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**Implementing Internal Controls When
Using QuickBooks**

Presented by:
AMY E. VETTER, CPA.CITP
Advanced Seminars for QuickBooks Users
August 5-6, 2009
Golden, Colorado

A Little Bit About Technology In A Box, LLC...

- A national consulting firm
- Provide complete end-to-end solutions to small to mid-market businesses and franchises
- Services range from hardware and software implementation, to QuickBooks Consulting, Fractionalized Bookkeeping and Controllorship services, to computer systems support and maintenance.
- Technology In A Box has offices in Michigan, Wisconsin, Illinois, Minnesota and Florida

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SPEAKER BIO

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- ✓ Intuit Solution Provider
- ✓ Advanced Certified QuickBooks ProAdvisor
- ✓ Certified Enterprise & Point of Sale ProAdvisor
- ✓ Member Intuit's Trainer / Writer's Network



Co-Author of the following Accounting Professional Seminar & Consulting Toolkits:

- ✓ QuickBooks for the Everyday User
- ✓ QuickBooks for Contractors
- ✓ Accounting 101
- ✓ ReadySetGo! Guide to QuickBooks



ReadySetGO!
QUICKBOOKS® START-UP PACKAGE
Exclusively for Accountants

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Learning Objectives

After completing this program, you should be able to:

- Overview of fraud statistics
- Implement Internal Controls using QuickBooks
- Discover 25 Ways to Implement Control Processes and Procedures with Your QuickBooks Clients
- Identifying Financial Statement Irregularities with Business Intelligence


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Why Is Control Important?

Weak controls allow fraud to penetrate and persist in companies undetected for years, sapping the vigor of an otherwise sound business operation

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Why Implement QuickBooks Security Features?

By utilizing the security features in QuickBooks and implementing the appropriate controls around QuickBooks in your clients' business, you help your clients thrive and discover how much you contribute to their success


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The Role of QuickBooks in the Control Environment


- QuickBooks is designed to be an easy, flexible software tool for a wide array of users, but still part of an accounting system
- Clients should fully utilize the security features in QuickBooks and also comply with appropriate business processes and controls
- Make sure client has the right controls in place

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Overview of Fraud Statistics

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Overview of Fraud Statistics

- Typical business will lose an average of 7% of revenues from employee theft alone
- Small businesses (<100 employees):
 - ↓ Greater frequency of fraud
 - ↓ Higher median loss

Size of Victim Organization — Frequency


Size of Victim Organization	Frequency
<100 employees	27.2%
100-250 employees	14.4%
250-500 employees	10.4%
500-1,000 employees	8.4%
1,000-2,500 employees	6.4%
2,500-5,000 employees	4.4%
5,000-10,000 employees	3.4%
10,000+ employees	2.4%

Size of Victim Organization — Median Loss

Size of Victim Organization	Median Loss
<100 employees	\$1,000
100-250 employees	\$2,000
250-500 employees	\$3,000
500-1,000 employees	\$4,000
1,000-2,500 employees	\$5,000
2,500-5,000 employees	\$6,000
5,000-10,000 employees	\$7,000
10,000+ employees	\$8,000

Association of Certified Fraud Examiners (ACFE) — 2008 Report to the Nation on Occupational Fraud & Abuse

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Categories of Fraud

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Fraud Statistics for Small Businesses

- Asset misappropriation is most frequent type of fraud (89%)
- Most frequent types for small businesses surround cash disbursements

Small Businesses — <100 Employees (342 Cases)		
Scheme	Cases	Percent
Billing	99	28.7%
Check Tampering	87	25.4%
Conspiration	79	23.1%
Skimming	71	20.8%
Expense Reimbursement	53	15.5%
Cash on Hand	53	15.5%
Cash Larceny	52	15.2%
Non-cash	51	14.9%
Payroll	48	14.0%
Fraudulent Financial Statements	42	12.3%
Register Disbursements	12	3.5%

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Why Should a Small Business Care?

- High risk of fraud for small businesses
- Implement now to address and prevent future or potential problems
- An outside party such as an investor, banker or accountant recommendation
- Trickle down effect of SOX
- Best business practices


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Overview of Key Components for Good Internal Controls

- Tone at the Top
 - ✓ Take an interest in the books
 - ✓ Provide oversight and review
 - ✓ Written ethics policy
 - ✓ Random spot checking
- Accounting system procedures and controls
- Financial statement accuracy and fraud prevention

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Internal Controls – Segregation of Duties

Cash Receipts & Accounts Receivable

- One person opens mail & logs payments received while another makes deposit and records
- Offer customers reward if no receipt is provided
- Watch for excessive voided sales
- Monitor paid outs & cash over/short
- Management approves all write-offs or credit memos
- Investigate any customer complaints about inaccurate balances

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Internal Controls – Segregation of Duties

Cash Disbursements & Accounts Payable

- Review original invoice prior to payment
- Use purchase orders
- Have approved vendors list
- Check signor is not bookkeeper
- Other person mails checks
- Use online bill payment—owner approves payments
- Control blank checks and monitor check numbers


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Internal Controls

- **Credit (or Debit) Cards**
 - ✓ Require receipts for transactions
 - ✓ Each user has their own card
 - ✓ Reconcile accounts monthly
- **Bank Statements/Activity**
 - ✓ Bank statement to owner's home/owner review check images
 - ✓ Owner monitor online activity regularly

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Internal Controls

Payroll

- Monitor payroll amounts for reasonableness
- Watch for phantom employees
- Management approve all overtime
- Verify pay rates – approve increases
- Control employee advances


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Internal Controls

- **Inventory**
 - ✓ Proper documentation for inventory requisitions
 - ✓ Physical inventories periodically
 - ✓ Restrict access
- **Fixed Assets**
 - ✓ Maintain a list (not just the accountant)
 - ✓ Physical inspection periodically

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Internal Controls

General Controls:

- Lock doors, registers, offices, file cabinets, blank checks and more
- Restrict access wherever possible
- Background checks for all employees
- Passwords and firewalls on computers
- Security cameras
- Require vacations or job rotation

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Red Flags for Fraud

Working Situations That Can Contribute to Fraud:

- Management's lack of commitment to controls
- No attention paid to details
- Little or no review of employees work
- Inadequate employee training
- Poor employee compensation
- Unreachable goals or deadlines
- Lack of physical controls inside company
- Lack of info system access controls
- Disorganized work area
- Close association with key employees, customers or vendors

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Red Flags for Fraud

Employee Behavior – Warning Signs:

- Behavior changes significantly (suddenly disorganized or withdrawn)
- Increase in 'personal' calls
- Personal debt or financial pressures (medical bills, spouse lost job, etc.)
- Lifestyle beyond income level
- Use of drugs or alcohol
- Job dissatisfaction
- Outside personal pressures

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Red Flags for Fraud

Management Review:

- Irregularities in time, frequency or amount
- Transactions not entered timely, in wrong period or wrong accounts
- Lack of original documentation for transactions
- Missing inventory, physical assets or office supplies
- Excessive credit memos or adjustments to accounts receivable
- Common or insider names on customer or vendor lists
- Duplicate payments or invoices
- Increase in expenses – small tools, supplies or COGS


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Suggested Areas for Review


- Daily
 - ✓ Cash received / deposits
- Weekly
 - ✓ Check registers and accounts payable
 - ✓ Accounts receivable reports
 - ✓ Payroll registers
- Monthly
 - ✓ Financial statements
 - ✓ Budget versus actual reports
 - ✓ Bank & credit card statements
 - ✓ Key reconciliations (A/R and A/P)
 - ✓ Review write offs or credits

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Implementing Controls in QuickBooks

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Implementing Controls in QuickBooks

- Restricting Access
- Closing date
- Reports
- Budgetary controls
- Customer credit card protection
- Preferences





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Restricting Access

User Names and Passwords

- Admin versus daily usage
- QuickBooks Pro/Premier areas:
 1. Sales & accts receivable
 2. Purchases & accts payable
 3. Checking & credit cards
 4. Inventory
 5. Time tracking
 6. Payroll & employees
 7. Sensitive accounting activities
 8. Sensitive financial reports
 9. Changing or deleting transactions
 10. Changing closed transactions


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Restricting Access

New External Accountant User

- Administrative rights except:
 - ✓ No access to sensitive credit card information
 - ✓ Cannot add or edit other users




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Other Reports to Detect Fraud

- Reports to Detect Billing Scheme Frauds
 - ✓ Pay fictitious invoices from fake vendors (friend or family)
 - ✓ Pay legitimate invoices multiple times—receive & cash refund checks
 - ✓ Paying for purchases from vendors that were for personal use
- Helpful Reports to Review
 - ✓ Transaction list by vendor
 - ✓ Check detail
 - ✓ Purchases by vendor detail
 - ✓ Purchases by item detail
 - ✓ Open purchase orders
 - ✓ Budget v actual
 - ✓ Others in manual

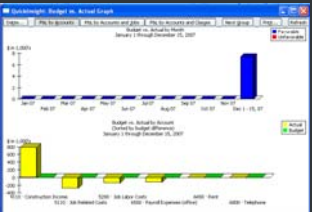
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Budgetary Controls

Enter Budget Data

- Use budget reports as an effective management tool
- Job estimates versus actual



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Customer Credit Card Protection

- Requires Administrator
 - ✓ To use complex password
 - ✓ Change it every 90 days
- Credit Card Audit Trail

Tracks each time a user:

 - ✓ Enters
 - ✓ Displays
 - ✓ Edits
 - ✓ Deletes




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1. Implement Expense/Reimbursement Policy

- All credit cards directly billed to the employee
- Expense sheets requiring original receipts and proper coding
- Per diem limit on expenses
- Expense policy to know which expenses are eligible for reimbursement


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2. Limit Manual Checks

- Keep to a minimum
- When using QB Payroll – create “expense reimbursement” payroll items to properly code to the right General Ledger
- Keep in locked drawer/cabinet with a control log
- Missing Checks - Use QB reports to help review the clients' exposure
 - ✓ Under the **Reports** menu, choose **Banking**, then **Missing Checks** report to review any break in check numbers
 - ✓ Under the **Reports** menu, **Accountant & Taxes**, **Voided/Deleted Transactions** Report to prevent tampering, voided/deleted transactions can be found


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3. Create Credit Card Account to Track Business Expenses

- In QuickBooks, create a **Credit Card Liability** type account in the **Chart of Accounts** for each business credit card
- Utilize **Online Banking** and download transactions on a daily basis to monitor charges


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4. Ensure Undeposited Funds Account is Cleared

- Undeposited Funds account in QB should always be cleared to a Bank Account
- By following proper transaction flow shown on the Home Page, transactions can be easily tracked
- When in a QB transaction screen, choose Reports menu, and then Transaction History to view a report that shows all of the transactions that are linked


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5. Perform Monthly Bank Reconciliations

- Performed by person not cutting checks and/or receiving customer deposits
- Choose Banking menu, then Reconcile
- Utilize Previous Reconciliation Discrepancy Report to track any transactions that have been deleted or changed
- Compare checks (or check copies) that are returned with the bank statement against the check register in QB


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6. Review Outstanding Checks & Deposits

- Aged outstanding checks or deposits should be reviewed to make sure that they are not duplicate transactions, errors or a way to hide fraudulent activity
- When viewing Bank Reconciliation Detail report, modify the report by choosing the Modify Report button, then Filters tab, then choose the filter for Cleared, choose No

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7. Utilize Online Banking to Match Expenses and Deposits

- With the **Online Banking** feature, you can download transactions on a daily basis to find out what has cleared the bank.
- Person cutting checks or making deposits should not have access to **Online Banking**


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8. Integrate Third-Party Solutions with QuickBooks

- Integrate the software packages to provide more accurate record keeping and prevent people from completing transactions outside of QB
- Under **Edit** menu, **Preferences**, choose **Integrated Applications**.
- Applications that do not integrate with QB should be upgraded or replaced with those that do


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9. Review Accounts Receivable Reports

- Make sure customer records are complete to verify that sales really occurred
- Under the **Reports** menu, choose **Customers & Receivables**, then **Collections Report**


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10. Calculate Sales Commission on Cash Received

- To ensure that sales numbers are accurate, base commissions on cash collected on sales rather than on open invoices
- **Sales Reps** can be created in QB to track sales and what has been collected
- This approach incentivizes the sales staff to help with collections


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11. Limit Permissions for People Entering the Bills

- Ensure that employees entering the bills are not the same people authorized to issue and sign checks for the company
- Select the **Company** menu, **Set Up Users and Passwords**


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12. Use Purchase Orders For Approval

- A company's purchasing department should utilize **Purchase Orders** in QB to show that products or services requested are approved
- **Item Receipts** can be created to verify goods have been received
- Accounts Payable clerk can then match vendor bill to the approved Purchase Order and Item Receipt


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13. Implement A Physical Inventory Count

- By performing a physical inventory, your client can stay on top of their inventory asset values to ensure inventory has not been stolen or is missing
- Under the **Vendor** menu, choose **Inventory Activities**
- Two functions can be used – the **Physical Inventory Worksheet** and **Adjust Quantity/Value On Hand**


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14. Ensure Vendor Records Are Complete

- Always request a W9 from a vendor before payment is issued to prevent “fake vendors” from being created
- W9 information entered into the Vendor record in QB in the **Vendor Center**
- One person in charge of setting up vendors and a different person assigned to enter vendor bills


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15. Sign-Off Approval Before Checks Are Issued

- Before vendor checks are printed or sent to Online Banking for payment, management should approve and sign off and authorize which bills are to be paid
- Under **Reports** menu, **Vendors**, choose **Unpaid Bills Detail** report


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16. Reconcile Petty Cash

- Petty cash should have its own register like any other bank account to properly track and record expenses
- Transfers between the bank account to Petty cash are monitored
- Set up petty cash as a **Bank** type account in the **Chart of Accounts**


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17. Prepare Daily Flash Reporting

- **Company Snapshot** can replace outside reports created in the past for cash, A/R and A/P balances
- Keeps management up-to-date on the critical information they need to track within the accounting system and ensure that it is maintained


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18. Set User Permissions To Limit Access

- No matter which QB version you are using, ensure that permissions match a documented job description.
- Passwords should be set up for each user in the QB file
- Under the **Company** menu, choose **Set Up Users and Passwords, Set Up Users**

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19. Don't Share Passwords

- Try to prohibit your clients from sharing their password, keeping it written down, or giving out in any other way
- Recommended that only the owner or someone in upper management controls the administrator password to make changes requested from QB users


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20. Set a Closing Date and Password

- After month-end procedures are completed, set a Closing Date and Password so that other users in QB file cannot modify the financial data
- Under the **Company** menu, choose **Set Closing Date**, then choose the **Set Closing Date** button on the Accounting Preferences screen


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21. Be Aware of Date Changes on Transactions

- If someone has access to the Closing Date Password or the Password was not set, utilize the **Closing Date Exception Report**, found under the **Reports** menu, **Accountant & Taxes**
- This report tracks transactions that had changes such as date, amount, coding, etc. since a prior period was closed


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22. Utilize Audit Trail Report

- Gives insight into anything that has been changed or modified
- Reports helps find a problem or concern about the accuracy of data entry – also lets you know which user made the change and when
- Under the **Reports** menu, **Accountant & Taxes**, choose **Audit Trail**


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23. Perform Physical Count Of Fixed Assets

- Often ignored and should be done once a year – assets can be expensive to replace
- Utilize the **Fixed Asset Item List** to track the Fixed Assets of the company and keep a detailed subledger


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24. External Accountant User in QB 2009

- Make sure it is only used for the outside Accountant, Certified QuickBooks ProAdvisor or Consultant – user should not be from within a client organization
- Provides Administrator level access to the QB file


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25. Utilize Client Data Review Feature

- **Client Data Review** allows Accountant to view any changes in lists such a the Chart of Accounts and Items
- Identifies what has been added, changed, deleted or merged
- Allows troubleshooting beginning balances, review open credits and payments in Accounts Receivable and Accounts Payable

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Identifying Financial Statement Irregularities with Business Intelligence

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Dashboard In A Box




Designed to provide Accountants with tools to benchmark client performance with value-added analysis to identify financial statement irregularities and optimize growth through business intelligence

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Dashboard In A Box

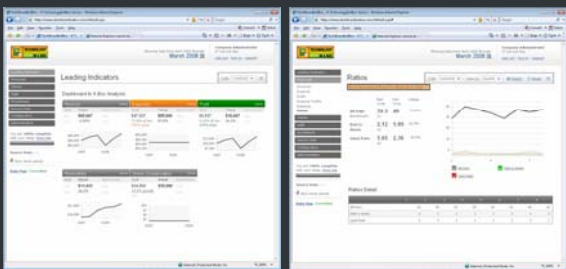


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