



Capacity Building For Council Funded Partners  
Hosted by the Mayor's Office of Contract Services  
and NYC Nonprofit Assistance on behalf of the New  
York City Council

# Internal Controls for Small Nonprofits

*Presented by:*

**New York Council of Nonprofits, Inc.**

New York City-Albany-Buffalo-Poughkeepsie-Oneonta

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# What Is Internal Control?

- A process, effected by an entity's board, management & other personnel, designed to provide reasonable assurance regarding the achievement of the following objectives
  - Accurate & reliable financial reporting
  - Operational effectiveness & efficiency
  - Compliance with laws & regulations
  - Safeguarding of assets

# Accurate & Reliable Financial Reporting

- Accounting information systems
  - Software adequacy
  - Access controlled by management/volunteer leadership with limited access for other leaders
- Adequacy of format
  - Comprehensive, concise, understandable
  - Orientation process for Staff/board members
- Timeliness of reporting
  - Internal to management & the board
  - External to funding sources & regulators

# Operational Effectiveness & Efficiency

- Programmatic efficiency & quality services
- Adequate staffing/Volunteers for service level
- Qualified fiscal staff or volunteer
- Minimal or no duplication of duties
- Well-articulated organizational structure
- Clearly written & legally compliant personnel policies, or Volunteer policy
- Clearly written job/activity descriptions

# Compliance With Laws & Regulations

- Federal, state & local reporting requirements
  - IRS 990, CHAR 500, Audit or Review
- Funding source requirements
  - Board Composition?
- Labor laws (if paid staff)
- Quality assurance
- Client/consumer protections
- Volunteer accountability

# Safeguarding of Assets

- Protect assets from misappropriation
  - Lock boxes
  - Controlled access to accounts
- Protect assets from misuse
  - Designated signatory authority
  - Processes that promote cross checking by others
    - Initials on paid stamps
    - Restrictive endorsements on checks received

# Occupational Fraud

- SAS No. 99 states that three conditions are generally present when fraud occurs:
  - Incentive or pressure ( I need the money.)
  - Opportunity (No one is reviewing my work.)
  - Ability to rationalize committing a fraudulent act (I get paid so little and/or work so hard, they owe me!)

# The Control Environment in Small Nonprofit Organizations

- Organizational structure
  - Up-to-date job/volunteer position descriptions & organizational chart (no matter how small!)
  - Flowcharts or narratives to document the flow of transactions, controls & reporting responsibilities



# Monitoring Internal Control

- Have board committees & officers with clear charges & articulated authority (ideally in bylaws)
- Review & document segregation of duties
- Review financial reports regularly, including budget vs. actual & programmatic activity
- Where staffing is minimal or all volunteer, insert processes that ensure a separate review
- Interact with the external auditor & regularly review the status of management letter comments

# High Risk Area: Receipts

- Restrictive endorsements on checks received
- Lock boxes for cash
- Make all deposits regularly
- Timely reconciliation between accounting & development/program departments
- Timely reconciliation between general ledger & receivables ledger with supervisory review
- For collections of currency, have two people count cash

# Disbursements – Payroll

- Our **LARGEST** expense category once staff are hired
  - Time sheets with supervisory approval
  - Maintain accurate vacation, personal and sick time records
  - Document salaries or hourly rates for each position
  - Document check preparation (or refer to Payroll service process)
  - Document check distribution process
  - Document recording in general ledger
  - Reconcile payroll service sheets to general ledger

# Disbursements - Vendors

- Document and to extent possible, separate:
  - Purchasing (or authorization for purchasing)
  - Preparation of checks
  - Approval for payment
  - Recording in general ledger
  - Signatures
  - Responses to vendor inquiries

# Disbursements - Vendors

- Control over checks
  - Numerical integrity
  - Physical security
- Appropriate signatures on checks
- No checks payable to “cash”
- Review cancelled checks
- Tighten controls over petty cash
  - Timely reconciliation-complete back-up

# Cash/Reconciliations

- Minimal cash accounts
- Bank statement should be opened by someone outside of the receipts/disbursements functions who should examine the contents
- Cash reconciliations should be reviewed by someone outside of the receipts/disbursements functions

# Other Control Policies

- Code of conduct
- Conflict of interest policy
- Whistle-blower policy
- Enforce mandatory vacations
- Bonding insurance for those who handle cash
- Fiscal procedures manual



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