

Internal Control Evaluation

INTERNAL CONTROL EVALUATION

Adapted from a checklist created by Jackie F. Breland, CPA (www.jackiebreland.com)

Organization: _____

Date Prepared or Updated: _____

Prepared by: _____

Introduction

The purpose of this checklist is to analyze the sufficiency of the organization's internal controls, document those controls, and make recommendations for improvement. Management should update this checklist at least annually and create a plan for any inadequate controls identified.

Financial and Accounting Administration

List the names of officers and employees or volunteers in the following positions:

Position	Name
Treasurer	_____
Chief Financial Officer	_____
Controller	_____
Accountants:	_____

Payroll Supervisor	_____
Payroll Clerk	_____
Accounts Payable Supervisor	_____
Accounts Payable Clerks	_____

Accounts Receivable Supervisor	_____
Accounts Receivable Clerks	_____

Others:	_____

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List names and titles of all check signers:

Name	Title
_____	_____
_____	_____
_____	_____
_____	_____

List the names and titles of employees who prepare the bank deposit:

Name	Title
_____	_____
_____	_____
_____	_____

1. Are controls surrounding the preparation of bank deposits adequate? ____ Yes ____
No
Examples: segregation of duties, review procedures, checks received are restrictively
endorsed immediately upon receipt, cash receipts logs.

Describe how funds are physically deposited into the bank.

List names and titles of employees who are responsible for making bank deposits:

Name	Title
_____	_____
_____	_____
_____	_____

2. Are controls surrounding the deposit of receipts and employee safety adequate? ____ Yes
____ No
Examples: segregation of duties, deposits made daily, review procedures.
3. Are the original bank statements sent to, opened by and reviewed by the Treasurer or to a
manager who does not have the responsibility for reconciling the statement to the general
ledger? ____ Yes ____ No

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4. List names and titles of employees who are responsible for reconciling bank statements, next to the account(s) they are responsible for:

Name	Title	Bank Account(s)
_____	_____	_____
_____	_____	_____
_____	_____	_____

Are all bank statements reconciled from the bank statement to the general ledger monthly and promptly? Are reconciling differences, negative balances, and/or unsupported transactions investigated and corrected timely? ____ Yes ____ No

5. Are checks that are noted as outstanding on the prior year-end bank statement reconciliations investigated thoroughly (endorsement comparisons, double payments, etc.) by the auditors, the internal audit committee or management, before the start of the following year's audit? ____ Yes ____ No
6. Are financial reports comparing actual financial results to budgeted amounts generated and reviewed by appropriate management on a monthly basis? Are budget variances sufficiently explained? ____ Yes ____ No
7. Are copies of bank reconciliations attached to monthly internal financial statements, and reviewed by management? ____ Yes ____ No

If no, detail that it has been explained to management that this is a recommended procedure to reduce embezzlement through manipulation of bank statement reconciliations.

8. Are the individuals responsible for reconciling bank statements different from those responsible for check preparation? ____ Yes ____ No

List names and titles of employees who prepare disbursement checks:

Name	Title
_____	_____
_____	_____
_____	_____

List names and titles of employees recording accounts receivable and general receipts:

Name	Title
_____	_____
_____	_____
_____	_____

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List names and titles of employees who open and distribute the mail:

Name	Title
_____	_____
_____	_____
_____	_____

9. Describe journal entry preparation, review and approval procedures:

10. Are full explanations required for all journal entries? ____ Yes ____ No

List names and titles of employees authorized to prepare journal entries:

Name	Title
_____	_____
_____	_____
_____	_____

List names and titles of employees responsible for reviewing and approving journal entries:

Name	Title
_____	_____
_____	_____
_____	_____

11. Are procedures surrounding the review and approval of journal entries adequate? ____
Yes ____ No

12. Do you have a petty cash fund? ____ Yes ____ No *If no, then skip the petty cash section.*

List the names and titles of petty cash agents:

Name	Title
_____	_____
_____	_____
_____	_____

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13. What is the amount of the petty cash fund? \$ _____

Describe the petty cash disbursement procedures:

14. Are controls surrounding petty cash fund disbursements and security adequate? Yes
 No

Examples: supporting documentation obtained for all disbursements, petty cash log, reconciliation to general ledger, surprise audits.

15. Are there adequate job descriptions for all accounting or finance positions? Are the level of competence and the requisite knowledge and skills carefully defined for each job in the accounting or finance department? Yes No

16. Does the organization have a written Accounting / Financial Policies and Procedures Manual, is the manual current and thorough, and do all employees have a copy?
Yes No

17. Are policies and procedures in place for hiring, training, promoting and compensating employees in the accounting or finance department? Yes No

18. Has the accounting or finance staff/volunteers been appropriately trained in the use of the accounting system, including the chart of accounts, edits, and other system controls? Yes No

19. When employees/volunteers responsible for financial or accounting duties are on vacation, does another employee/volunteer assume their responsibilities? Yes No

20. Does the organization require all individuals working/volunteering in finance or accounting to take a full, uninterrupted week of vacation per year? Yes No

21. Have all accounting personnel signed a Conflict of Interest agreement? Yes
No

22. Does the organization require thorough background checks for all finance personnel and key positions? Yes No

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23. Is there a written policy whereby employees are required to report suspicious activities, conflicts of interest, or unethical behavior to the appropriate level of management? ____
Yes ____ No
24. Does the organization have a whistleblower protection policy prohibiting retaliation against whistleblowers? ____ Yes ____ No
25. Does the organization have a policy whereby terminated employees are subject to an exit interview? ____ Yes ____ No
26. Does the organization have an Insurance or Risk Management Committee to ensure that all insurance policies are adequate? ____ Yes ____ No
27. Does the organization have an Audit Committee? ____ Yes ____ No
28. Are controls over wire transfers and other electronic payments adequate? ____ Yes ____ No
Examples: review and signoff procedures, adequate documentation, limited authority, reconciliation from bank statement to general ledger.
29. Has the bank been made aware that any changes regarding authorized signatures on check signature cards, wire transfer contracts, activations on lines of credit, and loans require the approval of the appropriate level of management? ____ Yes ____ No

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Employee/Volunteer Interviews

It is recommended that internal audit committees or other committees of the board interview employees and volunteers to discuss fraud risk and internal control strengths and weaknesses. The following interview questions can be asked during each interview:

- Is the organization's Conflict of Interest policy clear and understandable?
- Are you aware of the existence of fraud, conflicts of interest, or unethical behavior?
- Are you aware of any potential for fraud?
- Has any employee or volunteer ever approached you to conspire in fraud?
- Has anyone outside the organization ever approached to conspire in fraud?
- Are you aware of any weaknesses in internal controls that could lead to fraud?
- Are the controls over confidential customer information (e.g., credit card numbers, bank account numbers, etc.) adequate?
- Are controls over confidential employee personnel records adequate?
- Is the organization's policy for reporting suspicious behavior to the appropriate level of management clear and understandable?
- Is the organization's whistleblower protection policy clear and understandable?
- Do you have any suggestions for improvement for the organization taken as a whole?

Other questions determined by the committee:

Results of Interviews:

The employee/volunteer interviews and results should be documented. After the interviews, the results should be discussed among the committee members. The risks should be analyzed and a plan of action should be formulated.

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Credit Card Statements

30. Are copies of credit card statements mailed by the credit card issuer to a secured post office box accessible only by the following?
- | | | | |
|---------------------------------|-------|-------|-------|
| | Yes | No | N/A |
| • The CEO or Executive Director | _____ | _____ | _____ |
| • The Treasurer | _____ | _____ | _____ |
| • Other Board member | _____ | _____ | _____ |
31. Is the use of debit cards prohibited in your organization? _____ Yes _____ No _____ N/A
32. Are employees who have been issued organization credit cards aware of immediate steps to take to report lost or stolen cards? _____ Yes _____ No
33. If the organization reimburses employees for purchases made on behalf of the organization, are controls adequate? _____ Yes _____ No

Examples: approval and review procedures, use of expense reports, timeliness of submission, limits on cash advances, attachment of all receipts to expense reports.

Payroll

List the names and titles of personnel who process payroll for your organization. (If an outside payroll services is used, put "N/A", and see additional questions below.) If you are an all-volunteer organization, skip to the next section.

Name	Title
_____	_____
_____	_____
_____	_____

34. Are a minimum of two people involved in the following payroll functions?
- | | |
|--------------------------------------|--------------------|
| Adding new employees to the payroll? | _____ Yes _____ No |
| Processing payroll? | _____ Yes _____ No |
| Sign-off on payroll? | _____ Yes _____ No |
| Two Signatures on payroll checks? | _____ Yes _____ No |
35. Are payroll checks signed by individuals not involved in processing payroll? _____ Yes _____ No
36. If any outside payroll preparation service is used, are controls and reviews adequate? _____ Yes _____ No

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37. If an outside payroll preparation service is used, note the following:

Name of service: _____
Address: _____

Contact Name: _____
Telephone: _____
Fax: _____
E-mail: _____

38. Is there a random check on payroll during the year to ensure that wages are accurate and there are no ghosts on the payroll? ____ Yes ____ No

39. Are the calculations of the federal and state tax deposits checked or reviewed by management on random basis? ____ Yes ____ No

40. Is the payroll account reconciled from the bank statement to the general ledger promptly at the end of each month by someone not involved in the processing of payroll? ____ Yes ____ No

41. Are payroll checks or direct deposit receipts distributed to employees by someone not involved in processing payroll? ____ Yes ____ No

42. Does the organization use time sheets for employees covered by the Fair Labor Standards Act (FLSA), and are they signed by the employee and approved by the employee's direct supervisor? ____ Yes ____ No

43. If employee loans or advances are allowed, are controls, procedures and approvals adequate? ____ Yes ____ No

Examples of controls: limits on amounts loaned or advanced, reconciliation to general ledger accounts, tracking loan balances by employee, review of unusual, large or old employee loans, use of expense reports with advances.

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Cash Receipts and Accounts Receivable

- 44. Does the organization use a bank’s Lockbox Service for cash receipts that come through the mail? Yes No N/A
- 45. Are the checks that come into the organization via the mail endorsed with the organization’s restrictive endorsement stamp immediately after receipt? Yes No
- 46. Once checks have been endorsed, are they forwarded directly to finance for processing? Yes No
- 47. Is a log of checks received maintained by the person who opens the mail, for audit trail purposes? Yes No
- 48. Does the organization compile an accounts receivable aging schedule monthly? Yes No
- 49. Does the organization have adequate procedures to follow up on aging accounts receivable and delinquent accounts? Yes No
- 50. Are customer statements reviewed and controlled by an employee other than the accounts receivable clerk? Yes No

Note the organization’s procedures for writing off uncollectible accounts receivable:

- 51. Are the procedures concerning writing off uncollectible accounts receivable adequate? Yes No

List the names and titles of employees authorized to approve accounts receivable write-offs:

Name	Title
_____	_____
_____	_____
_____	_____

Note the names and titles of employees authorized to issue credit memos to customers:

Name	Title
_____	_____
_____	_____
_____	_____

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52. Are the controls concerning offering credits to customers and issuing credit memos adequate? Yes No N/A

Cash Disbursements and Accounts Payable

53. Is the check supply under lock and key? Yes No

54. Does the organization utilize a bank's Positive Pay service? Yes No

55. If yes, explain Positive Pay procedures:

56. If the organization does not utilize Positive Pay, have the benefits of this service been explored and explained to the appropriate level of management? Yes No

Note details accordingly:

57. Are individuals involved in the accounting function or the recording of transactions prohibited from signing checks? Yes No

58. Does the organization use a purchase order system, and are procedures adequate? Yes No

59. Are two signatures required on some or all disbursements? Yes No

60. Are there periodic comparisons of witnessed check-signing signatures against canceled checks? Yes No

61. If handwritten or typed checks are ever prepared, is the amount protected with a check imprinter machine? Yes No

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62. Other than petty cash, are all disbursements made by check or wire transfer? ____ Yes ____ No

63. Are voided checks voided properly (cutting off signature lines) and are they accounted for properly? ____ Yes ____ No

64. Does the organization prohibit authorized signers from signing checks in advance? ____ Yes ____ No

List out the names and titles of all authorized wire transfer agents:

Name	Title
_____	_____
_____	_____
_____	_____

65. Are two signatures required on all wire transfers? ____ Yes ____ No

Postage and Shipping

Describe how the organization funds postage in the following areas:

Office postage meter: _____

Business reply mail: _____

Bulk mail: _____

Other methods: _____

66. Are policies and controls over access to postage meters and accounts adequate to prevent unauthorized use? ____ Yes ____ No

Fixed Assets, Depreciation and Amortization

67. What is the organization's capitalization cut-off point? \$ _____

68. Are the purchases of budgeted and nonbudgeted fixed assets approved by the appropriate level of management? ____ Yes ____ No

69. What type of depreciation method(s) does the organization use? Tax method: _____ Book method: _____

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70. Does the organization apply fixed asset control numbers to equipment? ___ Yes ___ No

71. Are the fixed assets records complete and current? ___ Yes ___ No

72. How often are fixed asset accounting records verified against fixed assets on hand?

Fidelity Bonds

73. Does the organization have a Fidelity Bond and/or employee dishonesty coverage? ___
Yes ___ No

If the organization has a Fidelity Bond and/or employee dishonesty coverage, note the following:

Insurance Company: _____

Address: _____

Agent Name: _____

Telephone Number: _____ Emergency Number: _____

Policy Number: _____ Amount of Bond: \$ _____

Deductible: \$ _____

74. Is the amount of bond adequate, and has it been reviewed recently? ___ Yes ___ No

75. Are there any Fidelity Bond requirements due to line of credit agreements, grants, mortgages, notes, etc.? ___ Yes ___ No

76. Are all employees who handle cash, checks, and credit card transactions included in the Fidelity Bond and/or employee dishonesty coverage? ___ Yes ___ No

77. Has it been explained to management that corporate officers and directors are excluded from Fidelity Bond coverage? ___ Yes ___ No

Note details accordingly:

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78. Does the organization have Directors and Officers liability insurance coverage?
_____ Yes _____ No

79. Is the security of investments adequate (e.g., safe deposit box, safe, with custodian, etc.)?
_____ Yes _____ No

List names and titles of employees having access to investments:

Name	Title
_____	_____
_____	_____
_____	_____

80. Are investments examined routinely by responsible parties? _____ Yes _____ No
_____ N/A

81. Does the organization have an adequate written investment policy approved by the board of directors? _____ Yes _____ No _____ N/A

Implementing an Embezzlement and Fraud Action Plan

82. Does the organization have an action plan of steps to take in the event of fraud or embezzlement, and has the organization identified a position within the organization to “own” the fraud prevention plan? _____ Yes _____ No

83. Have the appropriate levels of management been advised of the following:

Safeguarding original documents, in the event of fraud? _____ Yes _____ No

Taking detailed notes with the perpetrator, in the event of fraud? _____ Yes _____ No

Contacting the bank(s) immediately, in the event of fraud? _____ Yes _____ No

84. Does the organization have a communication plan ready to implement to minimize negative fallout? _____ Yes _____ No

