

Tax Ready Bookkeeping

5 Essential Controls Checklist

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Overview

These five controls provide the foundation for protecting your business from fraud, errors, and compliance failures. Implement these before adding more sophisticated measures.

Control 1: Vendor Verification Before Payment

What It Prevents

- Business Email Compromise (BEC) fraud
- Payment diversion schemes
- Ghost vendor fraud
- Duplicate payments to wrong parties

The Control

Before processing any payment to a new vendor or after ANY payment method change, verify via phone using a known number.

Implementation Checklist

New Vendor Setup: - ☐ W-9 received before first payment - ☐ Vendor contact verified via phone (not email) - ☐ Bank/payment details confirmed with known contact - ☐ Vendor entered in system by authorized person - ☐ Setup reviewed by second person

Payment Method Changes: - ☐ Written request received (do not act on email alone) - ☐ Call vendor at previously known number (not number in request) - ☐ Confirm change with authorized contact - ☐ Document verification in system - ☐ Perform penny test if ACH

Red Flags to Watch

- ☐ Urgency (“must pay today”)
- ☐ Email-only requests for changes
- ☐ Slight variations in email addresses

- ☐ Requests to change payment method shortly after setup
- ☐ Vague descriptions of services

Verification Log

Date	Vendor	Change Type	Verified By	Method	Contact
				Phone	
				Phone	
				Phone	

Control 2: Segregation of Duties

What It Prevents

- Internal fraud (embezzlement)
- Undetected errors
- Unchecked authority abuse

The Control

No single person should control all aspects of any financial transaction from initiation to completion.

Key Segregations

Function	Should NOT Be Same Person
Vendor setup	Payment processing
Invoice entry	Check signing
Bank reconciliation	Deposit handling
Payroll processing	Payroll approval
Expense submission	Expense approval

Small Business Reality

When full segregation isn't possible due to staff size:

Minimum Compensating Controls: - [] Owner reviews all bank statements (unopened) - [] Owner reviews and approves significant transactions - [] Monthly review of vendor list by owner - [] Surprise audits of petty cash - [] Regular comparison of sub-ledgers to GL

Assessment

Function Pair	Same Person?	Compensating Control
Vendor setup / Payment	Y/N	
Invoice entry / Approval	Y/N	

Function Pair	Same Person?	Compensating Control
Reconciliation / Deposits	Y/N	
Payroll processing / Approval	Y/N	

Control 3: Dual Authorization for Significant Payments

What It Prevents

- Unauthorized large payments
- Fraudulent disbursements
- Costly errors on major transactions

The Control

Payments above a defined threshold require approval from two authorized individuals.

Threshold Recommendations

Business Size	Threshold
<\$1M revenue	\$2,500
\$1-5M revenue	\$5,000
\$5-25M revenue	\$10,000
>\$25M revenue	\$25,000

Implementation Checklist

- ☐ Threshold defined and documented
- ☐ Authorized approvers identified (minimum 2)
- ☐ Approval workflow established
- ☐ Approval documented for each transaction
- ☐ No one can approve their own expenses

Approval Matrix

Amount Range	Approver Required
Up to \$	Department head
\$ to \$	Controller + Dept head
Over \$	Owner + Controller

Exception Handling

- ☐ Emergency payment procedure documented
- ☐ After-the-fact approval required
- ☐ Exceptions logged and reviewed

Control 4: Regular Reconciliation

What It Prevents

- Undetected errors
- Hidden fraud
- Timing manipulation
- Cash flow surprises

The Control

Reconcile all bank and credit card accounts within 30 days of statement date. Owner reviews reconciliation results.

Implementation Checklist

Bank Accounts: - ☐ Reconciled by: (not same as deposit handler) - ☐ Reviewed by: (owner or controller) - ☐ Frequency: Monthly, within 30 days - ☐ Uncleared items investigated if >60 days

Credit Cards: - ☐ Reconciled by:

- ☐ Reviewed by:

- ☐ Frequency: Monthly, within 15 days

Additional Reconciliations: - ☐ AP subledger to GL monthly - ☐ AR subledger to GL monthly
- ☐ Payroll register to GL each pay period - ☐ Inventory count (if applicable) quarterly

Reconciliation Review Checklist

Owner/Controller should verify: - ☐ Reconciliation is complete (no unexplained difference) - ☐
Uncleared items are reasonable - ☐ Large or unusual items are understood - ☐ No unauthorized
signers - ☐ No unexpected payees

Control 5: Access Control and Authentication

What It Prevents

- Unauthorized system access
- Data theft
- Fraudulent transactions
- Compliance violations

The Control

Limit system access to authorized users with appropriate permissions. Require strong authentication on all financial systems.

Implementation Checklist

User Access: - ☐ Unique login for each user (no shared accounts) - ☐ Permissions match
job requirements (least privilege) - ☐ Access reviewed quarterly - ☐ Terminated users removed
immediately - ☐ Access changes documented

Authentication: - [] Strong passwords required (12+ characters) - [] Two-factor authentication enabled - [] Automatic timeout on inactive sessions - [] Failed login alerts configured

System-Specific Requirements:

System	2FA Enabled?	Users Reviewed?	Last Review
QuickBooks Online	Y/N	Y/N	
Bank (online)	Y/N	Y/N	
Payroll system	Y/N	Y/N	
Bill pay platform	Y/N	Y/N	
Credit cards	Y/N	Y/N	

Access Review Template

User	System	Role	Still Needed?	Action
			Y/N	
			Y/N	
			Y/N	

Monthly Control Assessment

Control Health Check

Control	In Place?	Working?	Issues
Vendor verification	Y/N	Y/N	
Segregation of duties	Y/N	Y/N	
Dual authorization	Y/N	Y/N	
Regular reconciliation	Y/N	Y/N	
Access control	Y/N	Y/N	

Questions to Ask Monthly

1. Were all new vendors verified before payment?
2. Were all significant payments properly authorized?
3. Are all reconciliations current?
4. Have access rights been reviewed recently?
5. Were there any control bypasses? If so, why?

Control Failure Response

If a Control Fails

1. **Document** what happened

2. **Assess** the impact
3. **Investigate** root cause
4. **Remediate** the failure
5. **Prevent** recurrence
6. **Report** to owner/management

Incident Log

Date	Control Failed	What Happened	Impact	Resolution
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Assessment Completed By:

Date:

Next Review Date:

For more resources: projectbits.com/taxready/ch8

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