

A Practical Guide to Internal Controls

As a small business owner, you're actively involved in your company's operations. After working side by side with your employees, the last thing that may cross your mind is that one of them might try to steal from you. But the truth is that small businesses are particularly vulnerable because they have limited resources available for antifraud efforts. However, even a small business can put a few basic internal controls in place.

Top Priority

The risk of theft or fraud is highest in certain areas of your business, specifically cash receipts and disbursements, payroll, credit and collections, purchasing, and inventory. Make sure you establish strong internal controls in these areas.

Many Hands

The best way to reduce the risk of internal theft is to spread duties and responsibilities in high-risk areas among two or more people. For example, the person opening the mail should not be the same person who records cash receipts, reconciles the cash drawer, or prepares the bank deposits. Require two signatures on checks written for more than a certain amount – one of them yours.

Be suspicious if an employee in a key position consistently makes excuses for not taking time off. Encourage employees working in vulnerable areas of your business to take their vacation time and have someone fill in for them. Or make vacations mandatory.

The Double Check

Putting internal controls in place is the first step. Checking to make sure they're working is the next. Review receivables on a regular basis to reveal collection problems and errors that might be overlooked in the day-to-day hustle and bustle. In addition to regularly scheduled inventory counts, plan surprise counts and unscheduled inspections to uncover irregularities.

Lead by Example

If you want your employees to know you're serious about internal controls, show them. Don't cut corners. Always follow established rules and procedures. And set a high bar for honesty and openness. Make a habit of randomly stepping in and taking over various employees' duties. Open the mail on occasion. Help check in a product shipment delivery every once in a while. Your staff will soon get used to your watchful eye.

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Gary Haworth, CPA, is the owner of Haworth & Company, Ltd., a local CPA firm, and a member of the Small Business Resource Group, which helps small businesses with their bookkeeping & accounting, payroll, tax preparation and consulting needs. He started his practice over 20 years ago, growing from one person to now more than 30 employees and three locations. He can be reached at ghaworth@haworthco.com.