

# Internal Controls

## What is it?

Internal controls is the process, affected by the board, management, finance committee (if one is in place), and other personnel, and designed to provide reasonable assurance about the Nonprofit's

- Financial reporting reliability
- Compliance with applicable laws and regulations
- Effectiveness and efficiency of operations

## Internal Controls design can monitor policies such as:

Cash Receipts

Cash Disbursements

Petty Cash

Payroll

Fixed Assets

Financial Statements

General Practices

## Internal controls is NOT A GUARANTEE. It is a system of reasonable policies and expectations to help mitigate risk factors.

- Is management and those charged with governance committed to ethical values?
- Is management and those charged with governance committed to competence?
- Is management and those charged with governance committed to a philosophy and operating style that is conducive to an atmosphere supporting an organizational structure dedicated to accurate, reliable, and consistent financial reporting?
- Does management and those charged with governance assign authority and responsibility dedicated to these principles?

# Internal Controls Checklist

## Cash Receipts & Donations

- Segregate duties: The person who opens mail/receives cash should not be the same person recording it in the accounting system.
- Dual control: Have two people count cash and donations, signing a count sheet.
- Immediate deposit: Deposit checks and cash promptly, ideally within 24 hours.
- Record promptly: Log donations into donor software immediately to ensure tracking.

## Cash Disbursements & Purchasing

- Authorization: Require dual signatures for checks or electronic payments over a specific threshold (e.g., \$1,000+).
- Documentation: Require original receipts and approval for all expense reimbursements.
- Vendor review: Periodically review the list of vendors receiving payments.
- No cash payments: Never pay for expenses using cash on hand; deposit all cash and pay via check or bank transfer.

## Banking & Financial Reporting

- Bank reconciliation: Reconcile bank statements monthly by someone who is not authorized to sign checks.
- Board review: Ensure the board reviews monthly financial reports (budget vs. actual).
- Independent review: Have a board member or Treasurer review bank statements before bank reconciliation.

## Payroll & Personnel

- Approval: Have supervisors approve timesheets before payroll processing.
- Background checks: Conduct background checks on all employees or volunteers handling money.

## Governance & Policies

- Written policies: Maintain written financial policies, including a conflict-of-interest policy.
- Asset management: Maintain an updated inventory of fixed assets.
- Surprise audits: Conduct unexpected, random internal audits of financial processes.

## Small Nonprofit Special Considerations

If staff is limited, ensure that the Board Treasurer or a board member reviews bank statements and reconciliations monthly to create a "second set of eyes".

