

NATRI 2007 Annual Conference
Wednesday, November 7, 2007

INTERNAL CONTROLS SELF ASSESSMENT

How to use this internal control assessment checklist

1. Review the concept for each internal control area and answer the questions following each section.
2. Each answer identifies an area that may need stronger internal controls or requires further information before determining if a modification or control enhancement is necessary. (Keep in mind that some answers may be mitigated by another control elsewhere.)

Organization and Board Oversight	Yes	No	Don't Know
Concept: The first step in evaluating the effectiveness of an organization and its board is to take a high-level look at how the organization operates and the leadership qualities of its board.			
1. Do we have a clearly defined mission statement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Does our organization have a board of directors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the board of directors know and understand its fiduciary responsibilities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Are there clearly stated goals to let management know what directions to go in?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Is the financial plan consistent with our organizational strategic plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Do one or more members of the board have an appropriate level of financial literacy?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Is the board active in its role surrounding governance and oversight?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Does the board approve an annual budget?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Does our organization have an audit committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Does the board meet on a regular basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. If appropriate, does your organization have an annual audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Do you have an internal auditor or person responsible for monitoring procedures independent of the finance dept?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Budget Process	Yes	No	Don't Know
Concept: An effective budget gives the organization a way to translate organization goals and plans into tangible numbers and allows management to analyze results against expectations.			
1. Is an annual budget prepared based on strategic planning?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Is there a timetable for preparing the budget and modifications?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Do you compare budget vs actual performance with any variances explained in a timely manner?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the budget process include the Board, finance and development staff?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Does the budget include revenue and expenses by program, appeal or mission work?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Is the budget cycle documented in a written form that is communicated to all levels of the organization?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Financial Reporting	Yes	No	Don't Know
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Concept: Good financial reporting consists of procedures and records established to initiate, record, process and report financial transactions and conditions and to maintain accountability for the non-profit's assets, liabilities and net assets.

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| 1. Are financial reports prepared at least once a year and distributed to management and the Board of Directors for review? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Do department managers receive budget vs actual reports at least on a quarterly basis with the opportunity to explain variances? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Are these budget variance reports understandable to managers that are non-accountants? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Are financial statements prepared directly out of the accounting system or is this information exported to another reporting program for preparation? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Internal Controls Overview	Yes	No	Don't Know
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Concept: Consistent internal control environments help standardize good management practices and procedures, give owners/manager control of dollars in and out and help management make decisions based on accurate information

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| 1. Is there a written Policy and Procedure Manual that covers the following: | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| a. Accounting and financial reporting, such as: month-end and year-end closing procedures, audit preparation procedures, reconciliation processes, receivables and payables tracking | | | |
| b. Recording and maintaining revenues and cash receipts | | | |
| c. Purchasing and Cash Disbursements | | | |
| d. Payroll procedures (ie distribution of paychecks, timesheet submittal, pay periods and payroll reporting mechanism | | | |
| e. Investment policies | | | |
| f. Document retention and destruction Policy | | | |
| g. Whistleblower Policy | | | |
| h. Conflict of Interest Policy (signed by Board and staff) | | | |
| i. Code of Ethics Policy | | | |
| 2. Are current internal control procedures and policies periodically reviewed for relevance and operating the way intended? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Do you have a written and updated chart of accounts that includes categories relevant to the current organizational goals? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Are backup procedures performed on a daily/weekly basis for all accounting data files? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. If applicable, has management and the Board of Directors addressed all past internal control related findings in the last audit? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Have all adjustments discovered during the audit been made in a timely manner after year-end? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Do you have an investment policy and monitor investments adequately? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Segregation of Duties	Yes	No	Don't Know
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Concept: Certain accounting/bookkeeping functions are designed to cross-reference each other for accuracy. If the same person is responsible for multiple duties, the natural checks and balances of the system are removed.

Each "Yes" answer identifies a potential problem area

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| 1. Is the person who handles receipts (checks, cash, credit card donations), including opening mail and removing checks, taking credit card information, preparing and taking the deposit to the bank, also responsible for recording the revenue in the accounting system? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
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Segregation of Duties (cont.)	Yes	No	Don't Know
2. Does the person responsible for ordering inventory or paying for supplies also receive the material?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the person who handles disbursements (signed checks), including signing checks and mailing or distributing checks, have access to the accounting records?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Do authorized check signors have access to blank check stock?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Does the person who authorizes vendor invoices also set up new vendors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Is only one person responsible for the accounting function? If so, is there proper review of journal entries by someone not involved in the accounting function?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Does the same person who prepares and records journal entries prepare the financial statements? Is so, are the financial statements reviewed by someone else for accuracy?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Do bank statements and payroll reports go directly to the person involved with preparing journal entries and reconciling the accounts?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Are two people involved in opening the mail and recording receipts, comparing totals for accuracy?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Does the person who writes the checks also have the authority to sign checks?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Reconciliation of Accounts and Bank Statements	Yes	No	Don't Know
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Concept: Bank statements can only flag discrepancies if they are reconciled on a timely basis. Reconciliations of statements and accounts should be done once a month and reviewed by someone outside of the reconciliation process.

Each “No” answer identifies a potential problem area

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| 1. Are bank reconciliations performed once a month, on a timely basis? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Are significant general ledger accounts, such as cash, investments, receivables, payables, revenue accounts, reconciled to subsidiary ledgers or supporting documentation? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Is someone other than the person responsible for reconciling bank statements and payroll reports reviewing reconciliations each month? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Does someone review cancelled checks and endorsements on a monthly basis? (for large volume transactions, a dollar limit can be established or random checks can be selected for review) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Do you compare payroll checks or reports with your current employee records, searching for ghost employees or duplicate payroll checks issued? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Do you question funds transferred between bank accounts? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Are wire transfers, even between bank accounts, released and approved by someone other than the person initiating the wire transfer? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Does the person reviewing the bank reconciliation, verify any reconciling items discovered? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Purchasing and Cash Disbursements	Yes	No	Don't Know
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Concept: Proper internal controls over cash disbursements can assist in ensuring that expenses are proper and prevent loss or theft of assets.

Each “Yes” answer identifies a potential problem area.

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| 1. Do you have any blank, signed checks on hand? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Are any checks made out to “bearer” or “cash”? (Some non-profit organizations make an exception for petty cash disbursements) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Purchasing and Cash Disbursements (cont.)	Yes	No	Don't Know
3. Do you ever sign a check for new business vendors without knowing or verifying their name and association with your company?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Are checks signed and purchases approved without proper review of the original invoice and receiving report? (Review of supporting documentation ensures that expenses are valid)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Are invoices files away after payment has been made without properly stamping the invoices as paid? (Stamping or cancelling an invoice that has been paid can prevent duplicate payment being made on the same invoice)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Does the organization do business with vendors without first sending out a Vendor Package of rights and responsibilities? (The Vendor Package should include a right-to-audit and access to vendor's books clause)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Does your organization accept business with vendors for significant contracts before soliciting 3 competitive bids? (Requiring competitive bids for large projects indicates good stewardship and conserves the resources of the organization)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Are large or unusual disbursements made with only one signature? (Large or unusual disbursements should require dual signature or approval by Director)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Are invoices paid without comparing to the purchase order and receiving report?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Is the person responsible for cutting checks also responsible for setting up new vendors in the Accounts Payable Module?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Safeguarding Assets	Yes	No	Don't Know
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Concept: Nonprofit organizations are accountable for their use of the money and other assets acquired from public or private support and must protect those assets from misuse or misappropriation.

Each "No" answer identifies a potential problem area.

1. Are incoming checks restrictively endorsed "for deposit only" as soon as they are received?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Do you deposit cash and checks daily or twice a week (depending on volume)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Are blank check stock and signature stamps locked in a secure location? If so, do you limit access to this area with log sign out book?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. If signatures are imprinted digitally, is the electronic file restricted by password and under the control of someone who does not have access to the purchasing and cash disbursement function?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Do you maintain a master vendor list and periodically review the list for duplicate vendors and purge vendors inactive for over 12 months?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Do you maintain a list of office furniture, equipment and company vehicles and update this list at least once a year?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Do you secure receipts of cash and checks in a locked location, until deposited at the bank?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Is credit card information received from donors secured in a locked location until processed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Are purchase order forms, requisitions and checks prenumbered and periodically verified for gaps in sequence?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Do you keep all voided checks and tear off the signature line, marking "Voided" across the face of the check?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Do you have controls in place to limit access to networks, donor database files, computer programs and data files? (These should be password-protected, install firewalls and intrusion prevention/detection software, monitor activity on a regular basis, and limit access to third party vendors of donor database information)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Employees and Personnel	Yes	No	Don't Know
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Concept: Know your employees and be aware of changes in behavior

Each “Yes” answer identifies a potential problem area.

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| 1. Are any of your employees extremely possessive of their work records and reluctant to share their task? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Are any of your employees apprehensive about vacations and time off, while always being the first in the office and the last out? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Have you hired an employee without check references first? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Do the accounting personnel work longer than one year without taking a vacation? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Have you noticed a substantial change in lifestyle in any of your employees? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Are job descriptions for employees outdated and do not reflect current duties? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Are industry averages and standards much higher than your current staff salaries for their jobs and skill level? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Are employees assigned one job function, with no cross-training on other tasks? (Cross-training of job functions allows for a smoother transition if one employee get ill, goes on vacation or leaves for another position) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. Do you have employees in positions that require a higher level of skills than the employees have? (With advancements in technology, adequate training should be considered to help employees maintain level of competence) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Other Internal Controls	Yes	No	Don't Know
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Concept: Internal controls encompass all of an organization’s critical areas. These areas may not directly relate to financial information but help protect the non-profit from loss and indicate good stewardship of the assets entrusted to them.

Each “No” answer identifies a potential problem area.

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| 1. Do you have adequate insurance cover for all fixed asset and periodically review coverage for any changes in policy or level of protection? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. If applicable, do you periodically confirm or inventory assets held off-site for existence and quality? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Do you have a Disaster Recovery Plan in case of damage due to power outage, fire or theft? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Do you strive to be in full compliance with governmental regulations and watchdog groups? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Do you communicate the importance of ethical behavior across the organization on a regular basis? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Do you provide anti-fraud training seminars and workshops to all employees and staff? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Does your organization utilize fundraising or donor tracking software? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Have your software systems been upgraded in the last 2-3 years? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |