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**SAMPLE INTERNAL CONTROL PROCEDURES**

**Cash Receipts and Accounts Receivable**

Management and the Board review the entity’s financial statements on a periodic basis and investigate significant variances from budgets and expected results.

Delinquent accounts receivable are reviewed.

Cash receipts are reconciled to general ledger postings daily.

The accounts receivable aging report is reviewed and reconciled to the general ledger.

There is adequate segregation of duties among those who:

• Collect accounts receivable.
• Open the mail or copy checks received.
• Prepare deposits.
• Deposit cash receipts.
• Post cash receipts to the accounts receivable sub ledger.
• Review the accounts receivable aging trial balance.
• Authorize write-offs of delinquent accounts.
• Independently investigate accounts receivable discrepancies.
• Maintain or authorize accounts receivable adjustments.
• Edit the accounts receivable master file.
• Process customer service calls and complaints.
• Investigate discrepancies or issues related to revenue.
• Reconcile bank accounts.

Cash receipts (restricted revenue) are deposited in separate bank accounts **when required** by funding sources.

Cash receipts from special events are counted by at least two people.

Cash receipts are deposited intact promptly or stored in a secure location.

Bank reconciliations are prepared and reviewed in a timely fashion by Board member & Mgmt.

Bank statements are received and reviewed by a responsible person other than the person who reconciles the bank account before being submitted for reconciliation.

**Cash Disbursements**

Management reviews the entity’s financial statements on a periodic basis and investigates significant variances from budgets and expected results.

System rejects duplicate entry of an invoice from a vendor.

Accounts payable aging/sub ledger is reviewed and reconciled to the general ledger.

There is adequate segregation of duties among those who:

• Review, authorize, or sign checks.
• Initiate checks for expenditures.
• Prepare checks.
• Mail checks.
• Edit the vendor master file.
• Investigate discrepancies or issues involving expenditures.
• Open the mail or copy checks received.
• Reconcile bank accounts.

Disbursements that require special approval of funding sources or the governing board are properly documented.

Checks are pre numbered, the sequence is accounted for regularly, and unissued checks are controlled and kept in a secure location.

The check signer reviews all supporting documentation prior to signing check.

Passwords are established and used for individuals authorized to make wire transfers, and bank callback verifications are in place for telephone transfers exceeding a predetermined dollar amount.

Management or governing board approval of purchase orders is required for purchases that exceed established limits according to entity policy.

The organization has procedures for coding expenditures in compliance with funding and organization accounting requirements.

**Cash Contributions**

Budgets for contributions that can be reasonably estimated are periodically compared to actual contributions, and the appropriate level of management or another appropriate person (such as a governing board member) investigates significant differences.

The governing board approves 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.

Donor complaints are followed up and resolved on a timely basis.

The organization has procedures in place to ensure that only contributions that meet the criteria for recognition are recorded and adherence to those procedures is periodically reviewed by the appropriate level of management or another appropriate person.

**!!! John says this is a MUST!!!** The organization has assigned responsibility for assuring compliance with the terms and conditions of all grants, restricted contributions, endowments, etc., received by the organization.

The organization has assigned responsibility for identifying restrictions that lapse at a specified time or at the occurrence of a specified event so the resources can be appropriately used and accounted for when they become unrestricted.

The organization uses pre-numbered contribution acknowledgement forms.

The organization keeps records of all contributions, gifts, etc., received, including the donor’s name, amount, date, and any related restrictions.

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.

**Initially Recording Promises to Give**

Management reviews the entity’s financial statements on a periodic basis and investigates significant variances from budgets and expected results.

The organization has procedures in place to ensure that only unconditional promises to give are recorded and adherence to those procedures is periodically reviewed by the appropriate level of management or another appropriate person.

The organization has procedures in place to ensure that conditional promises to give are recorded once the conditions are substantially met and adherence to those procedures is periodically reviewed by the appropriate level of management or another appropriate person.

**Processing Billings**

Management reviews the entity’s financial statements on a periodic basis and investigates significant variances from budgets and expected results.

Service fee rates, dues, fees, sales prices, subscription rates, etc., are approved by the governing board and publicly announced or published in rate schedules, catalogs, bulletins, etc.

Membership rates are established by the governing board and adjusted for changes in the status of members.

The organization has established credit policies.

Credit policies are adhered to.

Billing and shipping are independent of cash handling and accounts receivable bookkeeping.

Billing is independent of shipping and inventory custody.

The organization has established policies and procedures for the storage, use, release, and transmission of confidential patient health information in accordance with the Health Insurance Portability and Accountability Act (HIPAA).

Someone other than those responsible for the maintenance of the underlying records approves billings for third-party reimbursements and supporting cost reimbursement reports.

There are defined cutoff procedures that are continually monitored by the appropriate level of management or another appropriate person.

The organization has established policies for the recording or deferral and amortization of income related to fees, dues, subscriptions, etc., and adherence to those policies is periodically reviewed by the appropriate level of management or another appropriate person.

The organization has established procedures to ensure that all reimbursable costs or contract costs are billed and adherence to those procedures is periodically reviewed by the appropriate level of management or another appropriate person.

Customer or member complaints and billing questions are followed up and resolved on a timely basis.

The detail of active memberships is reconciled to membership billings and accounting records and the reconciliation is reviewed by the appropriate level of management or another appropriate person.

Summary totals (for example, batch totals) of billings are prepared daily and compared to the posting to the control account.

**!!! John has seen this one save an Organization $100,000!!!** Reconciliations are prepared between units of service provided and amounts billed.

**Estimating the Allowance for Doubtful Accounts Receivable and Bad Debt Expense**

Recording and approval of credit memos is independent of cash handling and other accounts receivable bookkeeping.

Noncash credits to accounts receivable are periodically reviewed by the appropriate level of management or another appropriate person.

The governing board or a responsible official approves write-offs of receivables.

The adequacy of the allowance for doubtful accounts is assessed periodically by the appropriate level of management or another appropriate person.

An independent review of significant judgments and estimates included in the financial records is performed at the end of every accounting period by knowledgeable personnel.

**Tracking Accounts Receivable**

The organization periodically sends statements to service recipients, members, etc.

Maintenance of the receivable subsidiary ledger is independent of general ledger maintenance.

Customer/member/donor complaint follow-up is independent of accounts receivable, bookkeeping, and cash handling.

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.

The organization prohibits loans to employees and governing board members.

Employees with receivable responsibilities are required to take vacations and other employees are required to perform those functions when an employee is absent.

Receivables from miscellaneous activities are periodically reviewed and significant amounts are reported to the governing board.

Aged receivable listings are prepared and periodically reviewed by the appropriate level of management or another appropriate person.

The appropriate level of management or another appropriate person reviews reconciliations between receivable trial balances and general ledger control accounts.

Reconciliations are prepared of receivable trial balances to the control accounts.

**Processing Payroll**

Access to data and/or transaction files is appropriately restricted.

The payroll system master file change log, showing all changes made to payroll information, is reviewed by management to ensure it reflects accurate and complete information.

The appropriate level of management or another appropriate person periodically reviews the allocation of payroll costs to accounts, programs, and other functions.

The appropriate level of management or another appropriate person reviews monthly payroll-related accruals for completeness and reasonableness.

There are procedures in place to determine whether individuals are employees or independent contractors and the appropriate tax forms are prepared.

Individuals knowledgeable of legal, regulatory, actuarial, and accounting requirements are responsible for monitoring pension and other employee benefit matters.

Detail records are maintained of the liability for compensated absences and they are regularly reconciled to the control account.

There is adequate segregation of duties among those who:

• Prepare payroll checks.
• Sign payroll checks.
• Review and authorize electronic payroll disbursements.
• Resolve employee payroll inquiries.
• Edit the payroll master file.
• Open mail or copy checks received.

Current payrolls are compared with previous payrolls and variances are investigated and documented.

Payroll registers are reviewed after processing, reconciled to control totals, and approved by an appropriate level of management.

**Maintaining the Employee Database Master File**

Access to data and/or transaction files is appropriately restricted.

The payroll system master file change log, showing all changes made to payroll information, is reviewed by management to ensure it reflects accurate and complete information.

Recording Grants and Similar Programs

The organization has procedures for identifying federal awards.

The organization has accounting procedures, charts of accounts, etc., for identifying and recording receipts and expenditures of program funds separately and in the appropriate cost category for each award or grant.

The organization provides written notification to employees when grant provisions or regulations impose requirements that differ from the organization’s normal policies and procedures.

Reconciliations of grant financial reports with supporting accounting records are prepared, reviewed, and approved by a responsible official before filing.

Financial reports are prepared for required accounting periods within the time imposed and on the basis of accounting required by the grantor agencies.

Financial reports and claims for advances and reimbursements agree with the supporting financial records and general ledger.

**Processing Program Receipts**

The organization has procedures, including cash requirement projections, minimizing the time between the transfer of funds from the governmental grantor agency or primary recipient and disbursement.

A responsible official approves requests for contract advances or reimbursement.

The organization’s calculation of required governmental funds considers updated estimates of allowable program costs.

The organization has a formal approval process for activities generating program income.

The organization has accounting procedures, charts of accounts, etc., for identifying and recording receipts and expenditures of program funds separately and in the appropriate cost category for each award or grant.

Financial reports and claims for advances and reimbursements agree with the supporting financial records and general ledger.

**Processing Program Expenditures**

The organization has established controls to preclude charging federal award programs with unallowable costs and expenditures. (Part 3.B. of the “OMB Circular A-133 Compliance Supplement” contains a listing that can assist the auditor in determining the allowability of costs under OMB Circular A-122. Gov. Doc. No. 9 in PPC’s Government Documents Library has a link to the Compliance Supplement.)

The organization has procedures for tracking property and equipment purchased with federal award funds.

If the organization has awards or grants with matching requirements, levels of effort, and earmarking limitations, a responsible member of management monitors activities to ensure that requirements and limitations were met and amounts claimed or used for matching were determined in accordance with applicable laws and regulations (for example, OMB Circular A-122 and OMB Circular A-110).

The organization has written personnel policies covering job descriptions, hiring procedures, salary or wage levels, promotions, dismissals, and conflicts of interest.

The organization has written policies prohibiting discrimination based on race, sex, age, or marital status in its employment practices.

The organization has procedures that provide reasonable assurance that consistent treatment is applied in the distribution of charges as direct or indirect costs to all awards or grants.

The organization has accounting procedures, charts of accounts, etc., for identifying and recording receipts and expenditures of program funds separately and in the appropriate cost category for each award or grant.

A responsible member of management reviews costs charged to direct and indirect cost centers in accordance with applicable grant agreements and applicable governmental management circulars pertaining to cost principles.

If the nonprofit organization provides social services under governmental programs, a responsible member of management uses a set checklist to review and approve the provision of services to ensure that recipients are eligible under specific program requirements.

The nonprofit organization’s depreciation policies or methods of computing use allowances that are in accordance with the standards outlined in federal circulars or agency regulations.

If the organization has an indirect cost allocation plan, it is prepared in accordance with the provisions of OMB Circular A-122.

If the organization has an indirect cost allocation plan, audit cognizance for that plan has been established, and the rates are accepted by all participating federal and state agencies.

The organization’s employee time allocation method is in accordance with the standards outlined in federal circulars or agency regulations.

The organization has a written procurement manual that complies with the applicable grant agreements and government circulars.

If the organization has sub-recipients, it has policies and procedures for making required communications to the sub-recipients and monitoring the sub-recipients’ activities as required.

**Reporting for Grants and Similar Programs**

The organization has a documented time schedule for filing financial reports with grantors and policies for identifying special requirements of grants.

The appropriate level of management or another appropriate person reviews reports from audits of the organization’s awards or grants prepared by other auditors.

Reconciliations of grant financial reports with supporting accounting records are prepared, reviewed, and approved by a responsible official before filing.

Financial reports are prepared for required accounting periods within the time imposed and on the basis of accounting required by the grantor agencies.

Financial reports and claims for advances and reimbursements agree with the supporting financial records and general ledger.