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# Balance *sheet*

## Internal Controls – Your Best Defense

By Douglas E. Schleucher, CPA

All businesses have or at least should have methods and procedures in place to conduct its business as efficiently and effectively as possible. Broadly defined as “Internal Controls”, these methods are designed to safeguard assets, prevent fraud, minimize errors, provide reliable information, and promote the effective operation of the business while ensuring established procedures are followed.

Recent studies have shown that small businesses, defined as less than 100 employees, are more susceptible to internal fraud and theft than larger businesses. Smaller businesses normally have limited resources and personnel to implement elaborate controls to help prevent and detect fraud. However, not addressing internal controls can expose the business to operational and financial risks and losses. Small businesses can implement simple and common sense ideas that will strengthen their internal control system.

The evaluation of internal controls usually begins with an assessment of the risks that face the business. The business can then target the areas that have a higher risk of abuse. Internal controls should be focused on prevention and detection.



One of the most important preventive controls is the separation of duties. The idea is that no single individual should be responsible for authorizing a transaction, recording the transaction and maintaining custody of the related assets. This can be especially challenging for a small business with a limited number of people to perform these tasks but should not be overlooked.

A common detective control is that of oversight and review. Small business owners and managers are often so involved in operating the business that it is difficult to pay enough attention to basic monitoring procedures. Proper oversight is essential and an important aspect of fraud prevention and detection. One example is reviewing certain key metrics, reports and information on a monthly basis (such as the bank statement and bank reconciliation) to identify unexpected conditions or unusual results that require follow-up to determine if a problem exists.

Although no system of internal controls is perfect, it is your best defense against internal fraud and theft. If you have any questions about internal controls in your business or organization, please contact us to discuss your particular situation.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision.