

INTERNAL CONTROL CHECKLIST

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.

Financial and Accounting Administration

List the names of officers and employees 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:	_____
_____	_____
_____	_____
_____	_____

List names and titles of all check signers:

Name	Title
_____	_____
_____	_____
_____	_____

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

Name	Title
_____	_____
_____	_____
_____	_____

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.

If no, explain and record recommendations for improvement, if applicable:

Note how funds are physically deposited into the bank:

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

Name	Title
_____	_____
_____	_____
_____	_____

Are controls surrounding the deposit of receipts and employee safety adequate? _____ Yes
_____ No

Examples: segregation of duties, deposits made daily, review procedures.

If no, explain and record recommendations for improvement, if applicable:

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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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

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

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If no, explain and record recommendations for improvement, if applicable:

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:

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

If no, explain and record recommendations for improvement, if applicable:

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
_____	_____
_____	_____
_____	_____

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

Name	Title
_____	_____
_____	_____
_____	_____

Describe journal entry preparation, review and approval procedures:

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

If no, explain and record recommendations for improvement, if applicable:

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
_____	_____
_____	_____
_____	_____

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

If no, explain and record recommendations for improvement, if applicable:

Do you have a petty cash fund? ____ Yes ____ No

If no, then skip the petty cash section.

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List the names and titles of petty cash agents:

Name	Title
_____	_____
_____	_____
_____	_____

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

Describe the petty cash disbursement procedures:

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.

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

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

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If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

When employees assigned to financial or accounting duties are on vacation, does another employee assume their responsibilities? Yes No

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

Does the organization have a whistleblower protection policy prohibiting retaliation against whistleblowers? ____ Yes ____ No

If no, explain and record recommendations for improvement, if applicable:

Does the organization have a policy whereby terminated employees are subject to an exit interview? ____ Yes ____ No

If no, explain and record recommendations for improvement, if applicable:

Internal Control Checklist - Nonprofit

Does the organization have an Insurance or Risk Management Committee to ensure that all insurance policies are adequate? ____ Yes ____ No

If no, explain and record recommendations for improvement, if applicable:

Does the organization have an Audit Committee? ____ Yes ____ No

If no, explain and record recommendations for improvement, if applicable:

Does the organization have a code of ethics, a code of conduct or other policies addressing acceptable business practice and expected standards of ethical and moral behavior for all employees, including financial management? ____ Yes ____ No

If no, explain and record recommendations for improvement, if applicable:

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.

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

Comment on any specific financial and accounting administration issues that indicate that the system and controls are not adequate, with recommendations for improvement:

Risk Assessment and Understanding the Entity

List resources available to assess if any of the organization's line item expenses are out of line with those of similar organizations:

If any line items were determined to be out of line, what analytical action was taken to determine if fraud might be present?

Employee Interviews

It is recommended that internal audit committees or other committees of the board interview employees 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?

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- Has any employee 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 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.

Note specific areas of concern resulting from staff interviews:

Detail the plan of action formulated to investigate areas of concern:

Summarize results of implementing the plan of action and further action warranted, if necessary:

Credit Card Statements

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	_____	_____	_____

If no, explain and record recommendations for improvement, if applicable:

Is the use of debit cards prohibited in your organization? _____ Yes _____ No _____ N/A

If no, explain and record recommendations for improvement, if applicable:

Are employees who have been issued organization credit cards aware of immediate steps to take to report lost or stolen cards? _____ Yes _____ No

If no, explain and record recommendations for improvement, if applicable:

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 \$ advances, attachment of all receipts to expense reports.

If no, explain and record recommendations for improvement, if applicable:

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.)

Name	Title
_____	_____
_____	_____
_____	_____

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

If no, explain and record recommendations for improvement, if applicable:

Are payroll checks signed by individuals not involved in processing payroll? Yes No

If no, explain and record recommendations for improvement, if applicable:

If any outside payroll preparation service is used, are controls and reviews adequate? Yes No

If no, explain and record recommendations for improvement, if applicable:

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

Name of service: _____
Address: _____

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

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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

Internal Control Checklist - Nonprofit

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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

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.

If no, explain and record recommendations for improvement, if applicable:

Comment on any specific payroll-processing issues that indicate that controls are not adequate, with recommendations for improvement:

Cash Receipts and Accounts Receivable

Does the organization use a bank's Lockbox Service for cash receipts that come through the mail? ____ Yes ____ No ____ N/A

If no, explain and record recommendations for improvement, if applicable:

Are the checks that come into the organization via the mail endorsed with the organization's restrictive endorsement stamp immediately after receipt? ____ Yes ____ No

If no, explain and record recommendations for improvement, if applicable:

Once checks have been endorsed, are they forwarded directly to finance for processing? ____ Yes ____ No

If no, explain and record recommendations for improvement, if applicable:

Is a log of checks received maintained by the person who opens the mail, for audit trail purposes? ____ Yes ____ No

If no, explain and record recommendations for improvement, if applicable:

Does the organization compile an accounts receivable aging schedule monthly? _____ Yes
_____ No

If no, explain and record recommendations for improvement, if applicable:

Does the organization have adequate procedures to follow up on aging accounts receivable and delinquent accounts? _____ Yes _____ No

If no, explain and record recommendations for improvement, if applicable:

Are customer statements reviewed and controlled by an employee other than the accounts receivable clerk? _____ Yes _____ No

If no, explain and record recommendations for improvement, if applicable:

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

Are the procedures concerning writing off uncollectible accounts receivable adequate? _____
Yes _____ No

Internal Control Checklist - Nonprofit

If no, explain and record recommendations for improvement, if applicable:

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
_____	_____
_____	_____
_____	_____

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

If no, explain and record recommendations for improvement, if applicable:

Comment on specific issues concerning recording accounts receivable, securing proper write-off approvals, issuing credits to customers, etc., that indicate controls are not adequate, and record recommendations for improvement:

Cash Disbursements and Accounts Payable

Is the check supply under lock and key? _____ Yes _____ No

If no, explain and record recommendations for improvement, if applicable:

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

If yes, explain Positive Pay procedures:

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:

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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

Internal Control Checklist - Nonprofit

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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

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

Name	Title
_____	_____
_____	_____
_____	_____

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

If no, explain and record recommendations for improvement, if applicable:

Provide details of wire transfer procedures here:

Comment on any specific disbursement issues that indicate that controls are not adequate, with recommendations for improvement:

Travel Expenses

Does the organization issue travel advances? ____ Yes ____ No

If yes, describe procedures:

Does the organization have a written travel policy, and is it included with the financial policies and procedures? ____ Yes ____ No

If no, explain and record recommendations for improvement, if applicable:

Does the organization require original receipts for travel expenses? ____ Yes ____ No

If no, explain and record recommendations for improvement, if applicable:

Are travel expense policies current, documented, and communicated properly? Yes
 No

If no, explain and record recommendations for improvement, if applicable:

Does the organization use the per diem method for meal allowances? Yes No

If yes, describe procedures below, and note if the organization's per diem policy is in compliance with Internal Revenue Service rules and regulations:

Does the organization monitor air fare rates to ensure that it is benefiting from the best available rates? Yes No

If no, explain and record recommendations for improvement, if applicable:

Are the organization's travel expense forms current, complete, and compliant with the organization's travel policies? Yes No

If no, explain and record recommendations for improvement, if applicable:

Attach current travel approval and reimbursement forms.

Comment on any specific travel expense issues that indicate that controls and policies are not adequate, and record recommendations for improvement:

Postage and Shipping

Describe how the organization funds postage in the following areas:

Office postage meter: _____

Business reply mail: _____

Bulk mail: _____

Other methods: _____

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

If no, explain and record recommendations for improvement, if applicable:

If the organization uses a shipping service, note the following:

Name of Service: _____

Address: _____

Contact Name: _____

Telephone Number: _____

Are the procedures surrounding utilization of the organization's mail / shipping service adequate? _____ Yes _____ No

If no, explain and record recommendations for improvement, if applicable:

Comment on any specific issues that indicate that controls and policies surrounding postal meters, postal accounts, and shipping services are not adequate, and record recommendations for improvement:

Fixed Assets, Depreciation and Amortization

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

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

If no, explain and record recommendations for improvement, if applicable:

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

Does the organization apply fixed asset control numbers to equipment? _____ Yes _____ No

If no, explain and record recommendations for improvement, if applicable:

Are the fixed assets records complete and current? _____ Yes _____ No

If no, explain and record recommendations for improvement, if applicable:

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

Describe fixed asset retirement procedures and recommendations for improvement, if applicable:

Comment on any fixed asset procedures that you feel are inadequate, and suggest recommendations for improvement:

Fidelity Bonds

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

If no, explain and record recommendations for improvement, if applicable:

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: \$ _____

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

If no, explain and record recommendations for improvement, if applicable:

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

If yes, explain below and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

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

Note details accordingly:

Does the organization have Directors and Officers liability insurance coverage? ____ Yes ____ No

If no, explain and record recommendations for improvement, if applicable:

Comment on any specific Fidelity Bond, employee dishonesty coverage or Directors and Officers liability insurance issues that indicate the coverage is inadequate, and note recommendations for improvement:

Cash, Cash Equivalents, Investments

Note all of the organization's checking accounts, money market accounts, etc.:

Bank Name	Type of Account	Account Number
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Internal Control Checklist - Nonprofit

Note all of the organization's certificates of deposit:

Bank Name	Certificate Number	Interest Rate	Maturity Date
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Note all of the organization's investments as follows:

Description of Investment	Investment Account #	Location
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

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

If no, explain and record recommendations for improvement, if applicable:

List names and titles of employees having access to investments:

Name	Title
_____	_____
_____	_____
_____	_____

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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:

Comment on any specific cash, cash equivalents, or investment procedures or issues that indicate that the system and controls are inadequate, and suggest recommendations for improvement:

Implementing an Embezzlement and Fraud Action Plan

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

If no, explain and record recommendations for improvement, if applicable:

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

If no, explain and record recommendations for improvement, if applicable:
