Nonprofit Alert Supplement

General Tips for Internal Accounting Controls

Under state law, directors of nonprofit organizations have a legal fiduciary duty and a duty of care that require protecting the funds of their organization and ensuring financial accountability. These duties give donors a legally enforceable expectation that the funds they contribute to the organization will be used to further one or more of its charitable and educational purposes.

Because of the importance of maintaining prudent and responsible control over funds received by it, plus the necessity of ensuring that all donated funds are dedicated to tax exempt purposes, the organization should rely on specific accounting procedures to ensure proper accountability and compliance. The following accounting control procedures and guidelines for a nonprofit's Board of Directors will aid the Board in exercising proper stewardship over its nonprofit's funds:

GENERAL TIPS:

1) Instruct the treasurer to periodically pick an account or line item in the organization's budget at random to run a year-to-date total, and determine whether that figure comes close to the budgeted amount for that account or line item.

2) Compare the monthly financial reports to verify that one statement's ending balance equals the next statement's beginning balance; that no line items are beyond budget by greater than 5%; and that no accounts (travel, conference, utilities, etc.) seem unreasonably high.

3) Require finance committee to engage an outside auditor, give directions to the auditor, and conduct the exit interview in executive sessions in which staff is not present. The committee will require the auditor to provide a management letter that indicates where conflicting accounting interpretations with staff exist and suggests how to improve accounting procedures.

4) The qualifications for treasurer should include prior experience as an accountant or bookkeeper.

5) The Board of Directors should foster a QDA environment where "Questions Deserve Answers." The Board will designate a director, officer, or other agent who will be held out to employees, volunteers, donors, and friends of the organization as a caring servant-leader to whom questions, concerns, and suggestions may be directed.

6) The treasurer, and others with check writing or money handling duties, should be adequately bonded.

7) The treasurer, and others with check writing or money handling duties, should be rotated periodically, and during their mandatory vacations (at least two consecutive weeks during the year) someone else shall fulfill their duties.

8) All employees should be required to take their annual vacations and any financial duties will be reassigned to others in their absence. Funds should not wait to be deposited until the usual depositor returns from an absence.

OFFICE SECURITY:

9) The use of petty cash should be annually reviewed and minimized. Current petty cash procedures should be reviewed and revised to assure that only small purchases are handled using petty cash, and all are supported with a voucher system backed up by vouchers that have proper approval.

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10) Vendor invoices should be approved by the proper party before payment and marked paid after payment, with a notation for the date of payment and check number.

11) All employees applying for positions involving access to the organization's bank accounts, funds, or financial records should be required to agree to routine criminal and financial background checks.

12) Financial reports with detailed line items comparing actuals for the period and year-to-date against both the approved budget and last year's figures should be provided by the Treasurer to the Board at least quarterly. A deviations report should be required by the Treasurer for all items exceeding budget by more than 5%.

13) No bank account or other depository of the organization's funds should be established without prior Board approval.

CHECKS & BALANCES:

14) Mail should be opened by two staff members not responsible for deposits, who should prepare the list of all deposit items by date, payor, and amount.

15) Monthly bank statements should be reviewed / reconciled by someone who has no check preparing or check signing authority.

16) The Treasurer should review on at least a quarterly basis the original checkbook, checks, and monthly reconciliation.

17) Duplicate deposit slips should be prepared with one made out to the bank and one retained by the organization.

18) Only pre-numbered checks should be used for all payments.

19) No checks should be signed until they are fully made out, and until all support documentation for the checks is complete. No pre-signed checks or check stamps should be allowed. The check signer should be given all supporting documents such as invoices at the time she/he is given the check to sign.

20) Checks or withdrawals in excess of $5,000 should require two signatures. No authorized check signer should be allowed to sign a check made out to himself or herself in any amount.

21) Canceled checks and equivalent bank documentation should be stored in the organization's offices.

22) The organization's bank should be instructed to notify both the President and the Treasure of any overdrafts.

23) All canceled checks should be maintained in numerical order including all voided checks, so that the Treasurer may quarterly review and confirm that all checks are accounted for.

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8280 Greensboro Drive, 7th Floor, McLean, VA 22102-3807 • (703) 761-5000 Fax: (703) 761-5023 • E-mail: npa@gg-law.com
Editor-in-Chief . . . . . . George R. Grange, II Editor. . . . . . Stephen M. Clarke