

Cheque it Out

Internal Financial Controls for Nonprofits

Checklists: A Compendium

www.communitysector.nl.ca



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Also available online at: <http://communitysector.nl.ca/cheque-it-out>

Contact for Information on the Checklists

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Give. Volunteer. Act.

How to Use the Checklists

Community Sector Council Newfoundland and Labrador (CSC) is pleased to provide a series of checklists on Internal Financial Controls for use by nonprofit organizations. The checklists were gathered and prepared for CSC's 2011-2012 'Cheque It Out' project, aimed at increasing knowledge of internal financial controls by staff and volunteers in the nonprofit, community-based sector. The checklists, and many more handouts and webinars, are online at www.communitysector.nl.ca.

Internal financial controls have three main aims. They are designed to:

- 1) make your organization more efficient
- 2) help you avoid waste or theft
- 3) improve the accuracy of your financial reports

The checklists represent good practices in several areas of money management. They will be of interest to executive members, treasurers, finance committees, fundraisers and volunteers who collect, account for, deposit or report on your finances.

These are guides for discussion purposes. No one organization is likely to have all the practices in place. If your organization needs to change its practices, CSC suggests additional research on money management, especially on national and international standards, and that you seek professional advice from an accounting firm or certified bookkeeper for complete services.

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Thanks are due many print and online sources including American Institute of Certified Public Accountants (AICPA), Business Tools, BoardSource, Business Owners' Toolkit, Canada Revenue Agency, CPA Canada, Charity Village, Charities File, CompassPoint, Cornerstone, Endurance Riders of Alberta, Internal Control Framework, David Ingram, Mango, Nonprofits Assistance Fund, Nonprofit Risk Management Centre, RBC, University of Florida, Jackie Breland, Boy Scouts of America, Cliff's Notes, Committee of Sponsoring Organizations of the Treadway Commission (COSO), Moody's Foundation, Orthodox Church in America, The Centre on Philanthropy at Indiana University, Volunteer Canada, Andy Robinson, Nancy Wasserman, University of Missouri, Office of the New York State Comptroller, CPA Australia, IBM, plantservices.com, Wikipedia.



Checklist for Non Profits

Internal Financial Controls: The Basics	Yes	No	Don't Know
Management Integrity – the ‘tone at the top’			
1 . The organization operates within an annual budget adopted by the Board of Directors.			
2 . Budget limits are known to board members and staff, and volunteers if necessary.			
3 . Income and expenditures are reviewed monthly, or quarterly, against the budget.			
4 . Policies on spending, recording and safeguarding money (such as bonding) have been adopted by the board and made known to relevant staff and volunteers.			
5 . Procedures and practices are monitored by the board on a regular basis; this includes asking questions about financial transactions or reports.			
Competent Personnel			
6 . A finance committee exists.			
7 . Hired staff is selected on the basis of known skills in finance management.			
8 . Reference checks have been made and recorded.			
9 . Volunteers who handle money, including canvassers and ticket sellers, are aware of procedures for safeguarding cash and cheques.			
10 . Ongoing training needs are addressed, such as when a new accounting procedure is put in place or when software is updated.			
Segregation of Duties			
11 . Authorization of expenditures has been separated from spending procedures; i.e. done by different persons.			
12 . The tasks of recording expenditures and reporting expenditures are done by separate persons (or at least checked by separate persons).			
13 . Reconciliation of records, such as bank statements, is done by separate persons (at least on a ‘spot’ basis).			

	Yes	No	Don't Know
Authorization and Records Maintenance			
14 . A policy exists on cheque-signing authority, either in by-laws or as part of a policy and procedures manual approved by the Board of Directors.			
15 . Cheque signing authority is reviewed annually and updated at the bank.			
16 . An accounting procedure has been adopted (whether manual or computerized) with the capacity to produce reports on a timely basis.			
17 . Accounting procedures are written in a manual known to board and staff, and available for review, such as by a funder (or government auditors in the case of a charitable organization).			
Safeguards			
18 . Financial records, including for petty cash, are reconciled on a regular basis.			
19 . Physical security methods such as locked cabinets for cheques, and computer passwords for financial software, have been established and are used.			
20 . Financial reports are reviewed by the board.			
21 . The board understands when an external audit may be required.			
22 . Board members are comfortable questioning any activity, procedure or report that seems suspicious or incomplete.			

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Top Tips for Controlling Cash



Cash can be easily misplaced or misused leading to losses for an organization. Cash controls are very important in protecting everyone who handles cash. They provide guidance on cash handling. They also remove the suspicion of fraud – and the temptation.

Follow the **10 Golden Rules for Handling Cash** as follows:

1. Keep money coming in, separate from money going out

Never put cash received into the petty cash tin. It will cause errors and confusion in the accounting records. All money coming into the organization must be paid into the bank promptly and entered into the records before it is paid out again. Otherwise it can be confusing when reconciling the cash balance.

2. Always give receipts for money received

This is one of the highest risk areas, so be warned! Proper issuing of receipts helps to protect the organization from cash being pocketed rather than banked. Use pre-numbered duplicate receipt books written in pen.

Keep track of your receipt books using a register, recording each book as you receive it from the printers, the date it started being used and the date it was returned finished. Use receipt books in order. Make sure unused receipt books are locked up.

3. Always obtain receipts for money paid out

Sometimes this may not be possible, for example, when purchasing items from a market. In this case the cost of each transaction should be noted down straight away so that the amounts are not forgotten. Then they can be transferred to a petty cash slip and authorised by a line manager. Remember – no receipt means there is no proof that the purchase was made.

4. Pay surplus cash into the bank

Having cash lying around in the office is a temptation to a thief and the money would also be managed better if it were earning interest in a bank account. A casual approach to cash on the premises might lead to people wanting to 'borrow' from it. Often fraud has started in this way. Every attempt should be made to pay cash into the bank on a daily basis or, at the very least, within three days of receipt.

5. Have properly laid down procedures for receiving cash

To protect people handling money, there should always be two people present when opening cash collection boxes, envelopes and other sources of money. Both people should count the cash and sign the receipt.

6. Restrict access to petty cash and the safe

The keys to the petty cash box and the safe should only be given to authorised individuals. This should be recorded in the organisation's Delegated Authority document.

7. Reconcile the petty cash book

The petty cash should be counted and reconciled at least once every week. Any discrepancies must be reported straight away to a manager, and investigated.

8. Keep cash transactions to an absolute minimum

Petty cash should only be used to make payments when all other methods are impossible. Wherever possible, suppliers' accounts should be set up and invoices paid by cheque. The advantage of paying for most transactions by cheque is that this has the effect of producing an extra set of records in the form of the bank statement. Also, it ensures that only authorised people make payments and it reduces the likelihood of theft or fraud.

9. Manage and monitor staff advances

Any cash advance given to staff (eg to go to the field) should be accounted for and cleared before another advance is given. All payments made must be justified by receipts. Any balances owed to or owed by the member of staff must be paid to clear the advance.

10. Be clear about who is responsible for what

Everyone in the organization should be completely clear about who is responsible for handling cash, and what their specific responsibilities are. If possible, set out the responsibilities on job descriptions. Everyone should also know who is not allowed to handle cash!

Thanks to Mango in the UK for this free resource....visit them at: <http://www.mango.org.uk/>

Bank Reconciliation



Prepare a bank reconciliation when you receive your bank statement every month. This is a very important part of your cash control procedures. It verifies the amount of cash you have in your chequing account.

- The cash balance in your books will never agree with the balance shown on the bank statement because of :
 - the delay in cheques and deposits clearing the bank,
 - automatic bank charges and credits you haven't recorded, and
 - errors you may have made in your books.
- After preparing the bank reconciliation, you can be comfortable that the account balance shown on your books is up-to-date.

Another important reason to do bank reconciliation is that **it may uncover irregularities** such as employee theft of funds.

Here are step-by-step instructions for preparing a bank reconciliation.

1. **Prepare a list of deposits in transit.** Compare the deposits listed on your bank statement with the bank deposits shown in your cash receipts journal. On your bank reconciliation, list any deposits that have not yet cleared the bank statement. Also, take a look at the bank reconciliation you prepared last month. Did all of last month's deposits in transit clear on this month's bank statement? If not, you should find out what happened to them.
2. **Prepare a list of outstanding checks.** In your cash disbursements journal mark each check that cleared the bank statement this month. On your bank reconciliation, list all the checks from the cash disbursements journal that did not clear. Also, take a look at the bank reconciliation you prepared last month. Are there any checks that were outstanding last month that still have not cleared the bank? If so, be sure they are on your list of outstanding checks this month. If a check is several months old and still has not cleared the bank, you may want to investigate further.
3. **Record any bank charges or credits.** Take a close look at your bank statement. Are there any special charges made by the bank that you have not recorded in your books? If so, record them now just as you would have if you had written a check for that amount. By the same token, if there are any credits made to your account by the bank, those should be recorded as well. Post the entries to your general ledger.

4. **Compute the cash balance per your books.** Total the general ledger cash account to arrive at your ending cash balance.
5. **Enter bank balance on the reconciliation.** At the top of the bank reconciliation, enter the ending balance from the bank statement.
6. **Total the deposits in transit.** Add up the deposits in transit, and enter the total on the reconciliation. Add the total deposits in transit to the bank balance to arrive at a subtotal.
7. **Total the outstanding checks.** Add up the outstanding checks, and enter the total on the reconciliation.
8. **Compute book balance per the reconciliation.** Subtract the total outstanding checks from the subtotal in step 6 above. The result should equal the balance shown in your general ledger.

Alpha Company Bank Reconciliation March 31, 2011		
Balance per bank statement		\$ 4,672.98
Deposits in Transit		
<i>Date</i>	<i>Amount</i>	
3/30	\$ 500.25	
3/31	\$ 1,890.33	\$ 2,390.58
<i>Subtotal</i>		\$ 7,063.56
Outstanding Cheques		
<i>Cheque Number</i>	<i>Amount</i>	
1656	\$ 22.50	
1693	\$ 150.00	
1696	\$ 32.00	
1697	\$ 1,902.00	
1698	\$ 1,105.80	\$ 3,212.30
Balance per books		\$ 3,851.26

In the above example, if the general ledger cash account does not show a balance of \$3,851.26, you will need to track down the cause of the difference.

If your bank reconciliation doesn't balance, you need to find the error or errors. Here are the possible causes of a bank balance error:

- **Total outstanding cheques added incorrectly?** Double check your addition of the total outstanding checks.
- **Total deposits in transit added incorrectly?** Double check your addition of deposits in transit.
- **Bank balance written down incorrectly?** Did you start with the correct amount at the top of your reconciliation? Double check by comparing it to the month end balance on your bank statement.
- **Failed to record all items clearing the bank statement?** Look at your bank statement carefully. Are there any items, such as miscellaneous bank charges or automatic deposits or withdrawals, that were not recorded in your books?
- **Journals added incorrectly?** Double check your addition of cash receipts and cash disbursements.
- **Failed to record a cheque or deposit?** Did you record all cheques and deposits in your journals? This should have been apparent when you were preparing your lists of deposits in transit and outstanding checks.
- **Incorrectly recorded an amount?** Compare each item on the bank statement with your journal entry for that item. Did you enter the correct amount?



Adapted from: http://www.toolkit.com/small_business_guide/sbg.aspx?nid=P06_1424

Internal Controls to Protect Assets: Checklist of 25 Best Practices for Non Profits

(1) Plan for Assets and Set a 'Tone at the Top'	Yes	No	Don't know
1 . The Board of Directors understands the 'life cycle' of fixed assets.			
2 . The Board budget allocates spending for fixed assets.			
3 . The accounting system allows for the depreciation of asset values over time.			
4 . The board has established polices on acquiring, protecting and replacing fixed assets whether they are purchased or donated.			
5 . The board ensures that budget and policy information on protecting fixed assets is communicated to staff and volunteers within a 'culture of controls.'			
(2) Authorize for Acquisition			
6 . Authorization for spending on assets (or to contract for their supply) is established in the organization by-laws.			
7 . Policy is written on spending limits for staff or volunteers who have been delegated to acquire assets on behalf of the board.			
8 . The board has a competitive system to determine best costs with bidding (for larger items) or quoting requirements (for smaller or routine buying).			
9 . Buying is done by someone other than the person who has authorized the purchase (i.e., segregate these functions with purchase-orders or requisition slips).			
10 . Purchase documents are checked against receipt of goods to ensure delivery.			
(3) Record and Deploy Assets			
11 . Policy is prepared on who has access to fixed assets and under what circumstances.			
12 . Items of value are tagged with identifiable labels (possibly sequential numbers and bar codes) for ease of tracking if lost, stolen or misplaced.			
13 . An Inventory or Asset Register is maintained which accounts for date of purchase, location of assets, price, serial (or tagging) numbers and warranty details.			
14 . The need for insurance on assets with value is assessed by the board.			
15 . Staff and volunteers receive training on the safe use of equipment and how to detect and report flaws, defects, poor performance or routine maintenance needs.			
(4) Manage and Reconcile			
16 . Control or custody of fixed assets is addressed in job descriptions for all staff.			
17 . Physical assets are secured with locked access and the board or senior staff control who has keys or pass codes to digital door locks; keys, locks or pass codes are changed or re-issued when staff or volunteers change.			
18 . The organization applies special requirements to assets which are portable, like cell phones, video equipment and laptop computers by requiring a sign in and out, with both signatures and dates.			
19 . The asset register is reviewed to determine loss, whether from accident or theft.			
20 . Asset reviews are done by someone other than those responsible for storing assets.			
(5) Monitor and Detect for Replacement			
21 . The inventory of assets is audited on a regular basis (at least annually).			
22 . Insurance policies are reviewed for levels of protection and to determine need for increased or decreased coverage.			
23 . 'Compensatory controls' such as spot checks or counts are applied, especially if the authorization, purchase and recording functions above have not been segregated.			
24 . N.B. Question whether your internal controls have saved the organization money, made operations more efficient, or prevented waste and theft.			
25 . Finally: Document and report losses to support insurance claims or requests to the board for replacement of assets.			

Checklist on Purchases and Sales

Purchases (Preventive Controls)

1. The organization has written procedures for purchases covering authorization, competitive bidding advance quotes and use of credit cards
2. Purchase orders are used and are sequentially pre-numbered
3. Prior approval is required for purchases over a certain amount
4. Purchasing functions are done by a person separate from receiving or shipping duties
5. Deliveries are signed for upon arrival
6. The 'chart of accounts' in your books is set up to accept purchase entries
7. Month end reconciliations are done for purchases
8. Vendor billing practices are reviewed for compliance with purchase orders – do they match up
9. Accounts payable balances are reconciled monthly with outstanding invoices
10. Purchased goods are recorded in relevant inventories

Purchases (Detective Controls)

11. Inspect policies and procedures and inquire about them on a regular basis
12. Examine a sample of purchase orders to ensure they have been appropriately authorized
13. Review the delegated list of authority for purchases
14. For a sample of orders, examine the goods received and match it to the order
15. Examine supporting documentation such as delivery slips, from time to time
16. Examine documentation for evidence that purchases are recorded in a timely way
17. Recalculate the mathematical accuracy of a sample of supplier invoices (do not overpay)
18. Review purchases journal and general ledger for reasonableness
19. Compare dates on reports to dates on invoices and delivery slips
20. Compare dates on delivery slips with dates they were recorded in the purchase journal

Sales (Preventive)

21. Duties have been segregated (including customer queries and complaints handled independently from sales staff)
22. Sales recorded only with approved sales order form (and shipping documents if necessary)
23. Numerical sequencing of invoices
24. Monthly customer statements are issued
25. Credit limits are reviewed before sale is completed
26. Authorized price lists and terms of payment are known
27. Shipping documentation is matched to sales invoices
28. Sales invoices are reconciled in a daily sales report
29. Chart of accounts is in place to account for sales
30. Sales invoices and matching documents required for all entries to accounting department to support daily invoicing of goods shipped

Sales (Detective)

31. Test a sample of sales invoices for authorized sales order form and shipping documentation
32. Review and test for numerical sequences of invoices
33. Review procedures for sending out monthly statements
34. Ask a selected customer if complaints were handled properly
35. Review procedures for granting credit to customers
36. Examine a sample of sales orders for evidence of proper credit approval
37. Review a selection of customer files to ensure satisfactory credit references were obtained
38. Compare prices and terms on a sample of sales invoices to the authorized price list
39. Trace a sample of shipping documents to the sales invoices and ledger
40. Reconcile a sample of orders vis a vis pricing, invoicing, and accounting

Internal Controls on Payroll and Personnel: Best Practices for Non Profits

(1) Set a 'Tone at the Top'	Yes	No	Don't know
1. Check references of employees and volunteers prior to offering employment			
2. Acquire bonding Insurance for staff and volunteers who handle money			
3. Have clear job descriptions for staff and volunteers who handle money			
4. Be familiar with human rights, privacy and labour standards legislation			
5. Have a policy on submitting remittances to the Government of Canada			
(2) Authorize			
6. Limit responsibility for approving pay increases to senior personnel			
7. Separate authorization for pay increases from the task of preparing and issuing pay cheques.			
8. Limit access to computer payroll programs with password protection.			
9. Authorize overtime in advance, only, and verify time taken			
10. Clarify pay rates, benefits and any overtime provisions in a written contract with an attached job description for each employee.			
(3) Record			
11. Maintain a payroll register			
12. Record and track vacation and sick time on a regular basis			
13. Restrict access to records to avoid tampering			
14. In a computerized payroll turn on tracking features which alert you to fluctuations in amounts which can be reviewed manually.			
15. Use time sheets to record employee hours.			
(4) Manage and Reconcile			
16. Check payroll records to ensure compensation is at agreed rates			
17. Reconcile payroll records to the register to ensure no 'ghost' employees are paid			
18. Reconcile records to the cheque register to ensure remittances to government			
19. Reconcile time sheets to the payroll register			
20. Look for unauthorized payments and discontinue			
(5) Monitor			
21. Conduct periodic audits of payroll register, time sheets and holiday or other benefits accrued and taken			
22. Spot check the payroll register when employees change to ensure no overpayments			
23. Look for unexplained jumps(of amounts) in payroll disbursement reports			
24. Ensure payroll records are kept up to date to establish an audit trail			
25. Revise and update confidential access as needed			

Internal Controls on Receipting and Donor Relationships: Best Practices for Non Profits

Receipt Responsibly & Protect Your Reputation	Yes	No	Don't know
1. Understand Government of Canada receipting requirements (at Canada Revenue Agency).			
2. Orient and train new board, staff and volunteers on charitable receipting.			
3. Have a policy on accepting (or not accepting) in-kind donations.			
4. Become known as a responsible charity – protect your public image by telling your own story.			
5. Report donations accurately to Canada Revenue Agency and know how to locate your listing online.			
Protect Your Data			
6. Collect only the information needed to process receipts for donors.			
7. Secure electronic data such as credit card information, with password protection and policies that limit access.			
8. Use only secure online collection firms and tools.			
9. Have a policy which disallows staff or volunteers from taking laptops, printouts, data discs or other memory devices offsite.			
10. Tell your donors their data is secure – do this on your website.			
Protect your cash			
11. Segregate duties when accepting and receipting cash donations.			
12. Receipt immediately if possible and at the end of the calendar year, always.			
13. Deposit cash and cheques immediately, daily if possible.			
14. Check references on staff and volunteers who handle your money.			
15. Heed warning signs and check out hunches.			
Reconcile			
16. Review donated dollars against annual budget forecasts to measure success.			
17. Reconcile bank statements to ensure donated dollars are deposited.			
18. Have procedures in place for recounting (by more than one person) and tallying loose collections or pledged amounts.			
19. Differentiate dedicated donations, endowments and capital donations in your accounting system.			
20. Correct any errors on your annual listing at Canada Revenue Agency.			
Monitor and Review			
21. Compare donations year over year to see if they rise or fall, and ask why.			
22. Stay up to date with electronic security systems – you may need to change your service from time to time or install new security features.			
23. Spot check receipting procedures to ensure sequential receipting, completeness of receipts and proper posting of donation to accounts.			
24. Review donor collection practices annually.			
25. Tell donors what you did with the money donated to your organization.			