



Finance Unlocked for Nonprofits (FUN)

# Oversight KIT

Nonprofit board members are ultimately responsible for the effective, responsible use of a nonprofit's resources. Oversight includes "controls", the policies and procedures designed to prevent fraud and assure accurate reporting of the affairs of the organization.

## Know

A nonprofit board member should consider the following five elements of OVERSIGHT:

- ✓ **Internal Controls:** An organization's monitoring, measuring, and directing against risk and fraud. Includes policies and procedures that ensure:
  - Effectiveness and efficiency of operations
  - Safeguarding assets against loss and unauthorized use or disposition
  - Reliability of financial reporting
  - Compliance with applicable laws and regulations and adherence to policies
- ✓ **Access:** Segregation of duties, specific delegation of authority; clarification of who has access to what and when. Key areas of access can include: bank account access, organizational credit cards, blank check stock, cash/checks received, accounting system, donor database, payroll system, and approval authority.
- ✓ **Policies and Procedures:** Protocols guiding behaviors and outcomes. Together, policies and procedures represent an organization's detailed list of what needs to be done, who is responsible, how roles and duties are segregated, and steps for achieving completion.
- ✓ **Review:** Periodic, internal examination of an organization's finances, policies and procedures to ensure that everything is in order.
- ✓ **Avoiding Fraud:** Critical to the success and integrity of an organization. Includes safeguards that organizations put in place to identify possibilities for fraud and ways to keep the organization and its participants from committing fraud. Avoiding fraud and maintaining a positive reputation is important to the continuing success of an organization.

FUN represents a partnership between Washington Nonprofits, Jacobson Jarvis & Co PLLC, and a team of Creative and Funding Partners. For more information, please visit [www.washingtonnonprofits.org/FUN](http://www.washingtonnonprofits.org/FUN).

© 2014 Washington Nonprofits

**JACOBSON JARVIS**  
CERTIFIED PUBLIC ACCOUNTANTS  
& CO PLLC

# Know more...

- ✓ **In Washington State, board members have three duties related to their fiduciary responsibilities.** These three duties should be included in an annual board discussion.

**Duty of Obedience:** You act in good faith, in a manner that you reasonably believe to be in the best interests of the organization.

**Duty of Loyalty:** You act in a manner that furthers the interest of the organization and you refrain from engaging in personal activities that could be construed to injure or take advantage of the relationship to the organization.

**Duty of Care:** You exercise diligence in the oversight of corporate officers, seeking and reviewing all necessary information in order to make informed decisions. You make reasonable inquiries and exercise independent judgment using the skill, caution and diligence that a prudent person would use.

- ✓ **Bank statements should be opened or viewed online by someone who understands the organization's work but has no role in financial operations.** This review is meant to identify any transactions, payees, check signers, etc. that appear out of the ordinary and inform the full board.
- ✓ **Clear policies and procedures on expenditures** help to make clear to anyone spending money on behalf of the organization what their limits are. Check that these limits are being followed.
- ✓ **A whistleblower policy** allows individuals a clear way to notify the board if something is suspicious, doesn't look or feel right, or may be detrimental to the organization.
- ✓ **Internal mini-audits are important to spot check the finances.** Ask deep questions and review details of a few specific accounts or financial statement line-items on a rotating basis and report back to the board group.
- ✓ **Organizational risks should be reviewed at least annually.** Consider fraud risks, legal risks, financial risks, operational risks, regulatory risks, program risks, and other business risks.

# Ask

Look at your organization's current practices. Ask the same questions and use the **Oversight Pulse** on page 4 to document your answers. Keep track of your answers over your next few board meetings to see how your answers change over time.

- ☐ Do we have basic, written accounting procedures that highlight key internal controls?
- ☐ Do we have checks and balances for accountability? Have we limited access as much as possible, given our size?
- ☐ What formal policies are currently in place? What other policies might need implemented? Are our policies and procedures up to date?
- ☐ How do we perform risk assessment that includes our consideration of business, operational, and fraud risks?
- ☐ Are there any red flags or concerns that could hurt our work or our perception in the community?

# Act

These are the oversight-related actions that you can take to instill a strong nonprofit finance culture within your organization.

- ☐ Develop a set of basic, written accounting procedures that highlight your organization's key controls, including who has access to what. This should be made available to the Board and revisited at least annually to keep current and effective.
- ☐ Develop a core set of organizational policies, keep them current and follow them.
- ☐ Consider other organizations' policies and procedures to see if there are any areas you have not yet thought of. (Sample policies and procedures can be found through the links in "Further Resources.") Are there any procedures or policies that you have not put in place because it hasn't seemed necessary? Any best-practice policies that you should consider based on the Form 990, funders or watchdog groups?
- ☐ Develop a routine risk assessment program that is appropriate for your size and complexity. A sample risk assessment form is in "Further Resources."
- ☐ Monitor your finances and internal controls. Consider internal audits or reviews of both the numbers and the controls.
- ☐ Do you have backup procedures and a disaster recovery plan? Now that your policies and procedures are in place and you are reviewing regularly have you thought about crisis planning? Is there any situation that you can think of that could derail your plans?

# Oversight Pulse

	Key Questions See <a href="#">Internal Controls Checklist</a> for more detailed list for larger orgs	Date	Date
Internal Controls	<p>Do we have basic, written accounting procedures that highlight key internal controls?</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Regular communication</b> about the importance of ethics and controls, setting a culture where rules apply to everyone.</li> <li><input type="checkbox"/> <b>Procedures</b> about how money is handled are documented and communicated</li> <li><input type="checkbox"/> <b>Bank reconciliation</b> done on a regular basis by someone other than the bookkeeper. If not possible, bank statements reviewed by person other than bookkeeper.</li> <li><input type="checkbox"/> <b>Expenditure limit policy</b> defines expenses and number of signatures needed for checks above a certain amount</li> <li><input type="checkbox"/> <b>Disbursements</b> made by check (except limited petty cash)</li> <li><input type="checkbox"/> <b>Incoming checks</b> receive a “restricted” endorsement (“for deposit only” or stamp)</li> <li><input type="checkbox"/> <b>Outgoing checks</b> supported by invoice, receipt, or voucher</li> <li><input type="checkbox"/> <b>Whistleblower policy</b> in place</li> <li><input type="checkbox"/> <b>Conflict of interest policy</b> in place</li> </ul>	Note updates	Note updates
Access	<p>Have we limited access as much as possible, given our size? Have we defined clearly who is doing what in terms of our finances?</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Segregation of duty:</b> Divide bookkeeping functions, bank reconciliation/review, and check signing across at least two individuals. Bookkeepers do not sign checks. <b>*See next page*</b></li> <li><input type="checkbox"/> <b>Physical access</b> to assets is limited (i.e. to cash, blank checks or other assets that could be taken)</li> <li><input type="checkbox"/> <b>Bank account access</b> is reviewed annually and signers limited to as few people as necessary</li> <li><input type="checkbox"/> <b>Credit card statement reviewed by person other than card holder;</b> statement is cross-checked as with bank reconciliation</li> <li><input type="checkbox"/> <b>Cash access:</b> at least two people count cash together</li> </ul>		
Reports	<p>Are we receiving the right reports? Are we submitting the right reports?</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Reports:</b> Board regularly receives balance sheet, income statement and cash flow statement for larger organizations</li> <li><input type="checkbox"/> <b>Donors</b> receive acknowledgements with records kept on file</li> <li><input type="checkbox"/> <b>IRS Form 990</b> reviewed by board and submitted annually</li> </ul>		
Risk assessment	<p>How do we perform risk assessment that includes our consideration of business, operational, and fraud risks?</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> See worksheet in “Resources”</li> </ul>		

# Segregation of Duty

(1) Circle your choice, (2) Put name of person after job function, and (3) Add tasks to job description.

Two-Person Segregation			
Business Manager		CEO	
<input type="checkbox"/> Post accounts receivable <input type="checkbox"/> Mail checks <input type="checkbox"/> Write checks <input type="checkbox"/> Post general ledger <input type="checkbox"/> Reconcile bank statements <input type="checkbox"/> Post credits/debits <input type="checkbox"/> Give credits and discounts <input type="checkbox"/> Approve payroll <input type="checkbox"/> Open mail/receive cash <input type="checkbox"/> Disburse petty cash <input type="checkbox"/> Authorize purchase orders <input type="checkbox"/> Authorize check requests <input type="checkbox"/> Approve invoices for payment		<input type="checkbox"/> Sign checks <input type="checkbox"/> Sign employee contracts <input type="checkbox"/> Custody of securities <input type="checkbox"/> Complete deposit slips <input type="checkbox"/> Perform interfund transfers <input type="checkbox"/> Distribute payroll <input type="checkbox"/> Reconcile petty cash <input type="checkbox"/> Record initial charges and pledges <input type="checkbox"/> Approve employee timesheets <input type="checkbox"/> Prepare invoices <input type="checkbox"/> Complete check log	
Three-Person Segregation			
Bookkeeper	Business Manager	CEO	
<input type="checkbox"/> Post accounts receivable <input type="checkbox"/> Reconcile petty cash <input type="checkbox"/> Write checks <input type="checkbox"/> Post general ledger <input type="checkbox"/> Reconcile bank statements <input type="checkbox"/> Post credits/debits <input type="checkbox"/> Give credits and discounts	<input type="checkbox"/> Distribute payroll <input type="checkbox"/> Record initial charges and pledges <input type="checkbox"/> Approve employee timesheets <input type="checkbox"/> Prepare invoices <input type="checkbox"/> Complete check log <input type="checkbox"/> Mail checks <input type="checkbox"/> Approve payroll <input type="checkbox"/> Open mail/receive cash <input type="checkbox"/> Disburse petty cash <input type="checkbox"/> Authorize purchase orders <input type="checkbox"/> Authorize check requests <input type="checkbox"/> Approve invoices for payment	<input type="checkbox"/> Sign checks <input type="checkbox"/> Sign employee contracts <input type="checkbox"/> Custody of securities <input type="checkbox"/> Complete deposit slips <input type="checkbox"/> Perform interfund transfers	
Four-Person Segregation			
Bookkeeper	Clerk	Business Manager	CEO
<input type="checkbox"/> Post accounts receivable <input type="checkbox"/> Reconcile petty cash <input type="checkbox"/> Write checks <input type="checkbox"/> Post general ledger <input type="checkbox"/> Reconcile bank statements <input type="checkbox"/> Post credits/debits	<input type="checkbox"/> Distribute payroll <input type="checkbox"/> Open mail/receive cash <input type="checkbox"/> Record initial charges and pledges <input type="checkbox"/> Complete check log <input type="checkbox"/> Disburse petty cash <input type="checkbox"/> Authorize purchase orders <input type="checkbox"/> Authorize check requests <input type="checkbox"/> Mail checks	<input type="checkbox"/> Complete deposit slips <input type="checkbox"/> Give credits and discounts <input type="checkbox"/> Prepare invoices <input type="checkbox"/> Approve payroll <input type="checkbox"/> Approve invoices for payment	<input type="checkbox"/> Sign checks <input type="checkbox"/> Sign employee contracts <input type="checkbox"/> Custody of securities <input type="checkbox"/> Approve employee time sheets <input type="checkbox"/> Perform interfund transfers

*Financial Basics for Nonprofit Managers (3<sup>rd</sup> edition), Thomas A. McLaughlin (Wiley & Sons), p. 230-231*

★**Whatever your arrangement:** The full board reviews Balance Sheet & Income Statement (monthly) and 990 (annually).

# Internal Controls Self-Test

**Directions:** Replace the asterisks with the names of the staff persons performing that task. A possible weakness in internal controls exists when any line drawn from a person on the left intersects a line drawn from that same person's name on the top.

	Complete Deposit Slips *	Prepare Invoices *	Sign Checks *	Reconcile Bank Statements *	Distribute Payroll *	Hold Securities *	Record Pledges *	Sign Employee Contracts *	Approve Timesheets *	Complete Check Log *	Perform Interfund Transfers *
Post accounts Receivable *											
Open Mail *											
Receive Cash *											
Give Credits & Discounts *											
Mail checks *											
Disburse Petty Cash *											
Approve Payroll *											
Post to General Ledger *											
Post Debits/Credit *											
Reconcile Bank Statements *											
Authorize Purchase Orders *											
Authorize Check Requests *											
Write Checks *											
Approve Invoices *											

## Further resources

**Jacobson Jarvis: "What Board Members Need to Know About Not-for-Profit Finance and Accounting"**

<http://www.jjco.com/resources/>

**"Controls" for Small Organizations: A Guide for Board Members** by Putnam Barber & Robert Fleming

[http://www.sos.wa.gov/\\_assets/charities/Controls%20For%20Small%20Nonprofits.pdf](http://www.sos.wa.gov/_assets/charities/Controls%20For%20Small%20Nonprofits.pdf)

**Charity & Nonprofit Board Service in Washington State**

[http://www.sos.wa.gov/\\_assets/charities/QuickGuideHandbook.pdf](http://www.sos.wa.gov/_assets/charities/QuickGuideHandbook.pdf)

**Sample nonprofit policies and procedures:**

- *Nonprofit Resource Center:* <http://www.nprcenter.org/resource/governance-policies-procedures-samples>
- *Minnesota Council of Nonprofits:* <http://www.minnesotanonprofits.org/nonprofit-resources/templates-samples>

**Risk assessment worksheet**

<https://nonprofitquarterly.org/images/stories/risk.pdf>

**Blue Avocado: Five International Controls for the Very Small Nonprofit**

<http://www.blueavocado.org/content/five-internal-controls-very-small-nonprofit>

**Compasspoint: Internal Controls Checklist**

[http://compasspoint.clientrabbit.com/sites/default/files/docs/646\\_internalcontrolschecklist.pdf](http://compasspoint.clientrabbit.com/sites/default/files/docs/646_internalcontrolschecklist.pdf)

*Finance Unlocked for Nonprofits (FUN) was designed to increase nonprofit finance literacy in ways that help board members to grow their mission and protect their assets. It should not be considered as a substitute for professional advice.*