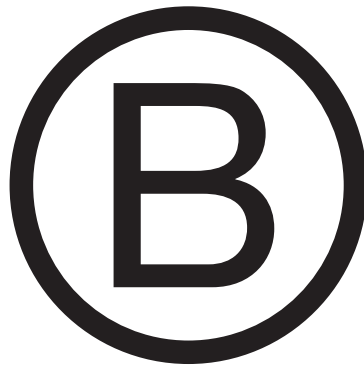


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B Resource Guide:
Implementing Financial Controls



B Resource Guide: *Implementing Financial Controls*

What's in this Guide:

- I. Definition: What are Financial Controls?
- II. Why Do You Need Financial Controls?
- III. Best Practices: Financial Controls to Consider

I. Definition: What are Financial Controls?

Financial controls are the means by which an organization's resources are directed, monitored, and measured.

II. Why Do You Need Financial Controls?

Financial controls play an important role in ensuring the accuracy of reporting, eliminating fraud and protecting the organization's resources, both physical and intangible. These internal control procedures reduce process variation, leading to more predictable outcomes.

III. Best Practices: Financial Controls to Consider

Topics to consider include, but are not limited to: segregation of duties like A/R and A/P, check writing, access to accounting software systems, access to credit cards and ATM cards, and inventory management.

B Corporation, **GoLite**, has implemented the following controls to ensure the accuracy of reporting and the elimination of fraud. This is a comprehensive list; depending on your company size, industry, and resources, the following controls may or may not apply or be necessary. We thank GoLite for allowing us to share these best practices and hope they can serve as a guideline for your company's financial control implementation.

Management Policies / Staffing

- Knowledgeable accounting and finance staff are in place to ensure that relevant accounting standards are reviewed and implemented throughout the organization to accurately report financial data.
- Senior management ensures that the control processes surrounding accounting and financial data are effective through proactive involvement in financial and accounting matters.
- Accounting staff has direct reporting line to the COO/CFO, who in turn is part of senior management.
- Comprehensive global General Ledger (G/L) frameworks and a detailed Chart of Accounts exist.
- Corporate policies are in place for G/L and Chart of Accounts management, financial statement closing process, reconciliations, aging and charge-offs, inactive accounts, and suspended accounts.
- Management team reviews and evaluates financial performance and ensures that finance and accounting staff has appropriate knowledge and skills.
- A clear segregation of duties exists between the following functions: sales, order placement, receiving, invoicing, accounts payable, and account reconciliation.



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Accounts Receivable, Credit, and Collections

- Strive to ensure that all funds intended for the organization are received, promptly deposited, properly recorded, reconciled, and kept under adequate security.
- Require credit reporting on all customers prior to credit issuance.
- Require periodic review of key customers to ensure ongoing credit worthiness.
- Establish limits of authority for credit issuance and terms (system or otherwise).
- Limit system access to alter credit limits and/or terms only to appropriate personnel.
- Require manager approval for adjustments to and/or write-offs of A/R balances.
- Sequentially number credit memo adjustments to A/R balances.
- Require monthly reconciliation of the General Ledger to the Cash and A/R subsidiary.
- Reconcile bank statements to the General Ledger on a monthly basis.
- A central point of contact is designated for all incoming mail.
- Access to alter or create records in the customer master file is limited to appropriate parties.
- Account statements are mailed and/or emailed to customers.
- Support files are maintained in a secured area and restricted to appropriate personnel.

Small Company?

Consider starting out with the following practices:

- Establish a clear segregation of duties between A/R and A/P, check writing and check signing.
- Limit system access to appropriate personnel.
- Reconcile bank statements, credit card statements, etc to the General Ledger on a monthly basis.
- Designate a central point of contact for all incoming mail.
- Require credit check on customers prior to credit issuance.
- Consider hiring an outside accountant/bookkeeper to assist with and review financials.
- Consider outsourcing payroll.

Accounts Payable / Purchasing

- Strive to ensure that funds are disbursed only upon proper authorization of management, for valid business purposes, and that all disbursements are properly recorded.
- Policies and procedures governing accounts payable and purchasing processes exist.
- System access to create, edit, or delete purchase orders is restricted to appropriate personnel.
- The ability to add, modify, or delete vendor records in the vendor master file is restricted to appropriate individuals.
- Manager approval is required for all new vendors or major modifications to vendor information.
- Vendor master file is periodically purged of old and obsolete vendors.
- A three-way match between the invoice, PO, and receiver must be present before payment is released to the vendor.
- Management approval is required for adjustments to A/P balances (credit notes) and restricted to appropriate personnel.
- Check stock is appropriately secured and access is restricted to appropriate personnel.
- Owner or COO signature is required on all manual check disbursements.
- Check sequences and gaps are investigated.



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- Bank statements are reconciled to the general ledger monthly and reviewed by management.
- Major supplier statements are reconciled to the A/P subsidiary ledger.
- Support files are maintained in a secured area and restricted to appropriate personnel.
- Wire transfers are owner executed through a password-protected internet process.
- Clear expense reimbursement guidelines are maintained. Accountant reviews expense reports in detail and reimburses only with valid receipt and approval of manager.
- Credit cards are only issued to employees with clearly defined needs (e.g. extensive travel). One general company credit card exists for non-management personnel, and access is only allowed through permission from the accountant and manager and through a formal purchase order.

Payroll

- Strive to ensure that payroll disbursements are made only upon proper authorization to bona fide employees, that payroll disbursement is properly recorded and that related legal requirements (such as payroll tax deposits) are complied with.
- Policies and procedures governing payroll processes detailing timelines, responsibilities, actions, responsibilities, etc exist.
- Access to add, modify, and delete records from the employee master file are restricted to appropriate personnel (COO, and, if needed, company owners). Managerial approval is required for modification to significant data (i.e. salaries, etc).
- Support files are maintained in a secured area and restricted to appropriate personnel.

Fixed Assets

- Strive to ensure that fixed assets are acquired and disposed of only upon proper authorization, and that they are adequately safeguarded, and properly recorded.
- Policies and procedures governing fixed asset-related processes detailing timelines, responsibilities, actions, responsibilities, etc exist.
- Assets are secured appropriately.
- Book to physical reconciliation is conducted annually to validate condition and existence.
- Access to the fixed assets register is restricted to appropriate personnel.
- Managerial approval is required for asset disposals and write-offs.
- Asset acquisitions are approved in advance of purchase.
- Asset valuations are periodically reviewed by management for continued relevance.
- All supporting paperwork is obtained prior to entry into the fixed asset register.
- Support files are maintained in a secured area and restricted to appropriate personnel.

Inventory

- Strive to ensure that inventories are received and/or shipped only with proper authorization and documentation, properly recorded, and appropriately safeguarded.
- Policies and procedures governing inventory-related processes detailing timelines, responsibilities, actions, responsibilities, etc exist.
- Inventories are appropriately secured.
- Book-to-physical or cycle counts are periodically conducted to validate condition and existence.



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- Inventory is only received with valid support paperwork (i.e. PO).
- All inventory receipts are verified for quantity and condition against the bill of lading and the packing slip and record on pre-number receiver forms or a log.
- Management reviews and reconciles the receipts log to system receipts on a daily basis.
- Support files are maintained in a secured area and restricted to appropriate personnel.
- Management review and approval of inventory write-offs is required.
- System access to process inventory adjustments is restricted to appropriate personnel.
- All inventory shipments are required to be accompanied by a valid order.
- Management periodically reviews open work orders, inventory aging reports, etc.
- All shipments are recorded in a shipping log, and management reviews and reconciles to the system on a daily basis.

Financial Closing or Reporting

- Strive to ensure that financial data is recorded, consolidated, and reported accurately, timely, and in compliance with US GAAP.
- Policies and procedures governing financial closing processes detailing timelines, responsibilities, actions, responsibilities, etc exist.
- Segregation of duties within the account reconciliation, journal posting, and management review/approval processes exist.
- Management approval is required for all non-standard, adjusting, and/or manual journal entries.
- A budgeting and forecasting process is established. Trend analysis is used (horizontal and vertical) in order to sanity check results and research and resolve any unusual variations.
- The ability and/or access to post journal entries is limited to appropriate personnel.

Accounting Software

- Password-protected accounting software exists and access to information and editable fields is limited to appropriate personnel.