FINANCIAL INTERNAL CONTROLS

Fiscal Controls protect the financial integrity of the organization, protect the nonprofit's assets, and aids in appropriate management. Internal Controls are policies and procedures which create proper treatment, correct action, reliable financial reporting, and compliance with laws and regulations.

Internal Accounting Controls will help ensure that assets and records of the organization are not stolen, misused, or accidentally destroyed; the organization's policies are followed; and Government regulations are complied with.

The following are areas where abuses or errors are likely to occur:

1. Cash Receipts: Ensure that all cash intended for the organization is received, promptly deposited, properly recorded, reconciled, and kept under adequate security before deposit.
2. Cash Disbursements: Ensure that cash is disbursed only under proper authorization of management for valid business purposes, and that all disbursements are properly recorded.
3. Petty Cash: Ensure that petty cash and other working funds are disbursed only for proper purposes, are adequately safeguarded, and properly recorded.
4. Payroll: Ensure that payroll disbursements are made only upon proper documentation and authorization to bona fide employees.
5. Grant Funds, Contract Funds, Gifts, and Bequests: Ensure that all these sources of funds are received and properly recorded, and that compliance with the terms of any related restrictions are adequately monitored.

Segregation of Duties: Financial transactions should not be handled by only one person from beginning to end. Different people should authorize payments, sign checks, record payments in the books, and reconcile the bank statement. Small organizations with few employees can have one-person (paid staff) sign checks and a different person (Board Treasurer) review disbursements, bank statements, and cancelled checks on a monthly basis.

Approvals: Written policies should document who can authorize payments. Some organizations designate the Executive Director for this responsibility, or in very small organizations, the Board President or Treasurer may approve all purchases.

Managing Restricted Funds: Funds designated for specific purposes by the donor such as buying a building, expanding an existing program, starting a new program, etc., should be accounted for separately in the organization's books. Funds should generally not be borrowed from restricted funds. Where a funder allows it, the Board should have policies in place for who approves this, how often it can occur, how much can be borrowed, and what type of repayment plan should be established. The Board should be advised regularly about any interfund loans that occur.

Check Signing: Two signatures should be required on checks over an amount agreed to be significant. More than two people should be given check-signing authority to ensure there are always two people to sign.

Limitations on Positions and Salaries: The organization will pay no salaries higher and for no positions other than those authorized. A salary schedule shall be developed at the beginning of each fiscal year as part of the organizational budgeting process. Timesheets should document hours worked and leave accrued.

Internal Controls for Credit Cards: The use of organizational credit cards should be limited to purchases where normal purchasing and disbursement practices are not suitable. Cards issued in the organization's name must be protected and usage monitored to ensure only authorized and necessary items are purchased. All credit card purchases must be supported by original invoices, store receipts, or other authenticating documentation. Credit card statements are not sufficient support for this.

Internal Controls for Fixed Assets: A fixed asset is an article of nonexpendable tangible property having a useful life of more than two years. The Board should establish a threshold at which an acquisition will be capitalized, such as $5,000, which is the government threshold. Fixed asset purchases should generally be approved by the Board of Directors and each item shall be tagged and inventoried.

General Internal Controls:

- Observe rigorous human resources practices over hiring and firing, including checking references, maintaining complete personnel files, and perform regular written evaluations.
- Cross-train staff wherever possible.
- Require finance staff to take regular vacations.
- Develop procedures for backing up both software and data files from all the organization's computers, storing back-ups in a safe, offsite location.

Cost Principles: The organization shall use all funds in an economical and efficient manner and ensure they are reasonable, proper, necessary, defensible, and are allowable and in accordance with applicable OMB standards and any applicable Indirect Cost Allocation rates.

- Expenses charged against program funds may not be incurred prior to the effective date of the agreement or subsequent to the agreement termination date.
- Expenses may not exceed the maximum limits of the organization budget without approval, and also may not exceed contract budgets.
- Only those expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the program are allowable.
- Unspent funds will need approval to utilize or be returned to funder.

Financial Reporting and Annual Audits:

- Must be done monthly – timely and accurate.
- Must be based on and come from books of record and reconciled accounts.
- Should include a Statement of Financial Position (Balance Sheet), a Statement of Activities (Income/Expense or Profit & Loss). and Statement of Functional Expenses (Line-item Expense report)
- Should show actual to approved budget by line item.
- An annual audit should be conducted by a CPA.
- CPA should present the audit at a Board of Directors meeting.
- The Audit shall be provided to all funders.