Internal Control Recommendations

Owners of small businesses and senior executives at the helm of larger organizations have long sought ways to better control the enterprises they run. The answers they seek are found in a systematic placement of internal controls that are integrated into operations to keep the business on course toward financial success, achievement of objectives and compliance with applicable laws and regulations. Internal controls also enable management to respond quickly to any surprises within their own environment and shifting customer demands and priorities.

INTERNAL CONTROL COMPONENTS

Internal controls are comprised of activities that are the specific policies and procedures management uses to achieve its objectives. The most important control activities involve the following:

- **Segregation of duties** requires that different individuals be assigned responsibility for different elements of related activities, particularly those involving authorization, custody, or recordkeeping.

  For example, the same person who is responsible for an asset's recordkeeping should not be responsible for physical control of that asset. Having different individuals perform these functions creates a system of checks and balances.

- **Proper authorization** of transactions and activities helps ensure that all company activities adhere to established guidelines unless responsible managers authorize another course of action.

  For example, a fixed price list may serve as an official authorization of price for a large sales staff. In addition, there may be a control to allow a sales manager to authorize reasonable deviations from the price list.

- **Adequate documents and records** provide evidence that financial statements are accurate. Controls designed to ensure adequate recordkeeping include the creation of invoices and other documents that are easy to use and sufficiently informative; the use of prenumbered, consecutive documents and the timely preparation of documents.

- **Physical control** over assets and records helps protect the company's assets. These control activities may include electronic or mechanical controls (such as a safe, employee ID cards, fences, cash registers, fireproof files and locks) or computer-related controls dealing with access privileges or established back-up and recovery procedures.

- **Independent checks** on performance, which are carried out by employees who did not do the work being checked, help ensure the reliability of accounting information and the efficiency of operations.

  For example, a supervisor verifies the accuracy of a retail clerk's cash drawer at the end of the day. Internal auditors may also verity that the supervisor performed the check of the cash drawer.

In order to identify and establish effective controls, management must continually assess the risk, monitor control implementation and modify controls as needed.

RISK ASSESSMENT

Every entity, regardless of size, faces a variety of risks from both internal and external sources that must be evaluated and responded to. By understanding the different types of risk and potential responses, senior management is better prepared for the day when an immediate response is needed. Risk assessment is the identification and analysis of relevant risks to achieve objectives, form a basis for determining how to manage the risk and the evaluation of the response. A risk assessment is not a one-time event. Because economic, industry, regulatory and operating situations will continue to change, mechanisms will need to be in place to properly identify and respond to the risk.

More information regarding internal controls and evaluating systems and procedures within your organization can be obtained by contacting **Chortek at 866.877.8227** or **www.chortek.com**.

CHORTEK
CPAs | BUSINESS ADVISORS

866.877.8227 | WWW.CHORTEK.COM