**Sample Internal Financial Control Processes**

**for a Small Organization**

[This is not a legal document and it is not legal advice. Consult your own attorney and GAAP accountant expert to implement financial controls. This is provided as a guide only.]

Internal controls are processes adopted by an organization’s board, management, and employees designed to provide reasonable assurance regarding the achievement of; the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with laws and regulations. This document outlines the control processes in place for XYZ Organization.

It is important to know that accidents do happen. Errors occur by accident. Fraud is intentional. The most important thing you can do to limit errors and fraud is to diversify responsibilities. If one person is handling several key elements of revenue being recorded and bills being paid, you may be opening yourself to problems.

Here is a helpful site: <http://www.acfe.com/fraud-tree.aspx>

Examples of financial impropriety include:

* Theft of funds, inventory, or donated items;
* Any use of organizational resources for personal benefit;
* Getting any form of personal benefit from a vendor or contractor (free swag or reduced fee services in your private life);
* Overpayments for goods or services not received. Especially if they are for friends/family;
* Asking for reimbursements or “padding” the amounts of reimbursements;
* Receiving contributions for one purpose but using them for another.

Precautions you can take:

* Run background and credit checks on all employees or volunteers handling money, financial transactions, or donated goods;
* Ensure the executive director and board create an ethical culture in the organization;
* Do not to bring on board members who have a financial interest in the organization’s finances, programs, or activities;
* Audit’s don’t always catch fraud. Ask your outside auditor to specifically look for fraud;
* Have a whistleblower policy. Remind the board and staff every 6 months that this policy exists and create a culture of transparency and accountability;
* Educate workers about fraud and errors;
* Review expense reports closely. Talk to staff about the details;
* Consider buying insurance protecting against fraud.

**Sample Controls**

*This is not a template. This is an actual example used by a national nonprofit. It is incredibly detailed. It is intended to show you the level of thought and care that should be used by a small organization. Larger organizations (Over 10 Staff or $1M budget) should consider a better division of labor.*

**Receipts**

* Mail is received in office and opened by Person 1. All check/cash receipts and accompanying documents are listed on a check log immediately by Person 3, or Person 2 if Person 3 is gone. Be very specific in the log. If the check comes from "Fidelity Charitable Gift Fund" but we know it is given by, Jane Doe, we do the following: In the Payer Name, write: “Fidelity Charitable Gift Fund.” In the Notes Section, write: “Credit to Jane Doe.” "Credit to" is language that the Bookkeeper knows to look for, to enter the gift into QuickBooks (QB).
* All checks are scanned and sent to Person 1 for saving in the monthly expense folders in Google Drive. All checks will be titled by the donor for quick retrieval.
* Person 3 will then enter the gift into the donor database, making sure to search for the donor before creating a new one, keeping in mind that the donor may be listed with a middle initial or maiden name, etc. Donations are logged as occurring on the date of the check not the deposit date. Check images are uploaded to donor records in database.
* Checks are endorsed “for deposit only” immediately upon receipt by the Executive Director (ED).
* Checks and cash are deposited within 2 business days of receipt by the ED.
* Deposit slips and copies of checks are uploaded to a shared Google drive. The Date of deposit is indicated in the file name for the deposit slip and each check deposited.
* Receipts are recorded by bookkeeper into (QB) based on information in the Google Drive.
* All gifts of any dollar amount are mailed a formal, written acknowledgment within one week of receipt.

**Check Disbursements**

* Check disbursements are made by pre-numbered check or through the banking bill pay system.
* Check disbursements are made by the ED or CFO. Signers are Person 1, Person 4, and Person 5. All signers have full authority but can be limited in the online system.
* Check disbursements are made based on the invoice approved and initialed on the digital file by ED or CFO.
* Invoices are checked for mathematical accuracy and reasonableness before payment is made.
* Invoices are uploaded to a shared Google drive. Check number, date, vendor name, and approval of disbursement is indicated in the file name.
* Check disbursements are recorded by the bookkeeper into QB based on the information in the Google Drive.
* The Executive Director has the authority over expenditures up to $5K. Higher expenditures must be approved by the Finance Committee. ABC Bank doesn’t allow double signatures on checks but limits can be set on bill pay.

**Credit Card Charges**

* Credit cards have been issued in the name of Person 4, CFO Person 5, Person 1, Person 2, and Person 3.
* All transactions made with the credit card are for business-related activities of the XYZ Organization.
* A Credit Card Report detailing charge and accounting information will be filled out by Person 3 and uploaded to the Google drive on a monthly basis.
* The bookkeeper will use the Credit Card Report to record/reconcile transactions into QB.

**Expense Reports**

* Reimbursements are made to employees based on Expense Reports filled out on a timely basis and are approved by the direct supervisor.
* Expense Report & documentation for each expense listed on the report is uploaded to the Google drive.
* Specifically, for Expense Reports submitted by the ED, the CFO will review this digitally and confirm approval via email.
* Check reimbursements for Expense Reports are made to employees or to board members by the ED or CFO.
* Check reimbursements for Expense Reports are recorded by the bookkeeper into QB based on information in the Google drive. During the recording process, the bookkeeper will verify if approval has been made.

**Payroll**

* Timesheets are filled out by employees on a daily basis to track hours spent on the following; administrative, fundraising, and program hours as well as direct and grassroots lobbying hours.
* Employment records are maintained for employees that detail wages, benefits, and other pertinent employment information.
* Payroll is processed through a 3rd party payroll processor. All withheld employee and employer taxes are paid on a timely basis to taxing authorities. All payroll forms are filed on a timely basis to taxing authorities.
* Payroll information is entered by bookkeeper into QB based on the reports from the 3rd party payroll processor.

**Reconciliation & Financial Statements**

* All bank and credit card statements are reviewed on a monthly basis by the ED and CFO.
* A formal reconciliation is performed monthly by the bookkeeper that compares the bank and credit card statements to the information entered into QB.
* Any disbursement or receipt found on the bank statement that has not been entered into QB is researched as follows:
  + The Google drive is reviewed again to see if a record of the disbursement/receipt can be located. If not, the ED and/or CFO is contacted for information regarding the disbursement/receipt. The information is entered into QB and documentation is uploaded to the Google drive.
* The following financial statements are prepared by the bookkeeper on a monthly basis:
  + A profit and loss statement comparing actual income and expenses to the budget. A profit and loss statement includes a projection for year-end income and expenses;
  + A balance sheet indicating all assets, liabilities, and equity of the business. The balance sheet will also indicate any restricted assets;
  + A detailed transaction list for the following expense categories; speaking fees, contracted services, program expenses, and fundraising expenses;
  + A list of contributions made by or in the name of board members.
* The financial statements are reviewed on a monthly basis by the ED and CFO.

**Compliance**

* An Operations Manual detailing XYZ’s internal processes, to include this document, is maintained by the ED.
* Accounting and timesheet procedures support a timely filing of the 990 and any supplemental or related schedules. Timesheet logs lobbying time, fundraising, and administrative functions.
* An annual informal review of the financials is made with the foundation’s CPA to determine whether a formal audit or review is required for the year.
* A copy of the foundation’s 990 is posted on the website
* The foundation’s QB file is maintained by the bookkeeper. A backup copy is uploaded to a Google drive on a monthly basis. The CFO also maintains a copy.
* The Google drive mentioned throughout this document can only be accessed by the Executive Director, Person 1, the CFO, Person 4, the bookkeeper, and Person 3.

Abila has a great download also. <http://bit.ly/2HgvOya>

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