



Examples of Internal Controls for Smaller Organizations

Smaller organizations that may be all-volunteer run or have only one to two staff may find it difficult to implement extensive internal controls. However, smaller nonprofits should start by determining who has access and who has authority¹, which is most commonly established when segregating duties. Segregating duties and establishing clear responsibilities is one practice for thwarting embezzlement and fraud. No one person – board member, staff or volunteer – should be responsible for all financial processes². It is also crucial to reconcile statements and balance sheets on a regular basis to prevent embezzlement or fraud from going unnoticed for a long period of time³.

Below are examples of internal controls smaller organizations can implement to protect themselves from fraud.

Internal Controls

Financial Records and Reporting

- All financial records of the organization must be properly maintained in a locked cabinet or area with limited access by only [authorized board member or staff].
- The [Executive Director, Board Chair or other authorized individual] will be given all correspondence from any financial institutions unopened. Upon opening the documents, [Executive Director, Board Chair or other authorized individual] will then initial the documents as an indication that he/she has reviewed them.
- On a monthly basis, the [Treasurer or other authorized individual] will reconcile all balance sheet accounts to internal reports (AR, AP, etc.) and third party documentation. The [Treasurer or other authorized individual] is responsible for the monthly reconciliation of the bank statement to the general ledger. All revenue accounts not integrated with the general ledger will also be reconciled to ensure accuracy between systems.
- Accounts receivable reports will be reviewed monthly by the [authorized individual from above and one additional member] to determine that the balances are appropriate.

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Cash Disbursements

- All disbursements are to be made by issuing checks drawn on the established agency cash accounts.
- No checks may be made out to “cash”.
- Where appropriate, a request for disbursement must be supported by original documentation that justifies the purpose of the disbursement and is attached to the request.
- Authorized check signers must be re-affirmed annually by the Board of Directors.
- Checks drawn for less than \$2,500 must be signed by one of the following: [a member of the Board of Directors, the Executive Director, or authorized individual]. Checks over \$2,500 but less than \$10,000 must be signed by two of the above individuals. Checks over \$10,000 must be signed by two designated check signers, one of which must be a member of the Board of Directors.
- The staff person or board member (other than the Executive Director) that is designated to be an authorized check signer may not have any responsibilities related to the recording of financial transactions or the maintenance of financial records of the organization.
- The organization should carry a fidelity bond or appropriate insurance coverage for any director, officer, or employee who handles agency funds.
- Expense reports from the Executive Director must be approved by an officer of the Board of Directors.

Purchase and Contracts

- All purchases over \$250 must be pre-approved by a [supervisor or authorized board member]. Any written authorization from the [supervisor or authorized board member] will suffice, including email correspondence between the requestor and the authorizer. This purchase level should also apply to routine purchases made by credit card.
- Board Members, volunteers and employees shall submit receipts to the [Treasurer or authorized board member] for ALL credit card uses and comply with applicable policies and procedures.
- Unbudgeted purchases greater than 10% over the line item on the budget require prior

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authorization by the Finance Committee or the Executive Committee

- The Board of Directors or the Executive Committee must approve or specifically authorize an officer of the Board to enter into a contract, lease, or commitment for the organization that is longer than one year and over \$10,000 unless included in the budget. The organization should obtain and document at least three competitive bids for all purchases of goods and services greater than \$10,000. Without seeking competitive bids, the organization may contract with a vendor that provides unique skills or service or one with whom the organization has a long-standing business relationship. For these contracts, the organization must periodically evaluate the quality and cost of the services or products received from such vendors to ensure that the organization is receiving appropriate value for its contracts with unique or longstanding vendors. The organization's capitalization threshold is \$1,500.

Cash Receipts and Deposits

- An authorized staff person or board member that must not be the [person that reconciles balance sheets or accounts receivable] shall stamp all checks with a restricted "for deposit" bank endorsement upon opening an envelope containing a check. An authorized board member that is not the [person that reconciles balance sheets or accounts receivable] will log daily cash receipts into a "Check Log." A copy of the check log will be given to the Treasurer [daily or weekly].
- Deposits will be made [daily or weekly] by remote deposit into the organization's operating account. A photocopy of the bank's deposit receipt will be given to the Treasurer. The Treasurer will match the total from the check log to the total from the bank's deposit receipt, and initial them on the corresponding forms. The Treasurer will file the matching check logs and bank deposit receipts.
- Funds received by the organization will be deposited timely to the credit of the organization in a financial institution that the Board of Directors has authorized, provided however, that each institution in which funds are deposited must be an institution where such deposits are insured by an agency of the federal government.

These examples were adapted from Colorado Nonprofit Association's Fiscal Policies.



Additional Resources

¹ [Internal Controls for Nonprofits](#), National Council of Nonprofits

² [Best Practices for Nonprofit Internal Controls: Enhancing Your Internal Control Environment](#), First Nonprofit Foundation

³ [Five Internal Controls for the Very Small Nonprofit](#), Blue Avocado

[Preventing Embezzlement and Fraud in Nonprofit Organizations](#), Venable LLP

[Internal Controls](#), Greater Washington Society of CPAs

[Internal Controls for Small Nonprofits](#), CliftonLarsonAllen



Find additional resources in the Knowledge Center
www.ColoradoNonprofits.org/Knowledge-Center

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