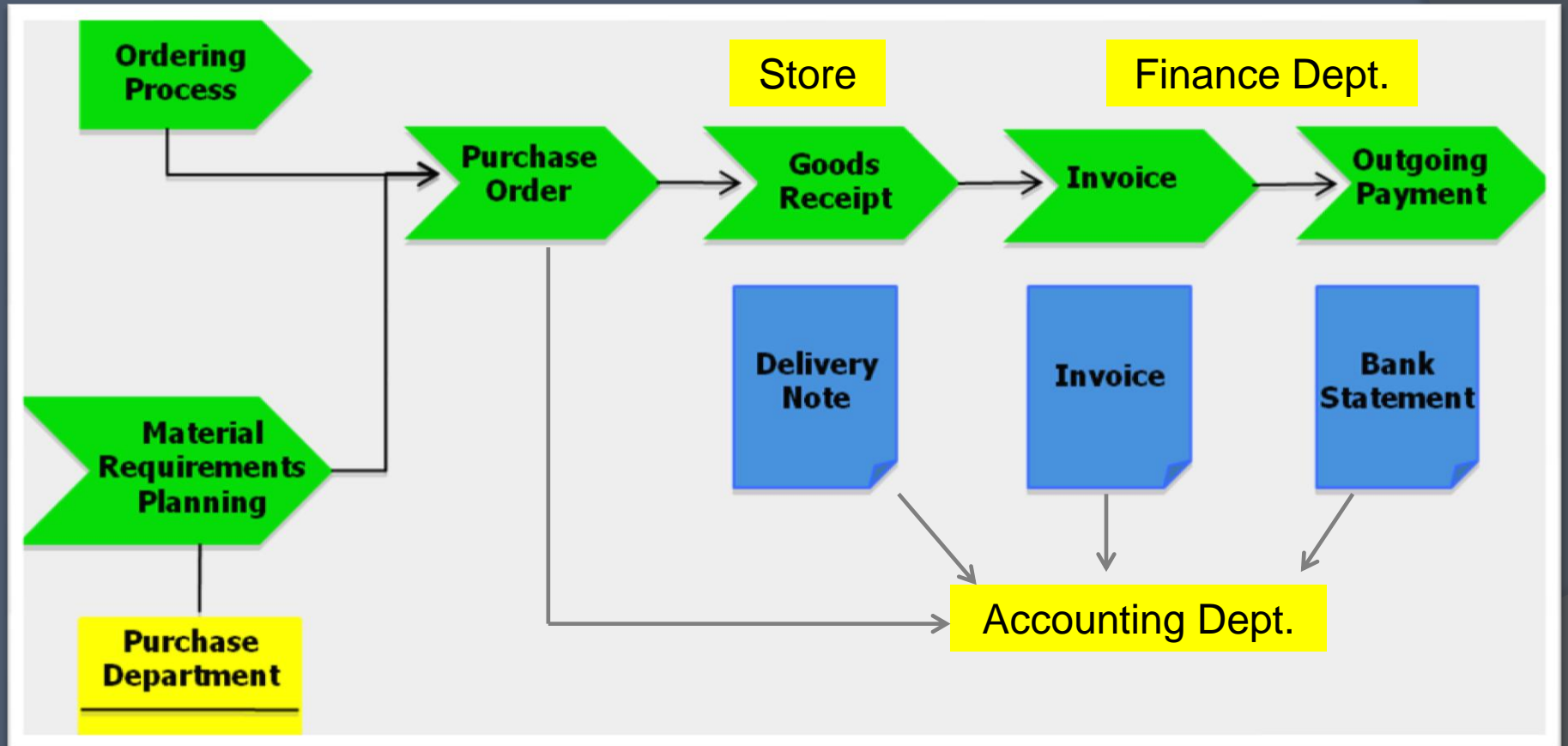
- Objective: To confirm that transactions are recorded correctly by performing monthly reconciliations of cash receipts and bank statements
- **Best practices**:
 - Compare receipts to deposit records
 - Record cash receipts when received
 - Count and balance cash receipts daily
 - Perform periodic surprise check

Cash Receipts

◎ Review and reconciliation (cont.)

- Potential consequences if review and reconciliation activities are not performed:
 - Errors or irregularities not detected
 - Lost or stolen cash receipts

Purchasing Process



Purchasing & AP

◎ Segregation of duties

- Objective: To ensure that no single person has complete control over all buying and payment processes
- **Best practice** is to have different people as follows:
 - Approve purchases (by Purchase dept.)
 - Receive ordered materials (by Store)
 - Approve invoices for payment (by Finance dept.)
 - Review and reconcile financial records (by Accounting dept.)

Purchasing & AP

◎ Segregation of duties (cont.)

- Potential consequences if duties are not separated:
 - Unauthorized or unnecessary purchases made
 - Excessive costs incurred
 - Erroneous or fraudulent invoices approved for payment
 - Unauthorized payments made to non-existent vendors

Purchasing & AP

◎ Authorization and approval

- Objective: To ensure that invoices for payment are authorized, reviewed, and approved, based on signed agreements, contract terms, and purchase orders.
- **Best practices**:
 - Review and update signature authorizations periodically
 - Verify receipt of goods and services to contract/purchase order and invoice information
 - Reconcile ledgers for accuracy of recorded transactions
 - Monitor that invoices are paid in a timely manner

Purchasing & AP

⦿ Authorization and approval (cont.)

- Potential consequences if authorization and approval do not exist:
 - Unauthorized, unnecessary, or fraudulent purchases or payments
 - Loss of supplier discounts due to late payments

Purchasing & AP

◎ Security of assets

- Once receiving the purchased goods, 1) secure the materials in a safe location, 2) periodically count your inventory and 3) compare the results with amounts shown on control records
- Best practices:
 - Secure goods received in a restricted area
 - Restrict inventory access to appropriate staff
 - Lock up goods and materials, and provide key or combination to as few people as possible
 - Keep inventory records and periodically calculate beginning and ending inventory amounts

Purchasing & AP

◎ Security of assets (cont.)

- Potential consequences if the assets have not been secured:
 - Theft of goods
 - Inventory shortages
 - Additional costs incurred for replacement of goods

Purchasing & AP

◎ Review and reconciliation

- Objective: To confirm that you're paying for approved purchases and are being billed correctly
- **Best practices**:
 - Review supplier invoices for accuracy by comparing charges to purchase orders
 - Verify that the goods and services purchased have been received
 - Perform monthly reconciliations of operating ledgers to assure accuracy and timeliness of expenses

Purchasing & AP

◎ Review and reconciliation (cont.)

- Potential consequences if review and reconciliation is not performed:
 - Improper charges made to your company
 - Payments made for items or services not provided

Assignment #1

◎ Recommend “Best Internal Control Practices” for

- Cash payments
- Revenue cycle
- Equipment management
- Information System
- Payroll

