



# Internal Control “Spot Checks”

In addition to overseeing the annual audit, a key role of the Audit Committee is to provide oversight of the organization’s internal controls to ensure they are designed properly and operating effectively. Although the annual audit may provide insight about the internal control structure, the audit itself cannot solely be relied upon to serve this oversight function. The Audit Committee should perform its own monitoring of internal controls. One way to accomplish this is for Audit Committee members (or those tasked with that function) to perform a “spot check” of internal controls periodically.



## Designing a Spot Check

Many times we are asked for guidance to help the Audit Committee understand its role in this area. Here are some simple steps you might consider:

**Step 1:** Read and understand the controls that are in place now – management may already have some written policies and procedures to review. Update your understanding by asking staff to walk-through some of the procedures.

**Step 2:** Identify the highest risk areas to test – this is an opportunity to look at the organization holistically. After you’ve got a good idea of how the internal controls work, think about where fraud or errors could occur. Maybe it’s in the credit card statement controls or in the grants management controls. It’s up to you to identify which areas you want to focus on. Some other examples of key areas are receipts coming into the organization,

disbursements going out of the organization, payroll, and bank reconciliations.

**Step 3:** Design a procedure to test the areas where risk is higher - It can be simple, such as “We will select 2 credit card statements over the past 6

months and review each for complete documentation, accuracy and authorization.”

**Step 4:** Perform the procedure – Be sure to write down the steps you’ve taken, which samples you selected and your findings.

**Step 5:** Report your procedures and findings to the Board – Basically the board will want to know what you did: that you read and understood the current Internal controls, identified the riskiest areas, designed and performed procedures to test the controls, and found no concerns or identified certain issues.

**Step 6:** If issues were found – Be sure to monitor and re-check the area in the future and report back to the Board.

The Audit Committee can also delegate this responsibility to others, including staff and volunteers, as long as there is no conflict of interests. For example, you would not want a staff member evaluating and testing controls in an area in which they work or are responsible for.

Spot checks do not have to be elaborate, and you can set a schedule to do checks on various areas throughout the year. Best practices suggest rotating through different control areas for better coverage.

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## Example Monitoring Checklist

Here are some things to consider when performing a spot check. The checklist should be tailored to your organization's procedures and identified risks.

Bank Statements/Reconciliations	Expenses	Revenue/Other
<p>Bank reconciliations:</p> <ul style="list-style-type: none"> <li>• Any old outstanding items?</li> <li>• Any unusual reconciling items?</li> <li>• Check numbers in sequence?</li> <li>• Evidence of review and approval?</li> </ul>	<p>Payroll:</p> <ul style="list-style-type: none"> <li>• Salaries and hours reasonable?</li> <li>• Changes to Executive Director's pay authorized by Board member?</li> <li>• Changes to other staff pay authorized?</li> </ul>	<p>Revenue:</p> <ul style="list-style-type: none"> <li>• Amount and type reasonable?</li> <li>• New sources of revenue analyzed for proper treatment and taxability?</li> <li>• Request supporting documentation for large or unusual items – recorded correctly?</li> <li>• Review A/R aging report - management following up on olde</li> </ul>
<p>Cleared check copies:</p> <ul style="list-style-type: none"> <li>• Payees make sense?</li> <li>• Signatures appropriate?</li> <li>• Any alterations?</li> <li>• Checks dual signed, if required?</li> </ul>	<p>Other expenses:</p> <ul style="list-style-type: none"> <li>• Occurring as expected?</li> <li>• Request supporting documentation for large or unusual items – properly approved?</li> <li>• Signed contracts for independent contractors?</li> </ul>	<p>Income Statement Review-compare actual to budget by month and YTD:</p> <ul style="list-style-type: none"> <li>• Significant variances explained and reasonable?</li> <li>• Any items need follow-up?</li> </ul>
<p>Disbursements-request supporting documentation for some items:</p> <ul style="list-style-type: none"> <li>• Approved?</li> <li>• Accurate?</li> </ul> <p>Payroll disbursements:</p> <ul style="list-style-type: none"> <li>• Matches payroll register?</li> <li>• Correct number of payrolls in month?</li> <li>• Taxes paid?</li> <li>• Quarterly taxes (L&amp;I, SUI) paid?</li> </ul>	<p>Credit Cards:</p> <ul style="list-style-type: none"> <li>• Support and approval for individual charges?</li> <li>• For meal and similar receipts, documentation of reason for meal and who attended?</li> <li>• Statement approved by Executive Director?</li> <li>• Executive Director's charges approved by Board member?</li> </ul>	<p>Balance Sheet Review-compare current period with prior month or year:</p> <ul style="list-style-type: none"> <li>• Any unexpected changes?</li> <li>• Significant changes explained and explanations reasonable?</li> <li>• Cash balances match bank statements and reconciliations?</li> </ul>
<p>Deposits:</p> <ul style="list-style-type: none"> <li>• Coming in as expected?</li> <li>• Review supporting documentation for some items – do amounts agree?</li> <li>• Adequate segregation of duties ?</li> </ul>	<p>Expense reimbursements:</p> <ul style="list-style-type: none"> <li>• Receipts included?</li> <li>• Approved?</li> <li>• For meal and similar receipts, documentation of reason for meal and who attended?</li> <li>• Executive Director's approved by Board member?</li> </ul>	<p>Policy review:</p> <ul style="list-style-type: none"> <li>• Fixed assets capitalized in accordance with policy?</li> <li>• Investment strategy in accordance with policy?</li> <li>• Record retention guidelines followed?</li> <li>• Whistleblower policies in place?</li> </ul>