



**School's Out™
Washington**

Internal Controls & Procedures Toolkit

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Collaborative Partners Initiative

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WHAT ARE INTERNAL CONTROLS?

The primary purpose of internal controls is to help safeguard your organization and further your mission and objectives. Internal controls are checks and balances of policies and procedures that are key in your organization that are implemented ensuring operations are efficient, and activities that enable you to stay compliant with applicable with your laws and regulations. Internal controls are best practices, policies and procedures, standards and ethical guidelines that are put into place to ensure compliance. Internal controls are designed to protect the organization and prevent fraud.

THREE TYPES OF INTERNAL CONTROLS

1. Detective – designed to detect errors that may have occurred
2. Preventative –designed to keep errors from occurring in the first place and are proactive in nature.
3. Corrective –designed to correct errors that have been detected

Why Do Nonprofits Need Financial Controls and Policies?

Nonprofits need financial controls and policies to prevent fraud and theft, and to provide public accountability for the management of funds. These controls provide a separation of duties across multiple individuals, ensuring the proper handling of assets, and providing for financial transparency.

In some instances, fraud, theft, and misuse of funds occur. Most financial losses like these can be quickly and easily avoided through basic internal financial controls.

PURPOSE OF INTERNAL CONTROLS

Consistency, Efficiency and Effectiveness

Internal controls that your risks are minimized, and they promote operational efficiency, consistent operations, and effective management. These systems help your organization adhere to policies, rules, regulations, and laws. Internal control provides a way for the organization to have rules and procedures for all their staff ensuring operational consistency across all fields.

Separation of Duties

Internal controls ensure that staff/department delegated duties are separated, providing oversight by department or by individuals within a department. This review catches errors thus preventing issues such as errors, fraud, or theft.

Training

Implementing internal controls ensures that the organization has the training and education for understanding and operational procedures to prevent errors and in carrying out the correct operational objectives.

Review/Approval

Internal controls ensure that there is division of responsibilities in performance of assigned tasks and duties. Review and approval, flow of work procedures and processing allow to provide checks and balance, and a serve to check the organizations tasks and actions.

Protecting Assets

Internal control ensures that policies and procedures, and measures are within the organization to prevent misuse, abuse, and fraud of the organization's resources and assets.

INTERNAL CONTROL FOCUS AND FUNCTIONS

An Internal Control Process should support the follow Organizational Functions:

Effectiveness and Efficiency of Operations

Internal controls provide an effective and efficient operational structure with policies and procedures ensuring the organization meets its objectives and responsibilities. Maintaining and utilizing the internal controls ensures that procedures and policies are not duplicated or redundant and that the organization's operations are executed with assurance of compliance.

Reliability of Reporting for Internal and External Use

Internal control policies and procedures help an organization provide reliable financial statements for internal and external use to its stakeholders. The right control systems ensure confidence in the reporting, and forecasting of budgets, and other organizational tools, for taxation and financial reporting purposes.

Compliance with applicable Laws and Regulations

The right internal control system helps an organization maintain compliance with the laws and regulations, thus minimizing risk. The right procedures and policies ensure help departments and staff accountable and responsible in carrying out the organization set goals and objectives.

Internal Controls and Grant Management

Grant funding, whether it is federal, state, or private, can come with complex requirements and compliance issues. It is key to have the right systems in place, thus using best practices and internal controls enable you to be viable to receive grants from and avoid fraud, abuse, and waste. Having an internal control process supports the overall grant management process:

- Provides assurance that an award is managed in compliance with the award terms and conditions, regulations, and statutes.
- Ongoing monitoring maintains compliance.
- Addressing issues of noncompliance in a timely manner is a proactive approach
- Reduces the opportunity for fraud to occur.

Know the Regulations

To get guidance on creating, maintaining, and updating your internal control system, it is best to review and know the regulations and requirements.

- Federal Regulations
- State Laws
- City/County Ordinances
- Agency/Sponsor Guidelines/Policies
- Organizational /Administrative Policies
- Award/Contract Terms and Conditions

Best Practices for Implementing Internal Controls

Success of the organization's implementation of the internal controls can be seen in the following:

- The system is encouraged and from the leadership to everyone, top to bottom.
- Encourage and create a "risk-aware" culture
- Encourage a collaborative approach creating your internal controls and goal.
- Develop reporting and monitoring tools
- Develop the "right" control instead of "more" controls
- Reassess on a continual basis as laws and regulations change.

POLICY VS PROCEDURE VS GUIDELINE

It is key to understand the difference between a policies, procedures, and guidelines

Policy – a course or principle of action adopted or proposed by a government, party, business, or individual.

Procedure – an established or official way of doing something

Guideline - a general rule, principle, or piece of advice

Example:

Policy – you must wash your hands

Procedure – turn on water, put soap in hands, scrub for 20 seconds, rinse

Guideline – handwashing is a good idea

How To – buy the soap from Costco, it's cheaper, unscented and we can use the company credit card

WHY DO THINGS GO WRONG?

- Cost (over or under-resourced)
- Short-staffed
- Lack of Communication
- Human Error
- Management

Examples of Fraud

- Stealing cash
- Falsifying timesheets or submitting timesheet for someone else
- Falsifying a report to cover up a mistake
- Taking leave without supervisor approval
- Falsifying reimbursement request
- Falsifying travel expense report
- Using institutional funds for personal use
- Over-purchasing to get a bonus item/kick back

Grant Fraud Awareness

As a recipient of a grant (federal, state, or private) you have a crucial responsibility in being aware of fraud, waste, and abuse. As these funds are related to taxpayer funded programs, the Offices of Inspectors General exist to help prevent and investigate fraud, waste, abuse, and misconduct related to these funds. Since the community, a foundation and the federal and state funds are awarded for work with clients and the community, a

nonprofit is required to meet all granting guidelines in implementing a grant awards. Most issues of fraud, including grant fraud, can be attributed to “lying, cheating, and stealing.”

Resources:

[OFFICE OF THE INSPECTOR GENERAL](#)

OIG's mission is to provide objective oversight to promote the economy, efficiency, effectiveness, and integrity of programs supported by the Department of Health and Human Services as well as the health and welfare of the people they serve.

[13 FINANCIAL CONTROL RECOMMENDATIONS FOR NONPROFIT ORGANIZATIONS](#)

This article provides recommendations and resources in 13 areas of internal controls including: separation of duties, reconciling bank statements, cash handling procedures, credit card use, record and review all income, the disbursement process, expense reimbursements, financial reporting and review, payroll and timesheet controls, budgets, conflict of interest, whistleblower policy, and banking account authority.

[CLARK NUBER'S INTERNAL CONTROL GUIDE](#)

Clark Nuber is a certified public accounting firm in Bellevue, WA that provides training and resources to nonprofit organizations. The Internal Control Guide is informative and included as part of this toolkit.



INTERNAL CONTROL
BEST PRACTICES FOR NOT-FOR-PROFIT ORGANIZATION

Welcome to Clark Nuber's guide to internal control best practices for not-for-profit organizations!

This guide provides suggested internal controls procedures for many of the common accounting areas for not-for-profit organizations. We have compiled this information to assist managers in designing and assessing the adequacy of their organizations' systems of internal control. Every organization is unique and every organization requires a unique system of internal control; managers must use their judgment in determining what internal control procedures are necessary for mitigating risks at their unique organizations.

The suggested internal control procedures in this guide assume the organization has an adequate foundation of entity-level controls and information technology controls.

Entity-level controls include the organization's control environment, risk assessment process, control activities, information and communication, and internal control monitoring. Examples of entity-level controls include the enforcement of ethical standards, hiring of competent financial staff, and the appropriate assignment of authority and responsibilities.

Information technology controls include those that safeguard the accounting systems from unauthorized access or data manipulation. Examples of information technology

controls include password protection and automated data entry accuracy checks.

Each section of this guide addresses the following topics:

Segregation of duties — Examples of incompatible duties that should be assigned to different accounting personnel

Basic controls — Suggested basic control procedures that any organization, regardless of size or complexity, should have in place

Additional controls — Suggested additional control procedures that an organization should consider implementing depending on the specific needs of the organization

"We only have one accountant on staff— what do we do?"— Suggested additional control procedures that should be implemented for an organization that is not able to implement adequate segregation of duties

Please contact your engagement team at Clark Nuber if you have questions or comments about this guide.



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BANK ACCOUNTS AND CASH RECEIPTS

BANK ACCOUNTS

SEGREGATION OF DUTIES

- *Handling/custody of the asset* - receiving and processing cash receipts for deposit; processing of disbursements; access to check stock; initiation of electronic disbursements
- *Recording the transaction* - recording cash receipt and disbursement entries to subledgers and the general ledger
- *Approving/authorizing the transaction* - authorization to open/close bank accounts; authorization of credit card chargebacks; check signers; credit card holders; ACH/wire authorization
- *Reconciling the accounting records - reconciling deposits; performing bank reconciliations*

BASIC CONTROL PROCEDURES

- Bank accounts and signers are authorized by the board of directors
- Authorized check signers are prohibited from delegating this authority to others and are responsible for monitoring use of signature stamps
- Banks are notified immediately when an authorized check signer leaves the organization
- A separate general ledger account is maintained for each bank account
- Cash transactions are always recorded as of the date checks or currency were received or disbursed.
- Bank reconciliations are performed on all accounts regardless of monthly activity:
 - Prepared monthly at least by the end of the following month
 - Prepared by an employee who does not prepare or sign checks or handle cash receipts or cash disbursements
 - Bank statements and canceled checks are delivered in unopened envelopes directly to the employee preparing the reconciliations
 - Reconciliation procedures include comparison of checks with cash disbursement records, examination of endorsements on canceled checks, comparison of reconciled balance to the general ledger balance
 - An official who is not responsible for the receipt or disbursement of cash reviews the reconciliations and questions unusual reconciling items

ADDITIONAL CONTROL PROCEDURES

- Deposit or collection items subsequently charged back by the bank go directly to someone other than the cashier (person with responsibility for custody of cash receipts)

CASH (CHECKS) RECEIPTING

BASIC CONTROL PROCEDURES

- Mailroom prepares check prelist (who, amount) — send original to staff processing cash receipts, copy to accounts receivable clerk or development personnel, and retain a copy
- Mailroom restrictively endorses checks "for deposit only" to the organization's account
- Staff processing cash receipts matches check prelist to cash receipts journal
- Receivables clerk or development personnel reconciles check prelist to remittance advices

ADDITIONAL CONTROL PROCEDURES

- Have two people open the mail
- Review restrictive endorsements before cashing checks
- Immediately review unapplied cash (receipts from customers not applied against outstanding invoices)
- NSF checks are investigated by someone independent of the cash receipting process
- Require cash-handling and recording staff to take vacations
- Use metrics analysis to detect skimming
- Impose password access to cash receipts software
- Request electronic payments from customers
- Duplicate deposit slips are prepared, receipted by the bank and retained on file
- Deposit slips are compared with the cash receipts records, at least on a test basis, by someone other than the staff processing cash receipts
- Cash receipt processing functions are segregated from billing and maintaining accounts receivable subledgers and the general ledger
- Cash receipts are forwarded directly to the staff processing cash receipts before being handled by the A/R clerk or anyone having responsibility for bookkeeping or billing functions
- The staff processing cash receipts has effective custody of incoming remittances from the time they are received until they are deposited in the bank
- Incoming checks and currency are deposited promptly
- If payments are made in person by customers - cash register tapes, counter sales slips, collector's receipts or other similar data are checked by an employee independent of the person who receives the cash
- If collections are made at a branch office - deposits are required to be made in an account subject to withdrawal by the head office only

LOCKBOX DEPOSITS

BASIC CONTROL PROCEDURES

- Receivables clerk daily reconciles remittance advices to cash receipts journal
- Accounting manager reconciles daily online bank statement to general ledger
- Mailroom staff sends all checks received by the organization to the lockbox address

LOCKBOX TRUNCATION DEPOSITS

(conversion of paper checks to electronic ACH transactions)

BASIC CONTROL PROCEDURES

- Generally same controls as check handling and depositing (but don't go to the bank)
- The staff processing cash receipts should verify that the lockbox truncation report printed by the software matches the checks just entered into the system and then should initial the report (truncation report replaces the deposit slip)
- Procedures are established for the storage and disposal of paper checks not physically deposited with the bank

CASH (CURRENCY) RECEIPT HANDLING USING CASH REGISTER

BASIC CONTROL PROCEDURES

- Enter cash in cash register
- Give copy of receipt to customer
- Reconcile cash to cash register receipts
- Transport cash in locked container
- All cash is deposited in the bank in a timely manner
- Reconcile deposit documentation to validated bank deposit slip (person separate from person who made the deposit)

ADDITIONAL CONTROL PROCEDURES

- Only one person has access to each cash register during a shift
- Use video surveillance of cash register operators
- Move on-site cash to a safe for overnight storage
- Change the safe combination periodically
- Position the safe in a visible location
- Require supervisory approval of cash refunds
- Monitor metrics associated with cash removal

CASH (CURRENCY) RECEIPT HANDLING WITHOUT CASH REGISTER

BASIC CONTROL PROCEDURES

- Issue prenumbered receipt for all cash received at time of receipt, retain duplicate receipt
- Give copy of receipt to customer/donor
- Reconcile aggregate of duplicate cash receipts issued to cash deposits
- Cash is under the control of two or more people at all times, particularly when it is not practicable to issue receipts
- Transport cash in secure locked container
- All cash is deposited in the bank in a timely manner
- Reconcile deposit documentation to validated bank deposit slip (person separate from person who made the deposit)

CREDIT CARD RECEIPTS

BASIC CONTROL PROCEDURES

- Set up a separate bank account for incoming credit card payments
- Conduct a daily reconciliation of credit card receipt payments to cash receipt transactions
- Shred all documents containing credit card numbers
- Bond all employees having access to credit card information
- Conduct security checks on all employees having access to credit card information
- Impose security controls on computer files containing credit card information

ADDITIONAL CONTROL PROCEDURES

- Monitor metrics associated with credit card charge backs

PETTY CASH

BASIC CONTROL PROCEDURES

- Store petty cash in a secure location
- Assign responsibility for petty cash to one person
- Keep petty cash on an imprest basis
- Require a valid receipt or receipt affidavit as proof of expenditure
- Require a receipt signature for all cash payouts

ADDITIONAL CONTROL PROCEDURES

- Conduct spot audits of petty cash and examine for prohibited transactions (IOU vouchers, incomplete or suspicious receipts) and missing cash

"WE ONLY HAVE ONE ACCOUNTANT ON STAFF - WHAT DO WE DO?"

- All mail opened by an individual other than the accountant; checks are immediately restrictively endorsed; daily check prelist is prepared and retained by the individual
- To the extent possible, the accountant should be prohibited from handling cash receipts altogether
- The accountant should be prohibited from authorizing disbursements (e.g. signing checks, approving electronic payments, custody of petty cash, etc.)
- Unopened bank statements should be routed directly to one authorized check signer for review, including examination of endorsements on canceled checks and review of other debits to bank accounts for propriety; this same person should also review and approve the bank reconciliations prepared by the accountant

ACCOUNTS RECEIVABLE AND EARNED REVENUE

BILLING

SEGREGATION OF DUTIES

- *Handling/custody of the asset* - initiating revenue transactions with the customer; preparing invoices and billings
- *Recording the transaction* - recording revenue/receivables entries to the subledger and general ledger; recording credits to customer accounts
- *Approving/authorizing the transaction* - approval of the revenue transaction; authorization of refunds and credits to customer accounts
- *Reconciling the accounting records* - reconciling receivables accounts

BASIC CONTROL PROCEDURES

- See the "cash" section for general cash controls that also apply to cash receipts
- Accounting system established that records revenue when earned, not just when cash is received
- Receivables subledger system separately tracks individual customer receivables balances
- Restrict access to the invoicing/receivables subledger software
- Restrict invoicing to authorized individuals
- Billings are reviewed by a staff knowledgeable of the contract terms and/or applicable compliance requirements
- Perform metrics analysis on recorded revenue
- Employees with receivable responsibilities are required to take vacations and other employees are required to perform those functions when an employee is absent.
- Review all journal entries to the receivables general ledger account by someone other than the A/R clerk
- A/R subledgers are reconciled to the general ledger regularly by someone other than the A/R clerk
- A/R aging reports are reviewed periodically by an official who has no access to organization checks or currency and takes no part in approving credits
- Communications from customers concerning billing problems are routed directly to and investigated by someone other than the A/R clerk or the cashier

ADDITIONAL CONTROL PROCEDURES

- Print invoice preview report - proofread invoices
- Use automated data entry error checking
- Mark envelope "address correction requested"
- Segregate duties for billing and collections
- Monitor customer complaints about improper invoices
- Revise the invoice layout to prevent payment errors
 - Add contact information

- Clearly state the payment due date
- Remove unnecessary information
- Audit billings
- Review billing terms on all issued invoices
- Issue month-end statements
- Maintenance of the receivable subsidiary ledger is independent of general ledger maintenance.
- Customer/member complaint follow-up is independent of accounts receivable, bookkeeping, and cash handling.
- Customer/member complaints and billing questions are followed up and resolved on a timely basis.
- Noncash credits to accounts receivable are periodically reviewed by the appropriate level of management or another appropriate person.
- Monthly statements of customer/member accounts are reviewed by the appropriate level of management or another appropriate person before mailing.
- Monthly statements of customer/member accounts are mailed by someone other than the person responsible for accounts receivable bookkeeping.
- Receivables from miscellaneous activities are periodically reviewed and significant amounts are reported to the governing board.

CREDIT MEMOS, ACCOUNT WRITE-OFFS, ALLOWANCE FOR DOUBTFUL ACCOUNTS

BASIC CONTROL PROCEDURES

- Require prior supervisory approval for all credit memos issued
- Segregate the credit memo request and recording functions
- Audit credit memos and supporting documentation
- Write-offs of bad debts reviewed and approved by an appropriate official
- The adequacy of the allowance for doubtful accounts is assessed periodically by the appropriate level of management or another appropriate person.

ADDITIONAL CONTROL PROCEDURES

- Collection efforts continued after receivable balances are written off
- Recording and approval of credit memos is independent of cash handling and other accounts receivable bookkeeping.
- The governing board or a responsible official approves write-offs of receivables.

"WE ONLY HAVE ONE ACCOUNTANT ON STAFF - WHAT DO WE DO?"

- Monthly financial reports, including balance sheet and budget vs. actual statement of activities, should be reviewed by the Executive Director and Finance Committee; unusual balances or variances should be fully investigated and explained
- Customer complaints are routed to and followed-up by someone other than the accountant
- Write-off of receivables balances are approved by someone other than the accountant

PLEDGES RECEIVABLE AND CONTRIBUTION REVENUE

SEGREGATION OF DUTIES

- *Handling/custody of the asset* - initiating contribution transactions with the donors; receiving pledge forms from donors
- *Recording the transaction* - recording contribution/pledge entries to the subledger and general ledger; recording credits to donor receivables accounts
- *Approving/authorizing the transaction* - approval of the revenue transaction; authorization of refunds and credits to donor accounts
- *Reconciling the accounting records* - reconciling pledges receivable and contribution revenue accounts

BASIC CONTROL PROCEDURES

- See the "cash" section for general cash controls that also apply to contribution cash receipts
- Accounting system established that records contribution revenue and receivables when earned, not just when cash is received
- Procedures established to ensure that only contributions that meet the GAAP criteria for recognition are recorded
- Contribution subledger system separately tracks individual donor contribution and receivables balances
- Restrict access to the contribution subledger software
- Contribution subledger is reconciled to the general ledger regularly by someone other than those that maintain the contribution subledger
- Procedures are established to monitor and comply with donor restrictions, if any
- Aged receivable listings are prepared and periodically reviewed by the appropriate level of management or another appropriate person.
- Budgets for contributions that can be reasonably estimated are periodically compared to actual contributions, and the appropriate level of management investigates significant differences.
- Donor complaint follow-up is independent of accounts receivable, bookkeeping, and cash handling.

ADDITIONAL CONTROL PROCEDURES

- The governing board or appropriate level of management approves fund-raising activities and solicitations and acceptance of contributions, gifts, grants, etc., with related restrictions or requirements.
- The organization publishes the names of donors in its journals, newsletters, programs, etc., and someone independent of accounting investigates complaints of errors or omissions.
- The organization has assigned responsibility for assuring compliance with the terms and conditions of all grants, restricted contributions, endowments, split-interest agreements, etc., received by the organization.
- The organization keeps records of gifts contingent on future events, such as bequests, and the records are periodically reviewed by the appropriate level of management or another appropriate person to ensure that contribution revenue is recorded as conditions are met.
- Noncash credits to pledges receivable are periodically reviewed by the appropriate level of management or another appropriate person.

- Procedures are in place to ensure that verifiable documentation exists for oral promises to give and adherence to those procedures is periodically reviewed by the appropriate level of management or another appropriate person.
- Procedures are in place to adjust unconditional promises to give for changes in the quantity or nature of assets expected to be received.
- Procedures are in place to adjust unconditional promises to give noncash assets for changes in the fair value of the underlying assets.
- The governing board or a responsible official approves write-offs of receivables.
- The appropriate level of management approves adjustments to unconditional promises to give for changes in the quantity or nature of assets expected to be received.
- The appropriate level of management approves adjustments to the valuation of unconditional promises to give noncash assets.
- The recording of unconditional promises to give to be collected in more than one year is reviewed by the appropriate level of management to ensure that the promises are discounted to present value.
- The adequacy of the allowance for doubtful accounts is assessed periodically by the appropriate level of management or another appropriate person.
- The organization has a formal gift acceptance policy addressing which types of gifts will be accepted along with the types of restrictions on those gifts the organization will accept.

"WE ONLY HAVE ONE ACCOUNTANT ON STAFF - WHAT DO WE DO?"

- Accountant is trained in GAAP rules for contributions
- Monthly financial reports, including balance sheet and budget vs. actual statement of activities, should be reviewed by the Executive Director and Finance Committee; unusual balances or variances should be fully investigated and explained
- Donor complaints are routed to and followed-up by someone other than the accountant
- Write-off of receivables balances are approved by someone other than the accountant

INVESTMENTS AND RELATED INCOME

SEGREGATION OF DUTIES

- *Handling/custody of the asset* - custody of the investments; access to initiate investment transactions
- *Recording the transaction* - recording and transfers of investment transactions in the general ledger
- *Approving/authorizing the transaction* - authorization of investment transactions
- *Reconciling the accounting records* - performing investment account reconciliations

BASIC CONTROL PROCEDURES

- Investments are held in the custody of a reputable investment trustee
- The nonprofit organization obtains a copy and reviews the investment trustee's service auditor's report (SAS 70) each year.
- Investments are held in the name of the organization with the investment trustee
- Investment accounts and individuals with access to the accounts are authorized by the board of directors
- Detailed monthly statements are received from the investment trustee and are reconciled to the general ledger
- Investment account reconciliations are performed on all accounts regardless of monthly activity:
 - Prepared monthly at least by the end of the following month
 - Prepared by an employee who does not have authorization rights to the account
 - Investment statements are delivered in unopened envelopes direct to the employee preparing the reconciliations
 - Reconciliation procedures include review of account activity with the general ledger details, review of investment income/loss, comparison of reconciled balance to the general ledger balance
 - Investment reconciliations are reviewed by a second party who questions unusual reconciling items

ADDITIONAL CONTROL PROCEDURES

- Responsibilities for detail accounting records are separate from general ledger functions.
- The organization has a formal investment policy addressing which types of investments the organization may hold.
- The organization has procedures to ensure the organization meets restrictions or limitations imposed by laws, donors, or the governing board on segregation, pooling, or disposition of investments and/or use of income or proceeds.
- The organization has procedures to identify, record, and segregate investments received under split-interest agreements.
- Periodically, an appropriate member of management or another appropriate person reviews investment return for:
 - Accuracy.
 - Recording in the appropriate net asset class.

- Compliance with restrictions or limitations imposed by laws, donors, or the governing board.
- An investment committee or an appropriate level of management periodically reviews investments to determine that they meet any restrictions or limitations imposed by funding sources, donors, or the governing board.
- Transactions are approved in advance by the governing board or an appropriate level of management based on predetermined limits.

"WE ONLY HAVE ONE ACCOUNTANT ON STAFF - WHAT DO WE DO?"

- The accountant should be prohibited from authorizing disbursements from the investment accounts
- Unopened investment statements should be routed directly to one person with authorization over the account for review, including examination of disbursements from the accounts for propriety; this same person should also review and approve the account reconciliations prepared by the accountant

FIXED ASSETS AND DEPRECIATION

SEGREGATION OF DUTIES

- *Handling/custody of the asset* - custody of fixed assets; processing of purchases or disposals
- *Recording the transaction* - recording additions or deletions to the fixed asset records
- *Approving/authorizing the transaction* - authorization of the purchases or disposals
- *Reconciling the accounting records* - reconciling physical inventories to fixed asset records; reconciling fixed asset records to the general ledger

BASIC CONTROL PROCEDURES

- The organization maintains written capitalization policies and procedures, and adherence to these policies is reviewed by the appropriate level of management or another appropriate person.
- Estimated useful lives and depreciation methods are initially approved and periodically reviewed by the appropriate level of management or another appropriate person.
- The fixed asset/depreciation software used is adequate relative to the size and complexity of the organization's needs
- Access to the fixed asset software is restricted to appropriate personnel
- The depreciation detail is periodically reviewed by the appropriate level of management or another appropriate person.
- Detailed property and equipment ledgers are maintained and reconciled to the general ledger control accounts.
- Reconciliations between detailed property and equipment records and general ledger control accounts are reviewed by the appropriate level of management or another appropriate person.
- Periodic physical inventories of moveable property and equipment are taken and reconciled to detailed subsidiary records.
- Reconciliations between physical inventories and detailed subsidiary records are reviewed by the appropriate level of management or another appropriate person.
- Responsibility is assigned for moveable assets
- Adequate physical safeguards over equipment are applied

ADDITIONAL CONTROL PROCEDURES

- The organization has written policies for determining the fair value of contributed property and equipment, and adherence to those policies is periodically reviewed by the appropriate level of management or another appropriate person.
- Dispositions or transfers require appropriate supporting documentation.
- Fixed asset master file additions are independently reviewed
- A formal transfer document is used to shift asset locations
- A signed capital asset disposition form is required prior to disposition
- Proper handling of cash receipts from asset sales is verified
- Property and equipment acquisitions and disposals are approved by the appropriate level of management or the governing board.

- Individuals are designated with responsibility for assuring compliance with the terms and conditions of all grants, restricted contributions, exchange contracts, etc., that relate to property and equipment or collections.
- Write offs or other adjustments to property accounts are approved by the appropriate level of management or another appropriate person.
- Fixed asset additions are reconciled with capital expenditure authorizations
- Asset impairment is tested periodically
- The fair value assumptions on dissimilar asset exchanges is verified
- Authorization of all changes in asset retirement obligation assumptions are verified
- The organization makes periodic reviews and appraisals relative to insurance considerations.
- Access to significant moveable property and equipment and collections is restricted from employees maintaining the related records.
- Identification plates are affixed to all fixed assets
- Fixed asset serial numbers are compared to the existing serial number database

"WE ONLY HAVE ONE ACCOUNTANT ON STAFF - WHAT DO WE DO?"

- Monthly financial reports, including balance sheet and budget vs. actual statement of activities, should be reviewed by the Executive Director and Finance Committee; unusual balances or variances should be fully investigated and explained
- Write-off of fixed asset balances for sales and disposals balances are approved by someone other than the accountant

SPLIT-INTEREST AGREEMENTS INCLUDING TRUST ASSETS HELD BY OTHERS

SEGREGATION OF DUTIES

- *Handling/custody of the asset* - custody of the investments or other trust assets; access to initiate investment transaction
- *Recording the transaction* - recording split-interest/trust transactions in the general ledger
- *Approving/authorizing the transaction* - authorization of investment transactions
- *Reconciling the accounting records* - performing split-interest/trust account and transaction reconciliations

BASIC CONTROL PROCEDURES

- Fundraising staff are aware of need to forward split-interest/trust agreement information to accounting for processing
- Accounting staff are trained on accounting requirements of split-interest and trust agreements
- Periodic statements are received from the trustee and reconciled to the general ledger
- Split-interest agreements are periodically reviewed by the appropriate level of management or another appropriate person to ensure the organization has recorded all support from such agreements.
- The organization keeps registers or files for split-interest agreements, including information on the nature of the principal, restrictions on investment or use of principal income, correspondence with donors or beneficiaries, and copies of pertinent documents such as bequests.
- There are detailed records of periodic payments due to beneficiaries under split-interest agreements and the appropriate termination of such payments and those records are reviewed prior to making any payments to beneficiaries.

ADDITIONAL CONTROL PROCEDURES

- Underlying investment accounts are reviewed for the presence of non-marketable investments; management establishes valuation policies and procedures for non-marketable securities

"WE ONLY HAVE ONE ACCOUNTANT ON STAFF - WHAT DO WE DO?"

- Accountant is trained in GAAP rules for split-interest and trust agreements
- The accountant should be prohibited from authorizing disbursements from the trust accounts
- Unopened trust statements should be routed directly to one person with authorization over the accounts for review, including examination of disbursements from the accounts for propriety; this same person should also review and approve the account reconciliations prepared by the accountant

LONG-TERM DEBT AND OTHER BORROWINGS

SEGREGATION OF DUTIES

- *Handling/custody of the liability* - access to initiate borrowing transactions with lenders
- *Recording the transaction* - recording debt transactions in the general ledger
- *Approving/authorizing the transaction* - authorization to open/close loan accounts; authorization of borrowing transactions
- *Reconciling the accounting records* - reconciling debt accounts

BASIC CONTROL PROCEDURES

- Debt and other liability transactions are approved by an appropriate level of management or the governing board.
- Copies of debt documents are maintained by a responsible official
- The organization has review procedures in place to determine compliance with debt agreement restrictions and procedures and adherence to those procedures is periodically reviewed by the appropriate level of management or another appropriate person.
- Debt account reconciliations are performed on all accounts regardless of monthly activity:
 - Prepared monthly at least by the end of the following month
 - Prepared by an employee who does not have authorization rights to the account
 - Debt statements are delivered in unopened envelopes directly to the employee preparing the reconciliations
 - Reconciliation procedures include review of account activity with the general ledger details, review of interest expense, comparison of reconciled balance to the general ledger balance
 - Debt reconciliations are reviewed by a second party who questions unusual reconciling items

ADDITIONAL CONTROL PROCEDURES

- The organization has established policies with respect to legal or donor prohibitions against borrowings of restricted funds and adherence to those policies is periodically reviewed by the appropriate level of management or another appropriate person.
- Interest expense is periodically reviewed for accuracy by the appropriate level of management or another appropriate person.
- There are physical safeguards and custodial procedures over debt instruments, legal documents relating to other liabilities, and computerized debt records.

"WE ONLY HAVE ONE ACCOUNTANT ON STAFF - WHAT DO WE DO?"

- The accountant should be prohibited from authorizing new borrowings from any line of credit accounts
- Unopened monthly loan statements should be routed directly to one person other than the accountant for review, including examination for past due balances or new borrowings for propriety; this same person should also review and approve the account reconciliations prepared by the accountant

PAYABLES, DISBURSEMENTS, AND EXPENSES

ACCOUNTS PAYABLE AND CHECK DISBURSEMENTS

SEGREGATION OF DUTIES

- *Handling/custody of the assets* - processing of disbursements; access to check stock; initiation of electronic disbursements
- *Recording the transaction* - recording payables and disbursement transactions in the subledger and general ledger
- *Approving/authorizing the transaction* - check signers; credit card holders; ACH/wire authorization
- *Reconciling the accounting records* - reconciling subledger and general ledger; reconciling bank and credit card statements

BASIC CONTROL PROCEDURES

- See the "cash" section for general cash controls that also apply to check disbursements
- Duplicate invoice number search is performed automatically by the payables system
- Conduct three-way match (invoice, evidence goods/services were received, proper authorization/purchase order)
- The distribution of charges is reviewed in the accounting department by a person competent to pass on the propriety of the distribution
- Print report showing payables by due date to ensure timely payments
- Check stock stored in secure location
- Check signer compares invoice package to check
- Invoice package is marked as "paid" or otherwise cancelled to prevent duplicate payment
- Signed checks are delivered directly to the mail room without their getting into the hands of persons who requested, prepared or recorded them
- Monthly reports by department/cost center/fund/etc. are sent to and scrutinized by the applicable budget manager; all departments/cost centers/funds/etc. have been assigned to a budget manager; budget managers are held accountable by supervisors

ADDITIONAL CONTROL PROCEDURES

Purchase Orders and Receiving Reports

- Segregate the purchasing department functions from accounting, receiving, and shipping
- Require approved purchase orders for all purchases
- Prenumber purchase orders
- Lock up blank purchase orders
- Prenumber receiving reports
- Lock up blank receiving reports

Vendors and Vendor Master File

- Restrict access to the vendor master file — prohibit payables processing staff from having edit rights

- Separate the vendor record creation and payment approval functions
- Use a standard naming convention to create vendor names in the vendor master record
- Review daily changes to the vendor master file
- Require independent review of additions to vendor master file
- Purge the vendor master file periodically
- Run a credit report on every new vendor added to the vendor master file
- Perform procedures on every new vendor added to the vendor master file to verify they are a valid payee
- Run a report listing identical remit-to addresses for multiple vendors
- Match vendor addresses to employee addresses

Invoice Processing

- Maintain a register of unapproved vendor invoices
- Conduct a daily review of unmatched documents
- Reconcile vendor credit memos to shipping documentation
- Reconcile vendor statements to payment detail
- Access the vendor history file when paying from a copy
- Match quantities ordered to material requirements planning requirements
- Match purchase order records to actual quantities received
- Track changes in customer complaints related to vendors
- Track short-term price changes by vendors
- Audit acquisitions made within authorized purchase levels
- Investigate payments made for which there are no purchase orders
- Payables clerks compares invoice prices, quantities, and terms with purchase orders and recomputes extensions on invoices
- Purchase prices are reviewed periodically by a responsible official or employee not connected with the purchasing department with a view to ascertaining that such prices are the most advantageous to the company
- Invoices not pre-approved via purchase orders are approved by department heads prior to payment
- Invoices are reviewed for reasonableness and necessity, and approved by a responsible employee outside of the originating department
- The account to be charged is indicated on the purchase authorization by the person requesting the purchase
- The A/P subledger is reconciled with the general ledger control account by an employee other than the accounts payable clerk

Check Processing

- Only fund the checking account sufficient to match outstanding checks
- Deface or perforate and lock up canceled and voided checks
- Add security features to check stock

- Verify that all check stock ordered has been received
- Limit the number of check signers
- Restrict check signer access to accounting records, cash receipts, and bank reconciliations (read-only)
- Never sign blank checks
- Separate disbursement and bank account reconciliation duties
- Use varying font sizes for each character in a check payment
- Require a manual signature on checks exceeding a predetermined amount
- Implement positive pay
- Use electronic payments
- Reconcile the checking account every day
- The practice of drawing checks to "cash" is prohibited
- Restrict access to signature stamp
- Restrict access to check-signing equipment
- If a check-signing machine is used:
 - The signature plates or signature cards, when not in use, are in the custody of the persons whose facsimile signatures are on the plates/cards
 - A reading of the machine after each use is made by such person or by a person delegated by him to ascertain that all checks signed have been accounted for properly

PROCUREMENT CARDS / CREDIT CARDS

BASIC CONTROL PROCEDURES

- Cardholder enters receipt in purchasing card transaction log
- Cardholder reconciles transaction log with monthly card statement
- Cardholder's supervisor reviews for inappropriate or split purchases
- Establish monthly deadlines for submission of reconciled and approved monthly statements to the accounting department for payment processing

ADDITIONAL CONTROL PROCEDURES

- Establish purchasing levels
- Require supervisory approval of changes in spending limits
- Prohibit use of card for cash advances
- Restrict the number of card users
- Have card users sign an agreement
- Obtain Level III reporting by the card provider (greater level of detail for each purchase)
- Verify that purchases are made through an approved vendor
- Track card expenditures on a trend line
- Report missing cards promptly

ELECTRONIC PAYMENTS

BASIC CONTROL PROCEDURES

- If auto-pay through the accounting software - Restrict access to the master vendor file
- If initiating manual electronic payment - Require signed approval document
- If vendors initiate debit to company bank accounts - Verify ACH debit filter with bank
- Require password access to payment software
- If a "large" payment — require additional approval
- If a new vendor — verify vendor existence
- Require an end-of-day payments review (third party unrelated to the electronic payments process)

ADDITIONAL CONTROL PROCEDURES

- Impose an outright debit block on all company accounts (no third-party initiated debits)
- Request a daily cumulative limit for authorized trading partner debits
- Request notification of duplicate debits
- Use a separate bank account as the source of electronic payments

AUTOMATED REPETITIVE PAYMENTS

(same amount each month, no three-way matching performed — examples, rent, copier leases)

BASIC CONTROL PROCEDURES

- Set up payment termination dates in the accounting software
- Create a payment escalation schedule
- Terminate payments in the accounting software on escalation dates

"WE ONLY HAVE ONE ACCOUNTANT ON STAFF - WHAT DO WE DO?"

- The accountant should be prohibited from authorizing disbursements (e.g. signing checks, initiating/approving electronic payments, custody of petty cash)
- One person is used to authorize payments; other check signers are used only on an exception basis
- Check signer compares invoice package to check
- Signed checks are mailed directly by someone other than the accountant
- Monthly credit card statements and individual's charges are reviewed and accepted by cardholders; the statement is reviewed and approved by a second individual; the accountant is prohibited from being a cardholder
- Unopened bank statements should be routed directly to one authorized check signer for review, including examination of endorsements on canceled checks and review of other debits to bank accounts for propriety; this same person should also review and approve the bank reconciliations prepared by the accountant
- Monthly financial reports, including balance sheet and budget vs. actual statement of activities, should be reviewed by the Executive Director and Finance Committee; unusual balances or variances should be fully investigated and explained

PAYROLL

PAYROLL AND DISBURSEMENTS

SEGREGATION OF DUTIES

- *Handling/custody of the assets* - processing of payroll disbursements; access to check stock; initiation of direct deposit transactions
- *Recording the transaction* - recording payroll transactions in the subledger and general ledger
- *Approving/authorizing the transaction* - paycheck signers; direct deposit transaction authorization
- *Reconciling the accounting records* - reconciling subledger and general ledger; reconciling bank statements

BASIC CONTROL PROCEDURES

- See the "cash" section for general cash controls that also apply to check disbursements
- Use reputable payroll software that is regularly updated or outsource payroll processing to a reputable service provider
- Obtain approval of hours worked and overtime (supervisors)
- Get computer report on missing time cards
- Match time card totals to data entry totals
- Obtain approval of all pay rate changes and special pay requests (use standard documentation and approval form)
- Review payroll register for errors
- Paymaster (person who hands out the checks) is someone other than payroll clerk and issues checks directly to recipients
- Paymaster retains unclaimed checks; monthly labor reports by department/cost center/fund/etc. are sent to and scrutinized by the applicable budget manager; all departments/cost centers/funds/etc. have been assigned to a budget manager; budget managers are held accountable by supervisors

ADDITIONAL CONTROL PROCEDURES

- Obtain computer-generated exception reports
- Have a separate person maintain employee master records (other than payroll clerk)
- Follow established procedures for hiring new employees including background checks and completion of IRS Form 1-9
- Split the time card approval and payroll processing tasks
- Enforce at least quarterly password changes for those with access to payroll data
- Route payroll register directly to supervisor for review — have report generated by someone other than the payroll clerk
- Continually review all outstanding employee advances
- Require approval of all advance payments to employees
- Limit access to payroll change authorization forms
- Payroll manager verifies payroll register entry
- Require approval of all negative deductions

- Audit pay deductions
- Look for paychecks having no tax or other deductions
- Issue lists of paychecks issued to department supervisors
- Match W-2 pay information to employee pay change authorizations and termination documentation
- Compare the addresses on employee paychecks to other employees
- Prohibit sending of paychecks to PO Boxes
- Compare pay records to employee files
- Prohibit payment of wages in cash
- Have employees sign for paychecks received
- Review paychecks for double endorsements
- Review uncashed payroll checks
- Independently verify tax remittances
- Compare the payroll salary budget to actual expenditures

COMPUTERIZED TIMEKEEPING

BASIC CONTROL PROCEDURES

- Time clock controls clock-in times
- Time clock requires supervisory approval of overtime
- Required review of time clock reports for irregular entries and approval by supervisors

ADDITIONAL CONTROL PROCEDURES

- Use biometric time clocks to eliminate buddy punching
- Link photo images of employees to badge scanner
- Require daily supervisory reviews of hours worked reports

DIRECT DEPOSIT

BASIC CONTROL PROCEDURES

- Require employee signatures and formal identification for direct deposit changes
- Match routing and account number on employee check to submitted information
- Securely store completed direct deposit authorization forms
- Review report showing multiple direct deposit payments to the same bank account

"WE ONLY HAVE ONE ACCOUNTANT ON STAFF - WHAT DO WE DO?"

- If payroll is processed internally:
 - The accountant should be prohibited from authorizing payroll disbursements (e.g. signing payroll checks, initiating/approving electronic payments)
 - One person is used consistently to authorize payroll payments; other check signers are used only on an exception basis
 - Check signer compares payroll register to checks/direct deposit file

- Adequacy of payroll tax deposits is reviewed by someone other than the accountant on a periodic basis
- If payroll is processed by a third-party service provider:
 - Unopened payroll reports from the service provider should be routed directly to someone other than the accountant for review, including examination of gross pay and deductions for propriety
- Monthly financial reports, including balance sheet and budget vs. actual statement of activities, should be reviewed by the Executive Director and Finance Committee; unusual balances or variances should be fully investigated and explained

NET ASSETS

BASIC CONTROL PROCEDURES

- Accounting system provides for the accumulation of restricted revenue information in adequate detail
- Accounting system provides for the accumulation of releases of restriction
- A periodic rollforward of net asset balances, by restriction, is performed; the rollforward is reviewed by a responsible official

"WE ONLY HAVE ONE ACCOUNTANT ON STAFF - WHAT DO WE DO?"

- Accountant is trained in GAAP rules for net assets
- Appropriate staff person (e.g. Executive Director, Development Director) reviews the detail of restricted contributions and releases of restriction prepared by the accountant for completeness and proper categorization

CLOSING AND FINANCIAL REPORTING

ENTER TRANSACTION TOTALS INTO THE GENERAL LEDGER

- Accounting employees and records at all locations are under supervision of the principal accounting officials
- The organization has an accounting procedure manual
- The controller reviews all balance sheet reconciliations on a monthly basis prior to closing the books. The controller validates that the accounting treatment is correct and items have been recorded appropriately in the correct accounts and approves any adjusting entries required. The controller signs the reconciliation as evidence of his or her review.
- The subledger automatically summarizes and posts appropriate entries to the general ledger accounts. The accounting manager reviews entries posted as part of the subledger reconciliations.
- Postings to closed periods are restricted by the accounting system. The system will accept such postings only upon approval by the CFO or controller.

CAPTURE EVENTS AND CONDITIONS (OTHER THAN CLASSES OF TRANSACTIONS) THAT ARE SIGNIFICANT TO THE FINANCIAL STATEMENTS

- The controller reviews details of all nonrecurring transactions for completeness and validity on a monthly basis as part of the monthly journal entry review. He or she approves the journal entry log and signs it to evidence the review.

INITIATE, AUTHORIZE, RECORD, AND PROCESS JOURNAL ENTRIES IN THE GENERAL LEDGER

- Manual journal entries with appropriate backup are provided to the accounting manager for review and are entered into the journal entry log, which is a manually maintained document, and initialed upon approval by the corporate controller.
- The accounting system will not process a journal entry if the entry does not balance and will generate an error message, which is displayed for the individual posting the entry to resolve.
- Only the controller and accounting manager have access to post entries to the general ledger. The system is password protected and passwords are changed at least annually to prevent unauthorized access to the general ledger.

INITIATE AND RECORD RECURRING AND NONRECURRING ADJUSTMENTS TO THE FINANCIAL STATEMENTS

- The accounting manager monitors accruals at least quarterly and obtains information from relevant sources to determine whether accrual calculations are appropriate.
- The accounting manager maintains a list of monthly recurring journal entries, including adjusting, reversing, and consolidating entries, to ensure that all required journal entries have been booked.
- Interfund due to/from accounts are reconciled and transactions are initiated to reduce the balances to zero, if necessary.
-
- At the end of the month, the accounting manager prints a listing of manual journal entries from the general ledger and compares it with the journal entry log to ensure that there are no differences.

COMBINE OR CONSOLIDATE GENERAL LEDGER DATA

- The accounting system automatically includes all subsidiaries in the accounts. Management reviews the monthly financial package and would likely detect unusual amounts in the overall review of the statements.
- Once an interest in a company is acquired or a new organization is formed, the controller and CFO, together with independent auditors, discuss and make decisions on exclusion/inclusion in the consolidation.
- The controller performs a review of the consolidation to verify all consolidated balances are in accordance with U.S. GAAP. The review focuses on elimination entries, considering, for example, whether intercompany accounts are zero or include only balances due to nonconsolidated companies. Discrepancies are researched and corrected as necessary by the accounting manager.
- Month-end foreign-exchange rates used to properly translate balances are obtained by the accounting manager from a reliable third party, that is, a reputable financial institution's website.
- The accounting manager translates foreign-exchange trial balances at the end of the month, verifying that permanent foreign-exchange gains and losses are properly determined and written off, and temporary gains and losses are properly retained in balance sheet accounts. Amounts are reviewed and approved by the controller as part of the reconciliation process.
- Intercompany accounts are reconciled by the accounting manager, and the reconciliations are approved by the controller as evidence of approval. When open issues exist, the accounting manager accesses the reconciliations on a shared drive and resolves the issues. Access to the shared drive is restricted to finance personnel.
- If there is a change in circumstances that would cause an entity to be included or not included, the controller reevaluates the inclusion/exclusion decision.

PREPARE YEAR-END GAAP-BASIS FINANCIAL STATEMENTS AND DISCLOSURES

- The chart of accounts and related account groupings that roll up to financial statement totals are reviewed annually for consistency and comparability between the current and previous accounting periods by the accounting manager and the controller.
- The financial statements are prepared from the trial balance that is prepared directly from the organization's general ledger.
- The CFO and controller approve all changes to the chart of accounts prior to the change being implemented. Only the controller and accounting manager have access to add, change, or delete accounts or to modify groupings.
- Information in the financial reporting system is imported from the accounting system. The accounting manager reconciles the reporting system to the general ledger and the financial statements. Any discrepancies are investigated and resolved in a timely manner.
- Accounting policies for significant transactions are reviewed annually by the controller for changes in circumstances, and updated as necessary and approved by the controller and CFO.
- All accounting policies are approved by the corporate controller and CFO, and critical accounting policies are approved by the audit committee. Accounting policies are updated as needed, based on changes in accounting practices.
- All decisions regarding policy changes are supported by documentation. The controller and CFO ensure these are in line with GAAP prior to approval.
- All accounting policies and policy changes are communicated to all divisions in a timely manner.
- The accounting manager compiles other financial statement information, which, together with basic financial statements, is included in the financial statements. Any questions are discussed

during the drafting session and changes are made to reflect the correct information in the documents. The financial statements are verified and approved by the CFO, CEO, audit committee, and board of directors.

- The preparer or reviewer of the financial statements is knowledgeable of GAAP, including standards specific to NFP organizations
- Information for footnotes (e.g., commitments and contingencies) which does not come directly from the general ledger or supporting systems, is independently verified by the accounting manager, the controller, and other department managers where relevant to ensure completeness and accuracy.
- A listing of related parties is provided by the CFO, CEO, and directors. The controller and accounting manager consolidate the listings. Reliance is placed on the CFO, CEO, and directors that the information they provide is complete. The accounting manager performs a search in the accounts payable and accounts receivable subledgers to determine transactions with such entities and provides the list to the controller for use in determining whether recording an entry or disclosure is appropriate. On a quarterly basis, the controller also reviews routine related-party activity to ensure accounting and disclosure is appropriate.
- The controller or CFO reviews the drafted year-end financial statements and footnotes using a current GAAP Disclosure Checklist

"WE ONLY HAVE ONE ACCOUNTANT ON STAFF - WHAT DO WE DO?"

- Monthly financial reports, including balance sheet and budget vs. actual statement of activities, should be reviewed by the Executive Director and Finance Committee; unusual balances or variances should be fully investigated and explained
- Year-end audited financial statements and disclosures are reviewed by the Executive Director, Treasurer, and/or Finance Committee, for adequacy of disclosures, including any commitments or contingent loss issues
- The preparer or reviewer of the financial statements is knowledgeable of GAAP, including standards specific to NFP organizations