



Establishing Internal Controls for Organizational Fiscal Accountability

Even the smallest nonprofits, including those run completely by volunteers, should have basic internal controls regarding fiscal policy. It is essential to have these checks and balances. While this is a sound practice, it is one that sometimes falls through the cracks in smaller organizations, such as those the size of many Main Street nonprofits. It is easy to slip into careless fiscal habits, but that can lead to serious consequences for an organization, including theft of monetary or physical assets and the loss of organizational credibility and stability.

Where do we start?

The first step is to establish controls. The organization's board must take the time to establish realistic internal controls/policies and define acceptable versus unacceptable practices; that will safeguard the organization from loss and set the tone for organizational integrity. This is not about trust or the lack thereof between the staff and board. It is about protecting the organization, its assets, the staff and the board from even the appearance of financial impropriety. Even establishing a

policy on something as seemingly insignificant as appropriate use of the petty cash fund is important in conveying the overall message of accountability. Communicate these policies to all staff and board members, and let them know they will be followed by everyone.

Bookkeeping

An organization should establish a bookkeeping system, whether that is hiring an accountant, using Quickbooks or other similar program, or utilizing the city finance department, if that is an option.

- Establish a policy and system for paying payroll and invoices.
- Manage all donations and contributions in accordance with nonprofit best practices and in accordance with the terms of the contributions (reporting, tax exemption receipts, etc.).
- The treasurer should be actively involved in monitoring the organization's finances, not just a figurehead. It is his/her responsibility to report on the financial status of the organization at each board meeting.
- Conduct established audits or financial reviews by an outside source (CPA firm).

- Establish division of financial duties as recommended by the auditors.

Authorization and Approval

The board, not committee members or staff, has decision-making authority for financial transactions.

- As a matter of procedure, committee chairs should bring financial requests for committee activities to the board for approval.
- Set a policy for staff in regards to routine expenditures such as purchasing office supplies.
- Set a policy that does give staff the flexibility to pay the organization's bills within the approved budget.

Handling Checks, Deposits and Cash

Have a division of responsibilities when handling checks, deposits and cash.

Checks and Deposits

- Incoming checks should be endorsed immediately and restrictively; they should be deposited within a week with no cash back. Make a copy of the front of the check(s) and deposit slip, and keep them with the deposit receipt.

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- Determine who will have signatory authority on the organization's checks and require that checks have two signatures.
- Outgoing checks should always be supported by an approved invoice, receipt or voucher.
- Never allow blank checks to be signed in advance.

Cash

- Keep a cash receipts log for routine cash receipts outside of special events.
- Make deposits daily, if necessary. You should not have any monies held in the office other than enough for petty cash.
- Set a policy for the use of petty cash for small purchases and require that receipts be saved for verification.
- Establish cash/check handling policies in advance of fundraisers and events and inform all persons that will be handling money of these policies.
 - Consider collecting money more than once during the event, and have two people responsible for collecting and counting the money. Verify with two signatures the cash/check amount(s) collected.
 - Exercise caution and common sense when collecting monies at an event held after regular banking hours. Not only do you want to have a secure location to hold funds until they can be deposited in your bank, you also want to ensure the personal safety of those persons charged with holding the funds until the deposit can be made. If it is feasible to make a drop deposit after

hours, ask local law enforcement if they would accompany the person making the deposit.

Bank Statements and Online Account Access

Bank Statements

- A duplicate statement sent to either the accountant or the treasurer provides another layer of transparency in managing the organization's account(s). Ask the bank if they will send duplicate statements to separate addresses, preferably at no charge.
- If a duplicate statement is not possible, the unopened bank statement should be given to the board treasurer.
- Ideally, the same person should not be receiving/reconciling the bank statement and writing the checks.

Online Account Access

Access to online banking is nearly universal now and is a convenient and easy way to regularly monitor account balances and transactions, especially if the bank is unable to provide a duplicate statement.

- Staff should not be the only ones with online account access. Establish a policy that allows the board treasurer online account access as well.
- Each person with access should make it a regular habit to check the account(s). If checking from a remote location, make sure you use a secure wireless network!
- Don't post the account login and password where it is easily accessible; memorize it or keep it somewhere safe.

Credit and Debit Cards

Credit cards are a convenient way for staff to make necessary purchases for the organization. The board needs to be very clear about the expenditures for which the credit card is to be used. Have a written policy and explain it to staff and board members, both current and incoming.

Credit Cards

- If the organization opts to get a credit card for staff, a board member should be involved in its procurement.
- Require receipts to verify purchases.
- If unable to get a duplicate credit card statement, set up online access to the account and check the statement online.
- Board members should never hesitate to question any purchase using the credit card.

Debit Cards

- Providing staff with a debit card in place of a credit card is generally not considered to be a sound financial practice for nonprofit organizations. The North Carolina Main Street Center does not recommend debit cards.

These are just some basic internal controls to consider when an organization looks to strengthen its fiscal accountability. A number of resources are available to help organizations research what may work best for them. The following are some that were used in preparing this information sheet:

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Recommended Resources

- *Five Internal Controls for the Very Small Nonprofit* by Carl Ho, CPA, published on Blue Avocado (<http://blueavocado.org>)
- *Treasurers of All-Volunteer Organizations: Eight Key Responsibilities* by Dennis Walsh, CPA, published on Blue Avocado
- *Accounting Policies and Procedures Sample Manual* by Deborah Ross for California Association of Nonprofits, published on Blue Avocado
- *Preventing Fraud* from the Nonprofit Management Risk Center and *Internal Controls* by Janice Moen, CPA, CFO ARCA for United Way of Central New Mexico Center for Nonprofit Excellence and the N.C. Center for Nonprofits.