

Internal Controls

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Agenda

- Overview
- Receipts, revenue and receivables
- Purchases, payments and payables
- Segregation of duties
- Board Minutes
- Implementation
- Questions



Overview

- **What are internal controls?**
 - Processes and procedures designed to protect the assets of the organization and the assets (sic) of the board of directors
- Ten things a small not-for-profit organization can do to create simple and useful internal controls



NUMBER ONE

- Revenues get deposited to the bank.
- Expenses get paid by cheque.
- Signatories
 - Who should sign
 - How many should sign
- Expense reports
 - Must have original receipts
 - Must be prompt
 - Must be checked
 - Never sign a cheque for your own expenses



NUMBER TWO

Petty cash problems

- Missing money with no receipts in the box
- Supplies purchased out of til money
- Snack boxes – no money or snacks left!

Petty cash answers

- Petty cash register book with limit on WD – over \$xx need to have a cheque
- **NO** purchases out of til money! Enforce this!
- When petty cash is low, take out receipts which should match book and top up
- Reconcile cash balance to register often



NUMBER THREE

- **Cash receipts risks**
 - Must have a receipt book and **NEVER** tear out last page –(copies to client and to paperwork)
 - Receipt should be written as soon as the money is received to give a copy to the customer – Note whether cash or cheque.
 - Make sure the date, customer name, reason and amount is clear. If for a hall rental, make sure the contract number is noted. Take the extra minute.
 - Person who makes the deposit should not be the same one who does the bookkeeping
 - Make sure deposit slip is filled out and all deposit amounts are identified with a receipt # or a summary that matches the deposit total.



NUMBER FOUR

- **Bank statements**

- Bank statement should be mailed to someone who does not do the banking (and looked over by that person – not just passed on!)
- Bank reconciliation should be done monthly and approved by the treasurer if there is a bookkeeper or by president if treasurer does the banking and books. Do right before a meeting.

- **Deposits** – undeposited cash is not a good thing.

- Do it as soon as possible! Designate a person that can take deposits to the bank regularly (drop off the deposit book on the way to work?)
- NSF cheques – keep track and collect



NUMBER FIVE

- **Charitable donations**
 - Cash – Numbered donation slips, keep void ones
 - Donations in kind
 - Must have expert fair value (**PROOF**)
- **Investments**
 - Should be kept at your regular bank if possible
 - Statements should be reviewed monthly by BOD
 - Must have two people authorize changes!
- **Receivable control** – Know what is coming and when – Put this info on monthly treasurer's reports



NUMBER SIX

- **Memberships**

- Use a register
- Require members to give their numbers when registering for discounted activities

- **Sports**

- Registration money should not be taken by coaches. Head counts (team photos?) should be compared to registration lists

- **Hall rentals**

- Use a posted rental calendar cross referenced with contract numbers to ensure all events \$ have been collected.
- Use numbered rental contracts and keep all voided contracts to ensure rental \$ make it to the bank
- Damage deposits should be recorded separately from rental amounts



NUMBER SEVEN

- **CHEQUES**

- Two signatures on a cheque means authorization by both – **NEVER** presign cheques!
- Board should have a written policy on purchase authorization
 - Over \$xx – need a motion passed at Board level
 - Between \$xx and \$xx – need two executive's approval and invoice verification (especially if handwritten)
 - Under \$xx and monthly bills – need invoice checked and initialed
- All invoices should be marked **PAID** (original only) with date and cheque number and filed in a useful place so they are not double paid.



NUMBER EIGHT

- **CHEQUEBOOKS**

- Don't have chequebooks all over the place, you need to control the blank cheques. Don't rely on the bank. Banks do not usually look for authorized signatures or even dual signatures. Bank machines don't look at anything.

- **AUTOMATIC WITHDRAWALS AND BANK CHARGES**

- Still need to be checked
- Should be checked with bank reconciliation



NUMBER NINE

- **INVENTORY CONTROL**
 - Count hall liquor inventory after each event. Keep inventory counts in a bound scribbler. Two people should count.
 - Sell drink tickets separate from the bar. Compare tickets sold with decrease in inventory.
 - If you use different coloured tickets for beer and liquor it is easier to track.



NUMBER TEN

- **PAYROLL RISKS**

- Determine whether you have an employee or an independent contractor by using CRA criteria.
- A written contract is not good enough
- If one employee prepares the payroll, make sure someone else approves it
- If payroll service is used, make sure that someone besides the preparer has access to the service passwords and approves the payroll transfer
- Timesheets, overtime, vacation, banked time should be approved by another person (initials)



Other topics - Segregation of duties

- Difficult but not impossible
- Build routines into your Board meetings such as:
 - Secretary delivers latest bank statement to treasurer so bank rec can be done
 - President approves latest bank reconciliation
 - Cheques for signature reviewed, signed, voted on if necessary and put into their envelopes for mailing
 - Secretary gets the envelopes to mail



Other topics - Board minutes

- Treasurer must know when motions are needed
- Treasurer should present a written report (and ideally financial statements) each meeting and secretary should add the report to the minutes (not just note that the report was given)
- Outstanding financial items should be kept track of by the treasurer and/or secretary and put on the next agenda for follow-up
- Minutes should be approved and signed off in hard copy at the next meeting with the approved hard copy kept by the secretary in the minute book.



Other topics - Implementation of controls

- A board member is expected to act with due diligence. Implementing internal controls is proof of that.
- Create a policy and procedures booklet and keep it available at BOD meetings. Make sure new board members read it. Make sure volunteers are aware of relevant policies.
- Give the responsibility of obtaining supplies like a receipt book, making a petty cash register etc. to someone and follow-up to see that it has been done and is being used.
- Seek feedback to make sure controls are working (eg. check bank reconciliations for approval initials, spot check petty cash box to see if register and cash amount agree, pull an invoice to check for approval initial and **PAID** information, etc.).



Questions? Situations?

