



MANAGED ACCOUNTING LLC

INTERNAL CONTROL CHECKLIST

TABLE OF CONTENTS

WHAT IS INTERNAL CONTROL	3
HOW TO USE THE CHECKLIST	4
A. CONTROL ENVIRONMENT	5
B. RECEIPT OF FIRM FUNDS	6
C. DISBURSEMENT OF FIRM FUNDS	7
D. PETTY CASH	9
E. PAYROLL	10
F. CLIENT INTAKE	11
G. BILLING PROCEDURES	12
H. COLLECTION PROCEDURES	13
I. BANKING – GENERAL	14
J. CLIENT TRUST ACCOUNTS	15
K. OTHER RECEIVABLES AND FIXED ASSETS	16
L. GENERAL LEDGER ACCOUNTING	17
M. FINANCIAL REPORTING	18
N. IT SYSTEMS	19

WHAT IS INTERNAL CONTROL?

In its broadest sense, internal control is a process shaped by firm management to provide reasonable assurance regarding:

- Effectiveness and efficiency of operations
- Accuracy and reliability of financial reporting
- Compliance with applicable laws, regulations, directives & policies

Common internal control themes include:

- Segregation of functional responsibilities to ensure checks and balances
- A system of authorizations and recordkeeping procedures to provide reasonable accounting control over assets, liabilities, revenues and expenses
- Development of policies and procedures establishing and documenting the control process

Internal controls require a carefully thought-out strategy. They also need to be reviewed and modified periodically to reflect changes in the business and control environment.

Most of the time, internal control procedures are “common sense”. The person maintaining the petty cash lockbox should not be solely responsible for accounting for how such funds were disbursed. No one person should process payroll from beginning-to-end without appropriate monitoring or oversight. A second set of eyes and second sign-off is always recommended. When the common sense procedures are not followed or overridden, other people need to be informed and complete transparency regarding all financial transaction is essential. There must be “checks and balances.”

HOW TO USE THE CHECKLIST?

This questionnaire should be answered by those responsible for each activity and by the people supervising them. Its purpose is not to simply sum-up the number of "Yes" or "No" responses, but to commence a dialogue and analysis of the internal control processes. An effective internal control environment is the responsibility of everyone in the firm, partners and staff alike. This document is simply a framework to evaluate the reliability of the accounting department's operations. A questionnaire alone is never a solution. It is simply a tool to ensure a better control environment. Maintaining and evaluating internal controls is a continuous process, it is a never-ending story.

A. CONTROL ENVIRONMENT

Control Environment	Yes	No	N/A*	N/S*	S/A*
1. Are the core values of integrity and ethics embodied in the firm's mission statement?					
2. Is communication, collaboration, and team effort stressed?					
3. Is management open to staff suggestions to improve productivity, service, and quality?					
4. Do lawyers and staff have the knowledge, training, and skills needed to perform their jobs adequately and provided opportunities for ongoing training & development?					
5. Does the accounting function have performance targets?					
6. Are performance targets realistic and attainable?					
7. Is the accounting function organization structure and lines of authority understood by those who need to know?					
8. Are accounting function staff job descriptions current?					
9. Is turnover (among accounting personnel) a problem?					
10. Does staff morale appear to be at an acceptable level?					
11. Does the accounting function have the time, tools & resources to effectively accomplish its mission and objectives?					
12. Are individuals cross-trained to perform one another's duties to cover illness, vacation or other job absences?					
13. Is everyone required to take a vacation or break from work of at least two complete weeks each year?					
14. Are purchasing decisions (e.g., vendor choice; best combination of quality and price) made by individuals with requisite training and skills and approved by management, as appropriate?					
15. Does the firm maintain a policy concerning receipt of gifts or other things of value from vendors?					
16. When established internal control procedures are modified, bypassed, or altered, are such events reported, in writing, to firm management?					

NS* = Not Sure; NA* = Not Applicable; S/A* = See Attachment

B. RECEIPT OF FIRM FUNDS

Receipt of Firm Funds	Yes	No	N/A*	N/S*	S/A*
1. Are the receipt of funds and deposit functions segregated from the payment application and write-off processing functions?					
2. Are all payments intended for the firm required to be made payable in the name of the law firm?					
3. Are all checks received immediately upon receipt stamped with a restrictive endorsed ("for deposit only" to the firm and to appropriate bank account)?					
4. When currency is received, is a written receipt provided to the payee and a copy maintained for documenting the cash transaction and bank deposit?					
5. Are all checks, currency receipts, and deposit slips scanned into PDF form and saved by date in digital form filed?					
6. Are all checks and currency received deposited in the bank daily?					
7. Are payments received posted in the accounting system within 24 hours of receipt?					
8. Does the firm have a written policy requiring client payments to be applied first to reimburse client costs, then payment of expenses, and finally to fees allocated proportionately to each timekeeper, unless otherwise directed in writing by management?					
9. Are duties related to bank deposits and accounts receivable separated so that no one individual can collect funds, update the accounts receivable records, approve write-offs and reconcile the accounts receivable details?					
10. Are accounts receivable collections and aging reviewed monthly by management and/or Responsible Attorneys for reasonableness and follow-up?					

NS* = Not Sure; NA* = Not Applicable; S/A* = See Attachment

C. DISBURSEMENT OF FIRM FUNDS

Disbursement of Firm Funds	Yes	No	N/A*	N/S*	S/A*
General					
1. Does the firm maintain an AP Vendors file with vendor address, telephone number, contact person and other data required for 1099 reporting, if applicable?					
2. Is a signed W-9 on file from third-parties requiring a 1099 Form following year-end?					
3. Is someone at the firm assigned responsibility for 1099 reporting and overseeing the year-end filing?					
4. Do paper checks utilize tamper-proof paper and other fraud-prevention features to prevent alteration or reproduction?					
5. Does the firm utilize "positive pay" reporting procedures with its bank(s) to ensure unauthorized transactions are not processed by the bank?					
6. Are unused checks maintained in a locked, secure environment to prevent unauthorized access or use?					
7. If the firm utilizes computer generated check signatures, is the printer secure to prevent unauthorized access?					
8. Does the firm issue blank checks to lawyers or staff and, if so, are procedures in place to ensure such checks are utilized as intended?					
9. Are there controls in place to ensure the firm receives credit for purchased merchandise returned to vendors?					
10. Does management review the vendors' list periodically to look for inappropriate or "ghost vendors"?					
Accounts Payable Transactions					
11. Are AP vouchers created in the accounting system for each invoice, reimbursement request, disbursement or transfer of funds that details the purpose of the transaction and the general ledger account to be charged, with a PDF image attached with the invoice or other documentation substantiating the transaction?					
12. Does an "approver" review substantiating documentation and reasonableness of expenditure before processing the check or wire transaction for processing?					
13. Are individuals who incur client billable costs and "approvers" conversant with billing guidelines established by specific clients before such costs are incurred or approved for payment?					
14. Do check signers/authorizers (of wire transfer/ACH transactions) review documentation before signing/processing?					

NS* = Not Sure; NA* = Not Applicable; S/A* = See Attachment

Disbursement of Firm Funds (Cont.)	Yes	No	N/A*	N/S*	S/A*
15. Are expense transactions requiring special designation for tax purposes (e.g., charitable or political contributions; meal and entertainment expenses applicable to the 0%, 50% or 100% tax deduction rules) identified and categorized in the appropriate general ledger account(s)?					
<u>Accounts Payable Transactional Authority</u>					
16. Do individuals with check signing/authorization authority have sufficient training to execute these responsibilities?					
17. Is more than one check signer/authorizer required for transactions over a specific dollar limit (subject to exception for routine recurring transactions – e.g., monthly rent)?					
18. Are voided checks documented as having been voided and not used?					
19. Is the monthly check register reviewed and signed-off by a senior person not regularly engaged in the accounts payable process?					
<u>Unpaid Invoices</u>					
20. Are third-party vendors (e.g., court reporters; experts) promptly paid upon receipt of reimbursement of costs by clients?					
21. How often is the “open” or “unpaid” vouchers report received to determine amount of unpaid liabilities?					

NS* = Not Sure; NA* = Not Applicable; S/A* = See Attachment

D. PETTY CASH

Petty Cash	Yes	No	N/A*	N/S*	S/A*
1. Are petty cash or special purpose checking accounts maintained on an "imprest" basis?					
2. Are petty cash/special purpose checking accounts reconciled and reimbursed at least once a month?					
3. Are discrepancies identified in the reimbursement process investigated and resolved by a person not responsible for maintaining the fund?					
4. Are receipts required to substantiate each transaction?					
5. Are petty cash funds and special purpose checks physically stored in a safe or secure place?					
6. Are periodic surprise petty cash "counts" (reconciliations) performed and documented?					
7. Are lawyers and staff with access to petty cash funds/ special purpose checking accounts prohibited from making loans or cashing or clearing personal checks through these facilities?					

NS* = Not Sure; NA* = Not Applicable; S/A* = See Attachment

E. PAYROLL

Payroll	Yes	No	N/A*	N/S*	S/A*
1. Have staff members with responsibility for payroll received proper training?					
2. For all “non-exempt” staff, are timesheets required to be maintained for time worked, and do these time records reflect actual hours/minutes worked rather than scheduled hours?					
3. Are procedures implemented to ensure that overtime and compensatory time worked are appropriate and authorized in advance by a supervisor?					
4. Do all employees use direct deposit?					
5. Are changes to base salary/hourly rates and/or special or bonus compensation amounts communicated to the payroll processor in writing and signed by authorized approver?					
6. Are the payroll base salary/hourly rates and year-to-date compensation amounts audited periodically (at least once a year) by someone independent from routine payroll processing?					
7. Are payroll records maintained on a confidential basis with access limited to individuals with a “need to know”?					
8. Are the payroll records updated timely to record compensation-related items paid outside the regular payroll process (e.g., payroll advances forgiven; cash bonuses; moving expenses)?					
9. Does management review the payroll register at least once annually to look for “ghost employees”?					

NS* = Not Sure; NA* = Not Applicable; S/A* = See Attachment

F. CLIENT INTAKE

Client Intake	Yes	No	N/A*	N/S*	S/A*
1. Is the conflicts database kept up to date to reflect changes in company names, parent/subsidiary company relationships, company affiliates, additional adverse parties joining pending litigation from time to time, and other factors likely to influence conflicts searches?					
2. Does the firm maintain a policy that no legal work may be performed on a new client or a new matter before a conflict check is completed and each potential issue is satisfactorily resolved?					
3. Does the firm maintain (and review at least once annually) formal Rate Tables in the in the accounting system reflecting rates to be applied to matters as they are opened?					
4. Does a new matter intake form specifying:					
a. Invoice style to apply to invoices?					
b. Invoice delivery method (mail; email; EDI billing)?					
c. Designation of whether to include receipt copies of costs with invoice as part of billing procedures?					
d. Billing notes indicating special rules applicable to matter?					
e. Billing Attorney designation for pre-bill delivery?					
f. Billing cycle designation?					
g. Fee arrangement (hourly; fixed fee; contingency)?					
h. Type of Law, Practice Department or other designation required for analytical purposes?					
5. Are new matters requiring EDI billing established with the EDI billing site promptly after the matter is opened (and before the first billing cycle for the matter occurs) to avoid delays when matter is first billed?					
6. Are completed matters promptly closed and identified as such in the accounting for conflict search/analysis and to avoid timekeeping entry errors in the future?					

NS* = Not Sure; NA* = Not Applicable; S/A* = See Attachment

G. BILLING PROCEDURES

Billing Procedures	Yes	No	N/A*	N/S*	S/A*
1. Does the firm publish (in advance) monthly time entry cutoff dates?					
2. Are “incomplete” and “future dated” time entries identified, investigated and resolved before processing pre-bills?					
3. Does the pre-bill format prominently display Retainer and Client Trust Fund balances so Billing Attorneys are reminded to consider these balances when reviewing pre-bills for processing?					
4. Is the date-range specified to process the pre-bill capture all unbilled time (since the inception of the matter) through the last day of the billing period to ensure that all unbilled time is captured when the pre-bill is created?					
5. Do write-offs above a specific dollar amount (and/or percentage of the total amount unbilled) require approval from senior leadership?					
6. Is there a firm policy requiring billing write-offs be first applied to fees (pro rata), then to expenses, and lastly to costs, unless approved by senior leadership?					
7. At the conclusion of the monthly billing process, does the billing staff account for all pre-bills issued to determine that they have been returned by the Billing Attorneys with instructions to either bill or “hold” – so nothing falls through the cracks?					
8. At the conclusion of the billing process, does the billing staff prepare a report for each Billing Attorney and senior leadership summarizing the maximum potential amount billed, amounts written-off, and amounts “held” or postponed?					
9. Does the firm wait a minimum of five business days between invoice delivery and withdrawing client trust funds in payment of fees or costs the firm is due?					
10. Does the firm maintain a policy encouraging clients to receive invoices via email rather than through US Postal Service mail?					

NS* = Not Sure; NA* = Not Applicable; S/A* = See Attachment

H. COLLECTION PROCEDURES

Collection Procedures	Yes	No	N/A*	N/S*	S/A*
1. Are Aged WIP and Aged AR reports provided monthly to Billing Attorneys (and/or originating attorneys, as applicable)?					
2. Are partners/shareholders trained in the use of the accounting system online to troubleshoot client billing questions and reproduce invoice copies for clients?					
3. Has the firm established guidelines requiring approval of collection write-offs above a certain dollar amount or percentage due?					
4. Is it standard practice to produce AR Reminder Statements to all clients monthly regarding past due balances?					
5. Does the firm utilize the online accounting system to chronical conversations with clients with respect to past due balances?					
6. Does management periodically review status of Aged WIP and Aged AR and resolve matters required to be addressed through write-offs, payment plans or by other means?					

NS* = Not Sure; NA* = Not Applicable; S/A* = See Attachment

I. BANKING-GENERAL

Banking-General	Yes	No	N/A*	N/S*	S/A*
General Policies					
1. Is there a policy prohibiting any member of the firm from establishing a bank account (operating or client trust), credit card or charge account or other form of debt in the name of or associated with the firm without the written authorization of senior firm leadership?					
2. How often does the senior leadership review (update) the list of authorized bank signers, credit card holders, and individuals authorized to initiate wire transfer/ACH transactions?					
3. Does the firm enforce a policy prohibiting personal charges to be applied to firm credit cards and/or charge accounts?					
4. Are receipts for credit card/charge account charges promptly provided to accounting staff to substantiate charges?					
Reconciliations					
5. Does the accounting department have "view-only" online access to monitor daily activity within all bank accounts, credit card transactions and charge accounts to monitor for unusual activity?					
6. Are statements from banks, credit cards, and charge accounts received, opened and copied to PDF by a person independent from the AP function?					
7. Are balances – bank statement; credit cards; charge accounts – reconciled to the related month-end general ledger account balance by a person independent from the AP and cash application functions?					
8. Are account reconciliations completed monthly (within 30 days of statement receipt) with copies to provided (including supporting documents [e.g; bank statements; G/L account statements; work papers) senior management to document the work performed?					
9. Are old stale checks or other reconciling items (e.g., >90 days) promptly investigated and action taken to resolve outstanding issues?					
10. Do the reconciled balances – bank accounts; credit cards; charge accounts – reconcile to the "bank account" balance(s) in the accounting system?					
11. Does senior firm leadership have access to the daily "bank account balances" via the accounting system or online dashboard?					

NS* = Not Sure; NA* = Not Applicable; S/A* = See Attachment

J. CLIENT TRUST ACCOUNTS

Client Trust Accounts	Yes	No	N/A*	N/S*	S/A*
1. Does the firm have a written Client Trust Account Policy (required in Florida and other jurisdictions) setting forth (inter alia) the name of the partner responsible for ensuring compliance with ethical standards?					
2. Are members of the firm prohibited from establishing client trust accounts in their own name?					
3. Are firm funds promptly transferred from client trust accounts as soon as such amounts are "earned" by the firm?					
4. Does the firm observe a "minimum holding period" between receipt of local checks, out-of-town checks, out-of-state checks, cashiers' checks, ACH transactions, and wire transfers before such funds may be remitted from a client trust account to ensure funds are collected and unlikely to be reversed by the bank?					
5. Are the client trust bank accounts reconciled monthly – bank statement – to – general ledger balance – to detail client-matter trust account ledger maintained in the accounting system?					
6. Are stale checks and other reconciling items followed-up and resolved within 90 days?					
7. Does the firm circulate a listing of the Client Trust Activity Report with "last activity date" detail to each Billing Attorney and to senior leadership at six-month intervals to ensure that no client trust account balances become forgotten or stale?					
8. Does the firm have policies (including storage in separate client funds safe deposit box and issuance of receipts) in the event non-cash financial instruments or property are to be held by the firm in trust?					
9. Is the monthly bank reconciliation, bank statement, and client trust ledger for each client trust account reviewed and approved by a lawyer assigned this responsibility?					

NS* = Not Sure; NA* = Not Applicable; S/A* = See Attachment

K. OTHER RECEIVABLES AND FIXED ASSETS

Other Receivables and Fixed Assets	Yes	No	N/A*	N/S*	S/A*
1. Are other receivables (e.g., payroll advances; travel advances; loans to partners) recorded in the general ledger and monitored monthly/quarterly to ensure each entry is managed pursuant to the terms intended?					
2. Does the firm have a written policy concerning the capitalization (versus expensing) of furniture and equipment purchases?					
3. Does the accounting function maintain a depreciation/amortization lapsing schedule?					
4. When capital assets (e.g., furniture, equipment, leasehold improvements) are disposed or abandoned, are the amount capitalized and depreciated/amortized removed from general ledger accounts?					

NS* = Not Sure; NA* = Not Applicable; S/A* = See Attachment

L. GENERAL LEDGER ACCOUNTING

General Ledger Accounting	Yes	No	N/A*	N/S*	S/A*
<u>General Policies</u>					
1. Does the firm maintain a General Ledger Users' Manual defining the number, name and purpose of each general ledger account as a guide for the accounting staff?					
2. Does the information typed into the accounting system include the name or initials of the person processing each journal entry?					
3. Do Adjusting Journal Entries processed in the accounting system include a reference to the location supporting or the substantiation documentation for each such entry?					
4. Are recurring monthly Adjusting Journal Entries labeled using a prearranged monthly numbering scheme (e.g., 2019-01-01 for first January semi-monthly payroll) for review/control purposes?					
<u>Account Reconciliations</u>					
5. Does the accounting function maintain a written monthly checklist listing all month-end close procedures, including general ledger account review and reconciliations required – and is such checklist signed and dated by the individual completing each such task?					
6. Are statements from banks, credit cards, and charge accounts received, opened and copied to PDF by a person independent from the AP function?					
7. Are balances – bank statement; credit cards; charge accounts – reconciled to the related month-end general ledger account balance by a person independent from the AP and cash application functions?					
8. Are accounts receivable and unbilled client costs advanced general ledger accounts reconciled to the corresponding general ledger accounts on a monthly basis?					
9. Are reconciling items promptly investigated and action taken to resolve the outstanding issue?					
10. Are the monthly account reconciliations reviewed and approved monthly by management?					
11. Are the monthly check registers and credit card and charge account statements reviewed monthly by management to identify unusual activity?					

NS* = Not Sure; NA* = Not Applicable; S/A* = See Attachment

M. FINANCIAL REPORTING

Financial Reporting	Yes	No	N/A*	N/S*	S/A*
<u>Production Statistics</u>					
1. Has the firm deployed an online dashboard so that senior management may monitor production stats online?					
2. Does the firm utilize a "Flash Report" to timely disseminate key performance data regarding prior month performance pending later release of more detailed financial reports?					
3. Are financial reports comparing budgeted balances with actual financial activity generated and reviewed by appropriate management?					
4. If actual financial activity differs from the budget to a significant amount, are appropriate levels of management notified in a timely manner and is the appropriate corrective action taken?					
5. Does the firm distribute the following reports to individuals who "need to know" on a monthly basis:					
a. Billing realization for month and year-to-date?					
b. Net realization for month and year-to-date?					
c. Cash Receipts Analysis?					
d. Timekeeper Productivity Report?					
e. Aged WIP and Aged AR as of month-end?					
f. Client-Matter Retainer Ledger with last activity date?					
g. Client-Matter Trust Ledger with last activity date?					
<u>Financial Statements</u>					
6. Does the firm produce a Balance Sheet each month?					
7. Does the firm produce a monthly Income Statement:					
a. For the month and year-to-date activity versus Budget?					
b. For the month and year-to-date activity versus last year?					
8. Does the firm produce a Cash Flow Statement reflecting changes in firm's aggregate cash balances for the month and year-to-date?					
9. Does the accounting function provide a short, written financial summary dealing focusing on key performance indicators (KPIs) which management can use as a preface to the various financial and production reports distributed with narrative designed to provide an overview of the detailed material?					

NS* = Not Sure; NA* = Not Applicable; S/A* = See Attachment

N. IT SYSTEMS

IT Systems	Yes	No	N/A*	N/S*	S/A*
1. Does the firm maintain written procedures relating to controls over the physical security of the computing equipment supporting the accounting function?					
2. Are physical devices (e.g., computers/servers/backups) located in a secure environment?					
3. Does management review the security settings governing access to the accounting system least once a year to ensure that individual users are able to access only those applications required for their position or on a "need to know" basis?					
4. Are passwords issued and required to be changed periodically?					
5. Is there a prohibition on sharing password information?					
6. Are critical files and programs regularly backed-up and stored at a secure offsite location?					
7. Does the firm have a disaster recovery plan?					

NS* = Not Sure; NA* = Not Applicable; S/A* = See Attachment



ABOUT THE AUTHORS

Heather Tang is Chief Accounting/Chief Financial Officer for all the law firms who partner with 4L Managed Accounting and is in charge of the numbers. Heather has a background experience with Gardner Carton & Douglas LLP and Holland & Knight LLP.



Amy Staves is a Director/Controller with 4L Managed Accounting with more than 15 years experience as a controller which includes over 10 years of law firm experience. Amy holds a Masters Degree in Forensic Accounting from Georgia Southern University.



Mike Marget is an erstwhile large law firm manager with tours of duty as COO at Katten Muchin, Jenner & Block and CFO at Holland & Knight, among others. He is president of 4L Managed Accounting and wants to help your firm grow. Learn more by calling 4L at 813.658.8575 or info@4L-Law.com.

GET STARTED NOW

Contact Us

📞 813.658.8575 | ✉ info@4L-Law.com