

## **Veterinary Practice Internal Controls**

We would like to share with you some information regarding the importance of internal controls.

Our experience has revealed to us that small businesses run an inherently greater risk of employee theft because of their lack of checks and balances.

A few important factors to remember about embezzlement and theft in small businesses:

- If they occur, most thefts in your practice will only involve one person;
- Generally, only the people you trust will be able to steal from you (and get away with it);
- Most embezzlements continue for months before being discovered.

Without strong internal control procedures in place, employees can learn to manipulate the accounting system to their benefit. However, a properly executed system of internal controls can help you reduce these risks.

The risk of embezzlement and theft will always be there, but you can reduce this risk tremendously by remembering the following three items:

1. Division of responsibilities. Don't let any one member of your staff have too much control.
2. Pay Attention to employee behavior and moods.
3. Stay diligent. A small amount of supervision and awareness goes a long way towards theft prevention.

Attached is a comprehensive **Internal Controls Checklist** for your consideration.

## Internal Control Recommendations

### Cash and Check Payments

1. Cash Payments by Clients
  - a. Receipt clearly states cash payment. Yes  No
  - b. Recorded as cash payment in computer. Yes  No
  - c. Cash is counted by two employees at end of day. Yes  No
  - d. Total cash is compared to total on daily report by same two employees. Yes  No
  - e. If cash matches the daily report, enter cash amount on daily deposit slip. Yes  No
  - f. If cash does not match the daily report, list discrepancy, then enter on daily deposit slip. Yes  No
  - g. Put cash in envelope. Envelope dated, labeled and sealed. Signed off by same two employees. Yes  No
2. Check Payments by Clients
  - a. Receipt clearly states check payment. Yes  No
  - b. Recorded as a check payment in computer. Yes  No
  - c. Check is immediately endorsed – For Deposit Only – Name – Acct #. Yes  No
  - d. No post dated checks accepted. Yes  No
  - e. No held checks accepted. Yes  No
  - f. Checks are counted and totaled by two employees at end of day. Yes  No
  - g. Total of checks is compared to daily report from computer by same two employees. Yes  No
  - h. If checks match daily report, enter checks amount on daily deposit slip. Yes  No
  - i. If checks do not match daily report, find and correct discrepancy. Enter checks on daily deposit slip. Yes  No
  - j. Put checks in separate envelope. Envelope should be different color then cash envelope. Envelope dated, labeled and sealed. Signed off by same two employees. Yes  No
3. Deposit
  - a. Deposit slip prepared daily. Yes  No
  - b. Copy of deposit slip, and daily report, with cash and check totals highlighted, given to office manager and signed off by same two employees. Yes  No
  - c. Actual deposit slip, with envelopes, also given to office manager. Office manager verifies envelopes are sealed. Yes  No
  - d. Deposit slip and envelopes stored in safe or under lock and key until courier arrives. Yes  No
  - e. When courier arrives, office manager again verifies envelopes sealed. Yes  No
  - f. Deposit receipt from bank goes directly to owner. Owner agrees deposit receipt to daily report. Owner staples deposit receipt to daily report. Yes  No
  - g. Any adjustments, NSF checks or notices regarding deposit goes directly to owner. Yes  No

## Internal Control Recommendations

Page 2

### Credit Card Payments

1. Credit Card Payments by Clients
  - a. Receipt clearly states credit card payment. Yes  No
  - b. Recorded as credit card payment in computer. Yes  No
  - c. Batch report is run by two employees at end of day. Yes  No
  - d. Total from batch report is compared to total daily report from computer by same two employees. Yes  No
  - e. If total matches, give both batch report and computer daily total report to office manager. Same two employees sign off on reports. Yes  No
  - f. If total does not match, find discrepancy, then give both batch report and computer daily total report to office manager. Same two employees sign off on reports. Yes  No

### Other Items

1. Bank Statements/Reconciliations
  - a. Bank statements go to owner un-opened. Yes  No
  - b. Owner peruses all check payees and endorsees for irregularities. Yes  No
  - c. Owner reviews all adjustments (NSF, debit or credit memos) on bank statement. Yes  No
  - d. All cash and check deposits are verified on bank statement. Yes  No
  - e. All credit card deposits are tracked from merchant account to bank statement. Yes  No
  - f. Office manager prepares bank reconciliation. Yes  No
  - g. Owner reviews bank reconciliation. Yes  No
2. Adjustments
  - a. Allowed accounts receivable authorized by office manager and owner. Yes  No
  - b. Any client receivable write-offs are authorized by office manager and owner. Yes  No
  - c. Any "change of payments", discounts or "voids" in system are authorized by office manager and owner. Yes  No
3. Petty Cash
  - a. Maintain separate petty cash drawer. Yes  No
  - b. No cash from daily activity to be used towards petty cash Yes  No
  - c. Petty cash reimbursements for invoiced expenditures. Yes  No
  - d. Check written to office manager for petty cash reimbursement Yes  No
4. Check signing
  - a. Owner only. No exceptions. Yes  No

Certified Public Accountants

**Gatto McFerson**

## Internal Control Recommendations

Page 3

5. Payroll
- |   |                              |                             |
|---|------------------------------|-----------------------------|
| a. Office manager to continuously review employee rates and salaries. | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| b. Recommend direct deposits.   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| c. Overtime authorized by supervisor, signed off on by owner          | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| d. Owner periodically reviews employee rates and salaries.            | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
6. Vendors/Ordering
- |  |                              |                             |
|--|------------------------------|-----------------------------|
| a. Orders made by appropriate supervisor. Approved by office manager.                                  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| b. Shipment arrives. Packing slip matched to order, then matched to contents. Given to office manager. | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| c. Office manager agrees packing slips to vendor invoice.  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| d. Payment is prepared.  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| e. Office manager matches check to invoice due to vendor.  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| f. Owner matches check to invoice to vendor. Owner signs check.  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |

### Other issues to consider:

Invoicing of clients  
Inventory on shelves  
Computer back up procedures  
- how often?  
Record-keeping  
- where?  
Computer security  
- passwords  
Company credit cards  
- who is authorized?  
Employee vacation time/sick time  
- recording & monitoring  
Employee handbooks  
- updating