

Implementing Financial Controls

Description:

This tool provides a checklist of best practices related to financial controls.

How it can be used:

Financial controls are the means by which an organization's resources are directed, monitored, and measured. Implementing financial controls helps reduce to variations in process and protect an organization's resources. Use the checklists below to determine whether your organizational financial controls are rigorous enough, or if some improvements must be made.

Petty cash and similar funds:

Control objectives: To ensure that petty cash and similar funds are disbursed only for proper purposes, are adequately safeguarded, and are properly recorded.

Control procedures:

1. Are petty cash and similar funds maintained on an imprest (loaned in advance) basis?
2. Is the responsibility for each fund vested in a single person?
3. Are the types and amounts of petty cash disbursements limited?
4. Are disbursements from cash receipt funds, such as funds used at conferences, prohibited?
5. Are advances to employees from the petty cash fund made only when authorized by appropriate personnel?
6. Are petty cash transactions periodically monitored and are increased levels of activity investigated?
7. Do persons receiving cash sign petty cash vouchers? Are amounts written in letters and numbers?
8. Are petty cash reimbursement cheques payable only to the person responsible for the petty cash? Once the fund is reimbursed, are the vouchers and receipts marked by the person responsible in order to prevent reuse?
9. Are unscheduled audits of petty cash funds made by an individual other than the custodian?
10. Are physical safeguards, including fire-resistant boxes, vaults, and overnight depositories, maintained for petty cash funds?

Grants and contracts received:

Control objectives: To ensure that payments under grants and contracts are received and properly recorded, and that compliance with the terms of any related restrictions is adequately monitored.

Control procedures:

1. Is the receipt and recording of grants and contracts segregated from expenditure and monitoring of amounts expended?
2. Once notified of a grant or contract award, is the expected amount recorded in a separate receivable account?
3. Are differences between expected and actual awards promptly investigated?
4. Are awards that are contingent upon future events periodically monitored?
5. If possible, are budget estimates prepared for grants and contracts? Are award receipts periodically compared with award estimates in the operating budget?

6. Are restrictions regarding the use of awards documented? Is compliance with restrictions verified before disbursement?
7. Are accounts periodically monitored for unexpended funds, and are they promptly returned to the awarding party, if necessary?

Accounts payable and expenses:

Control objectives: To ensure that accounts payable are supported by appropriate documentation, are promptly paid and properly recorded, and that expenses are incurred only upon proper authorization of management, for valid business purposes, and, where applicable, in accordance with legal restrictions of grants and contracts.

Control procedures:

1. Are the authorization, processing, recording, and payment functions clearly segregated?
2. Are invoices from unfamiliar or unusual vendors reviewed and approved for payment by authorized personnel who are independent of the invoice processing function?
3. Is a listing of unpaid invoices regularly prepared and periodically reviewed by a person independent of the invoice processing function?
4. Have appropriate levels of authority been established within the association for purchases of goods and services? Is competitive bidding required for larger purchases?
5. Is the distribution of expenses to general ledger accounts made by persons with sufficient knowledge of the purpose of the expenses? Do procedures exist to ensure that all proper charges and only proper charges are made to restricted grant/contract accounts?
6. Are recorded expense balances compared with budgeted amounts periodically during the year, and are unusual relationships investigated fully, and explanations provided to senior management?

Payroll (in addition to relevant expense procedures above):

Control objectives: To ensure that payroll disbursements are made only upon proper authorization by management to bona fide employees; that payroll disbursements are properly recorded; and that related legal requirements (such as payroll tax deposits) are compiled.

Control procedures:

1. Are the following functions clearly separated: personnel authorized, payroll preparation and approval, record keeping, and bank reconciliation functions?
2. Are changes in employment (hiring and terminations), salaries, wage rates and payroll deductions authorized by the proper non-accounting personnel, not accounting for vacations, holidays, and sick leave?
3. Are time and attendance records, including hours worked, overtime, and special benefits, reviewed and approved by authorized non-accounting personnel?
4. Is the payroll summary posted to the general ledger by a person independent of the payroll processing, cheque signing, and authorization functions?
5. Does an individual not involved in payroll processing, cheque signing, or distribution functions control unclaimed payroll cheques?
6. Is the mailing of T4 forms and the investigation of questions independent from the authorization, payroll processing, and cheque signing functions?
7. Is payroll classified in proper accounts (e.g., by function) and is the classification periodically reviewed?
8. Is the information supplied to employee benefit plans, and actuarial assumptions and computations, periodically reviewed?
9. Are the taxes (e.g., CPP and unemployment) paid on the wages of each employee monitored? Are all such taxes paid when due?

General

Control procedures:

1. Are all employees who perform accounting functions required to take periodic vacations during which others perform their duties?
2. Are all general journal entries reviewed and approved in writing by authorized non-accounting personnel? Does a senior non-accounting person regularly review the general ledger?
3. Are monthly (quarterly is acceptable in very small organizations) and annual financial statements prepared and promptly distributed to senior management and the Board? Do the individuals understand the financial statements?
4. Is there an adequate level of scrutiny of the organization's financial affairs by one or more of: internal auditor, audit committee of the Board; or external auditor? Are reports distributed to senior management and the Board, and are any recommendations appropriately acted upon?
5. Are all persons with access to negotiable organizational assets bonded?
6. Has a conflict of interest policy been adopted by the Board and disseminated to all affected persons, and is compliance regularly monitored?