




Good Internal Controls for Small Businesses



SOX and the Importance of Good Internal Controls for Small Businesses

MENDELSON CONSULTING
Mario Nowogrodzki, CPA.CITP
...America's QuickBooks Specialists
www.qbspecialists.com






MARIO NOWOGRODZKI, CPA.CITP

MENDELSON CONSULTING
...America's QuickBooks Specialists
www.qbspecialists.com


- Computer consultant for 17 yrs
- Master of Acctg Info Systems
- AICPA Certified Information Technology Professional
- Adv Cert QuickBooks, POS, & Enterprise ProAdvisor
- Intuit Solution Provider Advisory Council
- Intuit Trainers/Writers Network
- '2008 Killer VAR', AcctgTech mag
- '2008 Technology Pacesetter', AcctgTech mag

2 www.mendelsonconsulting.com 




A word before we begin...


- Mendelson Consulting and Intuit do not render any accounting, legal or other professional advice
- This presentation summarizes complex and technical practice areas, and is not a deep dive into SOX itself
- This presentation is by its nature incomplete and may contain inaccuracies, although best efforts have been made to present accurate material
- Materials and presentation are not a substitute for independent accounting and legal research and professional advice


3 www.mendelsonconsulting.com 

Good Internal Controls for Small Businesses


 **What We Will Cover**


What is the Sarbanes-Oxley Act (SOX)?
Why Should a Small Business Care?
Best Practices of SOX
Internal Controls
Implementing Controls in QuickBooks

4 www.mendelsonconsulting.com 

 **What is SOX?**


A government act created to protect investors and creditors of publicly traded companies in the United States by improving the accuracy and reliability of corporate disclosures.

5 www.mendelsonconsulting.com 

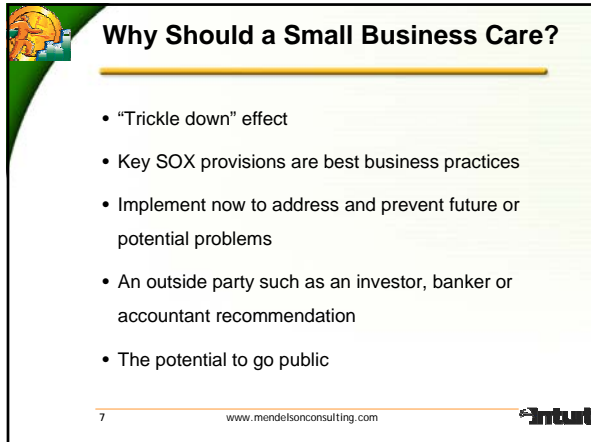
 **What is SOX?**

Major Provisions of SOX

- 404 – Management reports on the effectiveness of their internal financial controls; Auditors confirm
- 802 – Criminal violation to impede, obstruct or influence any investigation or bankruptcy matter
- 1107 – Criminal penalties for retaliation against whistle blowers
- 301 – Independence of audit committees
- 302 – CEOs and financial officers must certify financial statements
- 406 – Code of ethics


6 www.mendelsonconsulting.com 

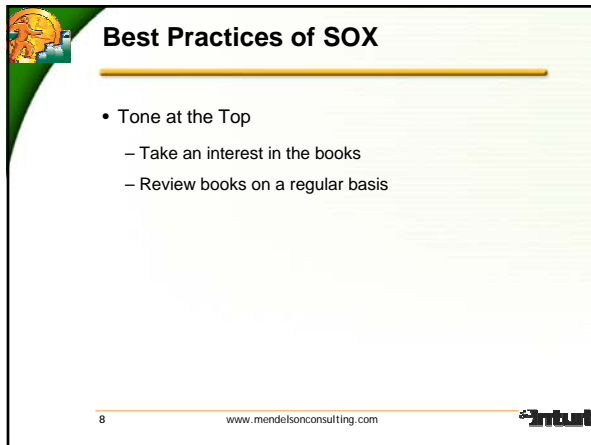
Good Internal Controls for Small Businesses



Why Should a Small Business Care?


- “Trickle down” effect
- Key SOX provisions are best business practices
- Implement now to address and prevent future or potential problems
- An outside party such as an investor, banker or accountant recommendation
- The potential to go public

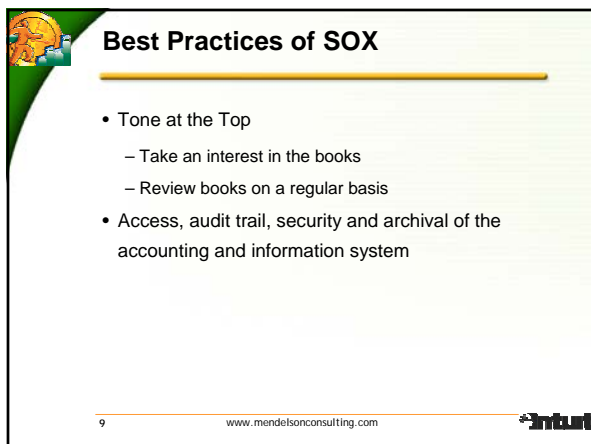
7 www.mendelsonconsulting.com 



Best Practices of SOX


- Tone at the Top
 - Take an interest in the books
 - Review books on a regular basis

8 www.mendelsonconsulting.com 




Best Practices of SOX

- Tone at the Top
 - Take an interest in the books
 - Review books on a regular basis
- Access, audit trail, security and archival of the accounting and information system


9 www.mendelsonconsulting.com 


Good Internal Controls for Small Businesses



Best Practices of SOX


- Tone at the Top
 - Take an interest in the books
 - Review books on a regular basis
- Access, audit trail, security and archival of the accounting and information system
- Financial statement accuracy, including fraud prevention
 - Independent review of books
 - Owners certification of financial statements


10 www.mendelsonconsulting.com 



Internal Controls

- 1 Change Management
- 2 Segregation of Duties
- 3 Red Flags for Fraud
- 4 Documentation & Document Retention
- 5 Safeguarding of Assets
- 6 Review

11 www.mendelsonconsulting.com 




Internal Controls

Change Management - Personnel

- Systematically govern the effects of org change

Change Management - Software

- Frequent new releases and updates
- Back-up files and print records prior to upgrade
- After upgrade, verify the accuracy of the updated information before entering new transactions
- In case of an upgrade problem, restore back-up files


12 www.mendelsonconsulting.com 

Good Internal Controls for Small Businesses

Internal Controls

Segregation of Duties

- Controlling Cash
 - Log cash received onto a slip for deposit
 - Check signing thresholds
 - Separate check signors from check preparers
 - Print out a check register
 - On-line bill pay system
 - No "emergency" checks
- Payroll
 - Document any changes to payroll rates
 - Ensure that payroll rates are accurate
 - Review registers and physical checks
 - Use direct deposit

13 www.mendelsonconsulting.com 

Internal Controls

Red Flags for Fraud

- Situational Flags
- Employee Flags
- Transaction Flags





14 www.mendelsonconsulting.com 

Internal Controls

Proper Documentation

- Cash
- Accounts Receivable
- Accounts Payable
- Inventory
- Payroll





15 www.mendelsonconsulting.com 

Good Internal Controls for Small Businesses

Internal Controls


Proper Documentation

- Cash
- Accounts Receivable
- Accounts Payable
- Inventory
- Payroll



Document Retention

- IRS mandates 7 years
- Electronic creation and storage
- Integrate documentation with accounting software

16 www.mendelsonconsulting.com 

Internal Controls

Safeguarding of Assets

- Significant investment
- Accountant-maintained list of fixed assets
- Review list annually at a minimum
 - Track additions and deletions monthly
- Periodic physical inventory
 - Research and address unexpected changes






17 www.mendelsonconsulting.com 


Internal Controls

Review

- Business environment is constantly changing
- Internal control policies should be reviewed
 - Review annually at a minimum
 - Review any time a there is a significant change to the financial environment of the company




| | 2017 | 2016 |
|--------------------------------------|------------|------------|
| Net Income | 27,000.00 | 10,000.00 |
| Adjustments to reconcile Net Income: | | |
| Depreciation Expense | 10,000.00 | 8,000.00 |
| Amortization Expense | 10,000.00 | 8,000.00 |
| Gain on Sale of Equipment | (2,000.00) | (1,000.00) |
| Loss on Sale of Equipment | 1,000.00 | 1,000.00 |
| Change in Accounts Payable | 1,000.00 | 1,000.00 |
| Change in Accounts Receivable | (1,000.00) | (1,000.00) |
| Change in Inventory | (1,000.00) | (1,000.00) |
| Change in Prepaid Expenses | 1,000.00 | 1,000.00 |
| Change in Other Assets | (1,000.00) | (1,000.00) |
| Change in Other Liabilities | 1,000.00 | 1,000.00 |
| Net Change in Cash | 40,000.00 | 20,000.00 |


18 www.mendelsonconsulting.com 

Good Internal Controls for Small Businesses

Implementing Controls in QuickBooks


- A** Restricting Access
- B** Controlling Transactions
- C** Entering Budget Data
- D** Setting Preferences
- E** Additional Controls




19 www.mendelsonconsulting.com 

Implementing Controls in QuickBooks

- A** Restricting Access
- B** Controlling Transactions
- C** Entering Budget Data
- D** Setting Preferences
- E** Additional Controls





20 www.mendelsonconsulting.com 

Implementing Controls in QuickBooks

Restricting Access to Application and Data Files

- Usernames and passwords in QuickBooks Pro, Premier and Enterprise Solutions
- User-specific area permissions



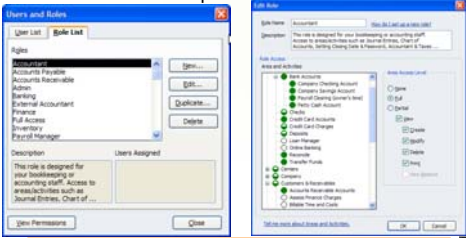
21 www.mendelsonconsulting.com 


Good Internal Controls for Small Businesses

Implementing Controls in QuickBooks

Restricting Access to Application and Data Files

- User-specific area permissions in QuickBooks Enterprise

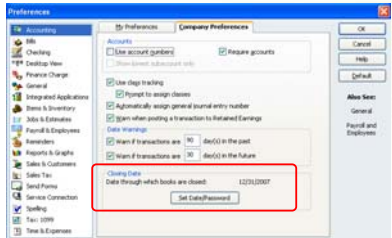



22 www.mendelsonconsulting.com 

Implementing Controls in QuickBooks

Controlling Transactions in Closed Periods

- Setting a closing date and additional password

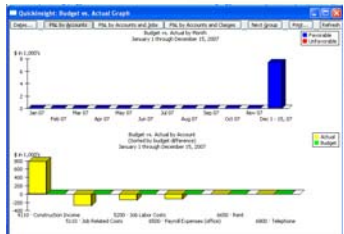



23 www.mendelsonconsulting.com 

Implementing Controls in QuickBooks

Entering Budget Data

- Use budget reports as an effective management tool




24 www.mendelsonconsulting.com 


Good Internal Controls for Small Businesses

Implementing Controls in QuickBooks

Setting Preferences

- Accounting
- Checking
- Integrated Applications
- Items & Inventory
- Sales and Customers
- Reminders

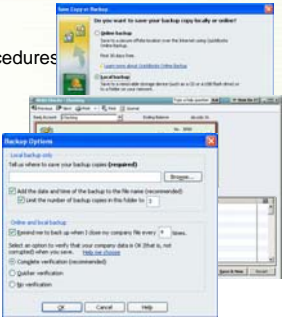



25 www.mendelsonconsulting.com 

Implementing Controls in QuickBooks

Additional Controls

- Effective Backup Procedures
 - Scheduled Back-ups
 - Online Back-up
- Online Bill Pay
- Automatic Updates
- Data Verification



26 www.mendelsonconsulting.com 

...THANK YOU!

MARIO NOWOGRODZKI, CPA/CITP

MENDELSON CONSULTING
"South Florida's QuickBooks® Specialists"



www.mendelsonconsulting.com
954-447-0250