INTERNAL CONTROLS FOR NONPROFITS

(adapted from BoardSource (www.boardsource.org) by Robert H. Levin (www.roblevin.net))

A strong and well-considered system of internal controls is the best way to ensure that an organization's funds are being property administered. The following is a list of good practices that form this system. Every nonprofit organization does not have to adopt every single practice on this list; rather, enough of them must be adopted so that you've formed a solid and credible system. It is also important that the culture of the organization reflect the seriousness of these internal controls and that lackadaisical attitudes are not tolerated.

Practices and Policies dealing with internal controls

- Collections Should be Under the Control of Two People Whenever Possible -- Prenumbered receipts should be issued for all monies received; however, this is often not practical when cash is collected through door-to-door solicitation, plate offerings or cannisters placed in stores. To the extent that one person has access to or handles the money, there is the risk that money can be misappropriated. It is preferable that two people be involved. Additionally, checks should be restrictively endorsed at the time received and deposited daily. A viable alternative to this procedure is the direct deposit of mail to a bank lock box, which circumvents many of the cash receipts control problems.
- All Disbursements Should be Made by Check and Support for the Disbursement Kept on File -- This procedure ensures that there is a record of disbursements that makes it more difficult to fraudulently disburse funds. Also, authorized check signers should not have access to the accounting records. This prevents the possibility of someone misappropriating funds and then covering up the fraud by manipulating the accounting records. In addition, dual signatures should be required on all checks over a predetermined amount.
- Someone Other than the Person in Charge of the Record Keeping Function Should Receive the Unopened Bank Statements -- This function is especially critical for a small nonprofit organization because it removes the possibility of covering up a fraud by destroying forged checks and falsifying the reconciliation. If the size of the organization prevents a separate person from preparing the bank reconciliation, then at a minimum, the contents of the bank statement should be reviewed by a key executive or, in particularly small organizations, a board member before the account is reconciled. This not only provides a good after-the-fact control, but also provides the executive with a very good opportunity to understand the cash flow of the organization.
- Dollar limits when multiple signatures for checks are needed (example: any check over $2,000)
- Forms for check requests and expense reimbursements
- Conflict of interest policy
- Process for seeking bids for large projects
- If the organization has one or more employees or paid contractors
    - Job descriptions
    - Time sheets

    - Hiring well - Pay attention to the attitude of a candidate, check references and do background checks.
    - Exit interviews - Get direct feedback from leaving staffers, no matter why they leave.
- Annual budget approved by Board
- Full Board review of financial statements at least quarterly
- List of staffers and board members authorized to sign checks
- Inventory tracking (if applicable)
- Computer security and password procedures
- Use of corporate credit cards
- Policy for handling of petty cash
- Document destruction policy
- Professional bookkeeper and/or accountant
- Annual financial review or audit by accountant
- Good communication - Explain to everyone the purpose of policies and practices. Understanding breeds acceptance and alleviates the sense of 'policing' in the organization.