COUNTY OF YOLO

ACCOUNTING HANDBOOK

FOR COMMUNITY-BASED ORGANIZATIONS

Revised July 2014

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I. PREFACE

The purpose of this Handbook is to provide guidelines on financial management to organizations that contract with Yolo County to provide community services.

When adhered to, these guidelines will provide a reasonable level of fiscal accountability that would be acceptable by most funding agencies. However, the guidelines are basic and are not intended to replace effective existing procedures or preclude the use of more sophisticated methods or other methods, which may be prescribed by funding agencies.

The guidelines offered herein are consistent with, and supplement, Board of Supervisors' policies contained in the *Contract Administration Manual*.

This Handbook will be updated from time to time to reflect changes in policies and standards.

This Handbook is distributed to all community-based organizations (**CBO**) that contract with the County and is available at the Yolo County Auditor-Controller Office, 625 Court Street, Room 103, Woodland, CA 95695. It is also available on the County web site at www.yolocounty.org/org/auditor/publications.htm

II. ACCOUNTING SYSTEM

A. Basis of Accounting

The CBO's method of accounting determines when revenue and expenses are recognized. The three basic accounting methods are:

Cash Basis:	The basis of accounting under which revenues are recorded when cash is received and expenditures are recorded when cash is paid.
Modified Accrual Basis:	The basis of accounting under which expenditures are recorded at the time the liability is incurred, and revenues are recorded when they become measurable and available to finance current year expenditures.
Accrual Basis:	The basis of accounting in which revenues are recorded when earned and expenditures are recorded as soon as they result in a liability, regardless of when the cash is received or when it is spent.

For bookkeeping purposes, the CBO may elect to use any one of these methods of accounting to record financial transactions. Monthly invoices to the County, if CBO is on the line-item basis for reimbursement, must be prepared on the same basis as that used for recording the financial transactions in the accounting records.

The accounting method selected must be consistently applied from contract period to contract period.

For financial reporting purposes, the accrual basis or modified accrual basis should be used. Therefore, if the CBO uses the cash basis for recording financial transactions during the contract period, journal entries are required at the end of the period to record accruals.

B. Fund Accounting

Fund accounting is used by some nonprofit organizations for purposes of internal record-keeping and managerial control. Fund accounting enhances accountability by helping to ensure that the use of resources is in accordance with stipulations imposed by donors and other funding sources.

A fund is an accounting entity with a self-balancing set of accounts for recording assets, liabilities, fund balance and changes in the fund balance. Separate accounts are maintained for each fund to ensure that the limitations and restrictions on the use of the resources are complied with.

Generally accepted accounting principles (FASB Statement No. 117) do not require that nonprofit organizations use fund accounting for financial reporting purposes.

For simplicity, this Handbook assumes that the CBO does not use fund accounting.

C. Accounting Records

The CBO should maintain a double-entry accounting system, with a general journal, a cash receipts journal, a cash disbursements journal, a general ledger, and individual payroll records. These journals and ledgers should be posted at least monthly based on original transaction records.

When a CBO has multiple funding sources requiring separate accountability or when a CBO needs to account for its various programs separately, the use of fund accounting may be appropriate. Each fund has its own set of records including general ledger and financial statements.

Financial records should be kept so that they clearly reflect and identify the cost of each type of service for which reimbursement is claimed. Such detailed records should be maintained, whether the CBO is on a line-item or fee-for-service method of reimbursement.

Monthly claims should be supported by worksheets summarizing units of service or line-item costs claimed. All costs claimed should be reconciled to the general ledger. All summary and reconciliation worksheets should be cross-referenced to supporting documentation (service records, vendor invoices, daily logs, etc.) to provide adequate audit trail.

1. General Journal

A general journal should be maintained to record adjusting entries, reversing entries, closing entries and other financial transactions not normally recorded in the cash receipts or cash disbursements journals. Entries in the general journal must be adequately documented and entered in chronological order with sufficient explanations.

2. Cash Receipts Journal

A cash receipts journal should be maintained to record all cash receipts (e.g. fund raising proceeds, County reimbursements, allocations, donations, contributions, client fees, third party payments, interest income, etc.) The journal should contain the following columns:

- Date
- Receipt number
- Description of the cash receipt (e.g. County Program XYZ July invoice)
- Amount
- Columns for recurring types of receipts.

Each cash receipt item must be supported by documentation as to the nature, source and purpose of the receipt. Sufficient detail should be maintained to distinguish support from the various funding sources on one hand, from program income on the other hand, and to document any restriction (temporary or permanent) on contributions received.

Receipt of non-cash items, such as in-kind donations, should be recorded in the general journal.

If fund raising is a major source of income, a separate ledger may be maintained to record pledges and contributions received, by donor accounts.

3. Cash Disbursements Journal

A cash disbursements journal should be maintained to record all cash disbursements. The journal should contain the following columns:

- Date
- Check number
- Amount
- Payee
- Account charged and/or purpose of expenditure
- Columns for recurring expenditures

Approved vouchers or vendors' invoices must support all disbursements. Cost allocation may be done at the time of recording the disbursement by coding the expenditures with the appropriate account/project numbers.

4. General Ledger

A general ledger should be maintained with the necessary accounts for assets, liabilities, fund balances, support, revenues and expenses to prepare financial statements in accordance with generally accepted accounting principles (**GAAP**).

The number and types of accounts in the chart of accounts should also allow the organization to prepare the reports required by management, the funding sources and the board of directors.

5. Accounts Receivable Ledger

If the CBO bills customers or granting agencies and it uses the accrual basis of accounting, it will need to track the amounts receivable in an accounts receivable ledger. At minimum, such ledger would consist of:

- Detail accounts: amounts billed by date
- Control account: in the general ledger.

The detail accounts should be periodically reconciled to the control account.

6. Accounts Payable Ledger

If the CBO makes purchases on credit and it uses the accrual basis of accounting, it should maintain an accounts payable ledger to track amounts owed to other parties. At minimum, such ledger would consist of:

- Detail accounts: amounts owed by date
- Control account: in the general ledger.

The detail accounts should be periodically reconciled to the control account.

7. Payroll Register

A payroll register should be maintained to show detailed entries making up the total payroll expense for each pay period. In addition, detailed payroll records should be maintained for each employee. Each individual record should show:

- Name and address
- Position and date of promotion
- Form I-9 as necessary
- Tax withholding information (W-4, etc.)
- Authorization for voluntary deductions.
- Employee benefits
- Social Security number
- Salary rate
- Work assignment

Gross pay for any pay period should be supported by properly approved attendance records such as individual time sheets or attendance logs. If the CBO operates multiple programs, payroll records should be maintained in sufficient detail to allow accurate distribution of labor costs to the programs.

D. Allowable Costs

Generally, the County adopts the costs principles prescribed by the Federal Office of Management and Budget (OMB) through its circulars and relocated to Federal Register on December 26, 2013:

- "Cost Principles for Educational Institutions"; OMB Circular A-21 (Relocated 2 CFR, Part 220)
- "Cost Principles for State and Local Governments"; OMB Circular A-87 (Relocated 2 CFR, Part 225)
- "Cost Principles for Nonprofit Organizations"; OMB Circular A-122 (Relocated 2 CFR, Part 230)

These OMB Circulars describe criteria for allowability and allocability of costs in general and for specific cost items:

Generally, a cost item is <u>allowable</u> if it meets all of the following criteria:

1. It is necessary, reasonable and allocable to the program;
2. It complies with applicable laws and regulations;
3. It is consistent with the CBO's policies that apply uniformly to all programs;
4. It is accounted for consistently and in accordance with GAAP;
5. It has not been already included as a cost or used to meet cost sharing requirements or any other program;
6. It is adequately documented;
7. It is net of all applicable credits.

A cost is <u>reasonable</u> if, considering its nature and amount; it does not exceed that which would be incurred by a prudent person acting under the circumstances prevailing at the time the cost was incurred.

A cost is generally <u>allocable</u> to a program if the goods and services involved are chargeable or assignable to the particular program based on a reasonable benefit or use correlation. This correlation can be established by documented time studies, statistical reports or analyses. For example, the cost of space rental can be allocated based on actual space usage.

E. Indirect Costs

As in most organizations with multiple activities, CBOs incur certain costs that cannot be readily assigned to a specific benefiting activity, known as indirect costs. Funding sources may allow these costs to be claimed, thus necessitating a rational distribution of these costs.

Indirect costs should be distributed to the benefiting activities or cost objectives using bases that will produce an equitable result considering the relative benefits received.

A formal cost allocation process is required when the CBO has multiple funding sources or operates multiple programs.

The County contract and other funding agencies may impose other limitations and requirements on indirect costs claimed.

F. Service Records

Whether CBOs are under the line-item or fee-for-service method of payment, detailed service records which pertain to the County programs must be maintained. These records can consist of, but are not limited to: signed eligibility statements; client case records (name and address of client, date and type of service rendered); telephone logs and walk-in logs.

The contract with the County may indicate the specific types of service records that must be maintained for program and audit purposes.

G. Retention of Records

CBOs must retain all financial records associated with County contracts for five years after the final billing for the contract is made; or if an audit has begun during this five-year period, until audit findings associated with the contract are resolved. The CBO should retain the audit report for five years after it is issued and require the independent auditor to retain working papers associated with the audit for the same period.)

Longer retention period may be prescribed by State or Federal regulations.

H. Access to Records

Upon reasonable notice by the County and subject to the requirements of Health Insurance Portability and Accountability Act of 1996 (**HIPAA**) the CBO shall grant designated County staff or their representatives access to accounting and service records related to County programs.

When contracting out for an audit, the CBO should ensure that the auditor's work papers are retained and available to County staff as described above.

I. Budget

The budget is a plan for financial operations that provides a basis for controlling and evaluating activities. The budget is essential to a non-profit organization because it serves as a tool to demonstrate accountability of funds and resources received from grantors. The CBO is required to submit a composite budget to the County when it applies for a new grant or renews its contract.

A composite budget should be developed for the entire organization including all of its programs and should be approved by the board of directors. This budget should be supported by subsidiary budgets for each program and/or contract funded by a granting agency (e.g. the County). The subsidiary budgets should be approved by the granting agencies.

Generally, any budget modification that would result in or from a change in structure of the organization or change in services provided should be pre-approved by the granting agencies.

J. Accounting Software

Accounting software is used by many not-for-profit organizations to record financial transactions and generate reports. It eliminates the need to manually record transactions more than once, and aids in the preparation of timely financial reports. Often off-the-shelf software such as Quicken or QuickBooks has a non-profit version or can be easily adapted to the non-profit environment.

Most accounting firms provide consultation on the selection of accounting software.

III. FINANCIAL REPORTING

A. Financial Statements

The CBO must maintain adequate records in order to submit fiscal and statistical reports that may be required by the funding agencies and to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Such financial statements should include, but are not limited to:

- A statement of financial position
- A statement of activities
- A statement of functional expenses
- A statement of cash flows

There are differences in GAAP for voluntary health and welfare organizations and GAAP for not-for-profit organizations. CBOs should consult their accountants or independent auditors for the proper accounting principles to use.

All financial statements should be prepared based on the general ledger. The funding agencies, the County liaison departments and the board of directors may require supplemental financial statements in addition to those required by GAAP.

1. Statement of Financial Position

The primary purpose of a statement of financial position is to provide relevant information about the organization's assets, liabilities, and net assets as of a specific date. Three classes of net assets are required to be reported:

- Permanently restricted
- Temporarily restricted
- Unrestricted

2. Statement of Activities

The primary purpose of a statement of activities is to account for the revenues, expenditures and other activities that brought about changes in net assets.

3. Statement of Functional Expenses

Voluntary health and welfare organizations are required to provide a statement of functional expenses, which shows how expenses such as salaries and other operating expenses are allocated to the major programs or functions in the organization.

4. Statement of Cash Flows

The primary purpose of a statement of cash flows is to provide information about significant inflows and outflows of cash during a specified period.

B. Accounting Standards and Guidelines

Professional bodies such as the Financial Accounting Standards Board (**FASB**) and the American Institute of Certified Public Accountants (**AICPA**) have issued standards and guidelines that specifically apply to not-for-profit organizations.

Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) is the single authoritative source of U.S. accounting and reporting standards for nongovernmental entities; that is, it is the source of GAAP for nongovernmental entities. Not-for-profits should follow the guidance in all effective provisions of FASB ASC unless the specific provision explicitly exempts not-for-profits or its subject matter precludes such applicability.

Most of the guidance in the FASB ASC topics 105-899 applies to non-profit organizations and CBOs should consult with their independent auditors for guidance.

IV. INTERNAL CONTROL

A. Internal Control Structure

Internal control as a process, affected by the board of directors, management and other personnel to provide reasonable assurance that the following objectives are achieved:

- Operations are carried out effectively and efficiently.
- Financial reports are reliable.
- Laws and regulations are complied with.

The achievement of these objectives results in fiscal accountability.

B. Benefits of Internal Control

The benefits of a well though-out and properly maintained internal control structure may not be tangible or obvious, but are often measured by the impact of what would have happened if the control had not been in place. Therefore, a prudent board of directors should always insist on a strong internal control structure to ensure long-term fiscal accountability.

Among the many benefits to be derived from a strong internal control structure is;

- Assurance that the objectives of the organization are achieved.
- Assurance that assets of the organization are safeguarded.
- Assurance of compliance with laws and regulations.
- Increased support for grant applications, as a result of the demonstrated ability to manage financial resources effectively.
- Accountability for grant funds, thus greater support for continued funding.
- More efficient working environment resulting from the lack of disruptions caused by corrective actions.
- Smoother and easier audits.

C. Control Responsibilities

1. CBO

The CBO's board of directors and management are responsible for establishing and maintaining an adequate internal control structure to ensure and acceptable level of public accountability.

2. Independent Auditor

The independent auditor is primarily responsible for attesting to the fairness of the financial statements in accordance with GAAP. In connection with their audit, the auditors will evaluate certain aspects of the internal control structure.

3. County

The County is responsible for communicating the expected level of accountability to the CBO and for monitoring that accountability. County staff discharges this responsibility by stating their expectations in contracts, handbooks and other correspondence with the CBOs, by providing guidelines and tools such as this Handbook and by assessing the internal control structure of the CBO through review of audit reports, using questionnaire or conducting site visits.

D. Internal Control Questionnaire

The Internal Control Questionnaire included in Appendix 1 provides a list of basic internal controls that should be established in a medium size CBO to ensure a minimum level of fiscal accountability.

We recommend that the CBO management use this questionnaire as a tool to periodically evaluate its internal control structure. As part of their contract monitoring activity, County department liaisons may require the CBO to submit a completed questionnaire.

The Committee of Sponsoring Organizations of the Treadway Commission has additional internal control guidelines that can be found at http://www.coso.org.

V. INDEPENDENT AUDIT

A. Audit Responsibilities

1. County

The County contracts with various CBOs to carry out programs mandated by the State and federal governments or sponsored by the Board of Supervisors. As a pass-through agency, the County is responsible for ensuring that CBOs receiving funds through the County are spending them in accordance with contractual agreements and applicable laws and regulations. In order to discharge this responsibility, County staff communicates the pertinent audit requirements to the CBOs, then reviews and follows up on audit reports submitted by the CBOs and/or performs other monitoring procedures.

2. CBO

When contracting with the County to carry out certain programs with the funds received from the County, the CBO agrees to provide audit and other reports to demonstrate accountability. To fulfill this responsibility, the CBO engages the services of an independent auditor to provide the required audit reports to the County liaison department within six months of the end of the fiscal period and commits to resolving audit findings promptly.

B. Audit Requirements

1. Types of Audits

A CBO may be subject to five types of audits:

a. Financial Audit

In a typical financial audit performed in accordance with generally accepted auditing standards the auditor examines the financial statements of the organization and renders an opinion as to the fairness of their presentation. As part of their work the auditor may review the internal control of the organization.

b. Financial Audit According to Governmental Standards

In a financial audit performed in accordance with generally accepted governmental auditing standards issued by the U.S. Comptroller the auditor determines whether: (1) financial statements are fairly presented in conformity with GAAP, (2) the organization complied with laws and regulations and contractual provisions that may have a material effect on the financial statements, and (3) the organization has an adequate internal control structure to provide reasonable assurance that it is managing County programs in compliance with laws and regulations. This type of audit may be organization-wide or program specific.

c. Single Audit

A Single Audit is conducted according to generally accepted governmental auditing standards and to Office of Management and Budget Circular A-133. While a financial audit can be performed on individual programs, a Single Audit is performed for the entire organization.

d. Limited Scope Audit

Limited scope audits are paid for and arranged by the County and address one or more of these compliance requirements: activities allowed or unallowed; allowable costs and cost principles; eligibility; matching, level of effort and earmarking; and reporting. These audits are one form of agreed-upon procedures engagements conducted in accordance with generally accepted auditing standards.

e. Agreed-upon Procedures Audit

This type of assurance work is not strictly an audit and consists of a list of procedures to be performed by the auditors as agreed upon by their client, the purposes of which are usually to find answers to specific questions or concerns.

2. The Audit Process

An audit normally proceeds as follows:

1. Determination of audit requirements: The CBO determines the audit requirements by all funding sources, confirms them with the County and notifies the County of how it plans to satisfy these requirements.

2. Engagement of independent auditors: The CBO engages the services of an independent certified public accountant who will determine the type of audit work needed.

3. Entrance conference: The auditor meets with the CBO and discusses the purpose, scope and process of the audit.

4. Audit fieldwork: The auditor carries out audit procedures by reviewing and testing accounting and related records.

5. Draft report: The auditor prepares a draft report including financial statements, opinion letters and schedule of audit findings.

6. Exit conference: The auditor meets with the CBO and discusses the audit findings and the draft report.

7. Final report: The draft report may be revised after the exit conference. The final report may include the auditee's comments.

8. Distribution: Copies of the final report are distributed to the County and other appropriate parties.

9. County review: County staff reviews the audit report for compliance with County policy and contractual requirements.

10. Corrective action plan: The CBO provides the County and other concerned parties with a plan to correct the audit findings and resolve questioned costs.

11. Audit resolution: County staff reviews the corrective action plan and works with the CBO to resolve audit findings and questioned costs. The CBO can appeal in accordance with the policies set forth in the Contract Administration Manual. County staff makes the final decision on findings and questioned costs.

12. Audit closure: The audit is closed when all findings and questioned costs have been satisfactorily resolved with the County.

3. Audit Requirements

The general audit requirements stated below apply to all CBOs receiving funds through the County, irrespective of the original funding sources. Specific audit requirements are normally stated, or referred to, in each contract.

a. Thresholds

1) Federal funds recipients: CBOs that expend annually federal awards of:

    a) $500,000 or more from all sources must have a single audit in accordance with OMB Circular A-133. If funds were spent in one federal program, then a program-specific audit can be made. Otherwise,

    b) Less than $500,000 and at least $200,000 of funds received through the County are subject to limited scope audits by the County or other audits specified in the contract with the County. Otherwise,

    c) Less than $200,000 of funds received through the County are exempt from audit requirements except that these expenditures are taken into account in determining audit requirements for non-federal funds below.

2) Non-federal funds recipients: CBOs that expend annually funds received through the County from all sources totaling:

    a) $200,000 or more must have a financial audit in accordance with generally accepted auditing standards covering the entire organization.

    b) Less than $200,000 is exempt from this audit requirement except as otherwise stated in the contract and except for audits initiated by the County for monitoring purposes.

Federal funds are often passed through other levels of governments to the CBO but still retain their identity as federal funds for audit purpose. The pass-through agencies should inform the CBO of the identity of the funds.

b. General Audit Requirements

1) Audits must be organization-wide except that program-specific audits may be allowable by OMB under certain circumstances.

2) Audits must be done annually, except that, biennial audits may be allowed in accordance with OMB Circular A-133 and with the approval of the County.

3) All audits must be conducted by independent certified public accountants licensed by the State of California, and in accordance with generally accepted auditing standards or Government Auditing Standards, issued by the U.S. Comptroller General, as specified above and in the contract.

4) All non-audit assurance such as agreed-upon procedures and review services must be conducted in accordance with the appropriate standards established by the American Institute of Certified Public Accountants.

5) Audit reports and other assurance reports must contain sufficient information to identify the sources of funds and the findings related to each source of funds.

6) Audit reports are due to the County liaison six months after the end of the contract period, unless otherwise specified by the contract or allowed by the County.

7) When a funding agency or a County department has more stringent requirements, those shall prevail over those described herein.

c. Specific Audit Requirements

The funding agency and the CBO may agree to other audit requirements that supplement or modify the general audit requirements. These are specified in the contract.

C. Audit Resolution Process

The CBOs and County should resolve audit findings and recommendations related to County funds as follows:

1. Questioned Costs

Questioned costs are costs that are usually not properly supported by the CBO's records, or costs whose allowability cannot be readily determined due to lack of supporting records, unclear claiming instructions or due to their association with other questioned or disallowed costs. Within 30 days of the receipt of the audit report, the CBO and County should meet to develop a plan to resolve the questioned costs. Should the questioned costs remain unresolved due to lack of proper action by the CBO, they will become automatically disallowed costs within 60 days of receipts of the audit report.

2. Disallowed Costs

Disallowed costs are either unresolved questioned costs, unallowable costs or reimbursements in excess of allowed costs. To resolve these disallowed costs, the CBO must repay the amount disallowed in full to the County within 30 days of disallowance unless the County approves an alternative payment method. The County may enforce repayment by deducting the amount owed from any outstanding balance due the CBO, or by other legal means.

3. Findings on Internal Control and Compliance

When the audit report contains reportable conditions regarding internal control or compliance with laws and regulations, the CBO must submit within 30 days of receipt of the report a detailed plan to correct the deficient conditions. County staff will follow up within a reasonable time to ensure that the deficiencies are cured.

D. Disagreement and Appeal

Disagreements on the accuracy of audit findings should be resolved between the CBO and the auditor prior to issuance of the final audit report.

Disagreements between the County and the CBO concerning the audit resolution process described above should be resolved as follows:

1) CBO and department liaison should make every attempt to resolve disagreements within the framework set by Board policies.

2) If no agreement can be reached with department liaison the CBO should notify the County department head in writing of the nature of the disagreement and propose a solution.

3) The County department head shall respond within 30 days of receipt of the CBO's letter. The department head may seek

the advice of the Auditor-Controller or County Counsel as appropriate.

4) If no resolution is achieved at the department level, the CBO can appeal in writing to the County Administrative Officer (CAO) within 30 days of receipt of the liaison department head's response. The CAO shall evaluate the matter and respond to the CBO within 30 days

VI. APPENDICES

A. Appendix A – Internal Control Questionnaire

Internal Control Questionnaire

Purpose

This questionnaire is intended for use by the management of a medium size community based organization to assess the general condition of its internal control structure and make improvement thereof.

The questionnaire is designed so that a negative answer indicates a potential weakness in internal control.

The list represents common internal control procedures and is not comprehensive. Different organizations may use variations of the procedures listed.

The completed questionnaire may also be useful to auditors and funding sources monitors.

Instructions

1) The executive director should assign staff at the proper level to complete the questionnaire based on existing practices.

2) If the existing procedure does not match the described procedure in this questionnaire but provide an equivalent level of control appropriate explanation should be made in the Comments area.

3) Executive management or the board of directors should review the completed questionnaire and initiate the action necessary to correct the deficiencies disclosed.

Internal Control Questionnaire

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Internal Control Questionnaire

I. ADMINISTRATION

	YES	NO
1. Does the board of Directors meet monthly and review organization's activities?		
2. Are the minutes of the board meetings retained in a central location?		
3. Are the mission and goals of the organization: a) Approved by the board? b) Clearly defined in writing? c) Communicated to all employees?		
4. Is the organizational structure: a) Conducive to the achievement of goals? b) Communicated to all employees?		
5. Are operating policies and procedures: a) Designed to achieve the stated goals? b) Documented in sufficient detail? c) Communicated to all employees?		
6. Are accounting procedures clearly documented?		
7. Is there a budget for: a) The organization? b) Each program? c) Each contract?		
8. Do the budgets reflect the mission and goals of the organization?		
9. Does the board of directors approve the organization budget?		
10. Are the program budgets and contract budgets integrated with the overall organization budget?		

Internal Control Questionnaire

	YES	NO
11. Are the program budgets submitted to the funding agencies (e.g. the County) for approval?		
12. Is a double-entry accounting system maintained which includes at the minimum the following records: a) Monthly financial reports? b) General Ledger? c) Cash receipt journal? d) Cash disbursement journal? e) Payroll register?		
13. Are financial activities monitored by management and the board through: a) Periodic comparisons with budgeted amounts? b) Management reports to the board of directors?		
14. Is there a standard for documenting services provided to clients?		
15. Is there a policy in place to safeguard valuable and sensitive records?		
16. Is a record retention policy in place that satisfies legal and program requirements?		
17. Has the organization been audited in the past year by an independent auditor?		
18. Has the Board reviewed and acted on the most recent audit?		
19. Have past audit findings been resolved and recommendations been implemented?		
20. Does management monitor to ensure timely and accurate submission statutory filings?		
21. Is there a risk management program that provides adequate insurance coverage for: a) Directors' errors and omissions? b) Workers Compensation? c) Comprehensive general liability? d) Comprehensive automobile liability?		

Internal Control Questionnaire

	YES	NO
e) Fidelity bond? f) Professional liability? g) Fire damages?		

Internal Control Questionnaire

II. CASH RECEIPTS

(Cash includes coins and currencies, money orders and checks)

	YES	NO
1. Are the following duties performed by at least two individuals in aggregate? a) Authorizing the receipt of cash b) Handling cash c) Recording cash receipts d) Reconciling cash receipts records		
2. Are cash receipts immediately recorded?		
3. Are donations or grants recorded in accordance with the donor-imposed restrictions?		
4. Are direct solicitations or special event collections controlled by pre numbered tickets, receipt forms or similar means?		
5. Are monies collected by field personnel adequately controlled by cash register tapes, pre-numbered sales order or similar means?		
6. Are checks restrictively endorsed immediately upon receipt?		
7. Is documentation, including all correspondence, maintained for each restricted contribution or grant?		
8. For special event revenues, are ticket data and cash collections reconciled to ensure completeness?		
9. Are voided receipt forms, sales invoices, and credit memos adequately defaced and retained?		
10. Are cash receipts deposited promptly and intact?		
11. Are pre-numbered receipt forms, invoices, credit memos, and special event tickets safeguarded and accounted for?		
12. Are there physical safeguards for cash on hand?		
13. Is cashing of personal checks from cash funds prohibited?		

Internal Control Questionnaire

III. CASH DISBURSEMENTS

	YES	NO
1. Are the following duties performed separately by at least two individuals in aggregate? a. Authorizing cash disbursements b. Having custody of cash c. Recording cash disbursements d. Reconciling cash disbursement records		
2. Are disbursements made by check (except for petty cash)?		
3. Are all disbursements promptly recorded in a cash disbursement journal?		
4. Are cash disbursements supported by vendors' invoices or other external documents?		
5. Are bank reconciliations prepared timely for all accounts?		
6. Does the cash disbursement journal provide for allocation of expenditures to the appropriate programs?		
7. Is there an established method to allocate expenses amount programs, grants, or contracts?		
8. Does the board authorize all bank accounts and check signers?		
9. Are banks promptly notified of changes of authorized check signers?		
10. Do check signers review supporting documents before signing checks?		
11. Are supporting documents canceled to prevent their re-use?		

Internal Control Questionnaire

IV. CASH FUNDS

(Petty cash, change funds, revolving funds)

	YES	NO
1. Are all cash funds (on site and at banks) authorized by the board?		
2. Are funds kept physically separate from each other and from daily cash collections?		
3. Is the responsibility for each fund assigned to an employee?		
4. Is the use of each fund controlled through: a) Clear definition of authorized uses? b) Prior approval of disbursements? c) Submission of receipt or proof of payment? d) Cancellation of receipts after reimbursement?		
5. Is accountability for each fund verified by periodic cash counts and reconciliation to accountable balances?		
6. Are funds safely secured in a locked box with access limited to authorized staff?		

V. CLAIMS AND RECEIVABLES

(Claims include billings to clients and to funding sources)

	YES	NO
1. Are the following duties performed separately by at least two individuals in aggregate? a. Authorizing claims b. Preparing claims c. Receiving payments d. Posting cash and receivable records e. Reconciling claims and receivable records		
2. Are claims promptly submitted after delivery of services?		
3. Are fees charged to clients approved by the board?		
4. Are rates billed to funding sources approved by contracts?		
5. Does the accounting system identify and record reimbursable costs to facilitate the billing process?		
6. Is the method used to allocate costs to contracts or programs approved by the funding sources?		
7. Are claims checked for accuracy before mailing?		
8. Are claims promptly recorded as receivables?		
9. Are procedures in place to follow up on pledges and delinquent accounts?		
10. Are aged receivable reports prepared periodically and followed up?		
11. Is the account receivable subsidiary ledger reconciled to the general ledger monthly?		
12. Are pledges logged and promised payment date noted along with donor-imposed restrictions?		
13. Is the collection status of major pledges and pending grant applications reported to the board periodically?		

Internal Control Questionnaire

VI. PROPERTY AND EQUIPMENT

	YES	NO
1. Are the following duties performed separately by at least two individuals in aggregate? a. Authorizing the purchase or disposal of assets b. Posting property records c. Reconciling records to physical inventory		
2. Is there an authorization procedure for acquisition, disposition or transfer of assets?		
3. Are property records maintained to show identification code, location, description and cost for each asset?		
4. Is a physical inventory of assets taken annually?		
5. Are the property records adjusted to the inventory?		
6. Are there safeguards to protect the value of assets against excessive wear and tear or accidental loss?		
7. Are there procedures to ensure that assets purchased with grant funds are used and maintained in accordance with the grant agreements?		

Internal Control Questionnaire

VII. PURCHASING AND PAYABLES

	YES	NO
1. Are the following duties performed separately by at least two individuals in aggregate? a. Requesting goods/services b. Authorizing purchases c. Receiving goods and purchases d. Approving invoices for payment		
2. Are pre-numbered purchase orders used for all purchases except for petty cash items?		
3. Are major purchases obtained through a competitive bidding process?		
4. Are all purchases approved at appropriate levels?		
5. Is the receipt of goods and services documented?		
6. Is there a procedure to ensure that goods and services received are checked for conformance to specifications?		
7. Are vendor invoices promptly recorded in an account payable ledger?		
8. Is there a procedure to ensure that vendor invoices are processed in a timely manner?		
9. Are invoices checked for mathematical accuracy and matched with purchase orders and receiving reports before they are approved for payment?		
10. Is there a policy to accept only original invoices for payment?		
11. Is the accounts payable ledger reconciled to the general ledger monthly?		
12. Are credit balances followed up?		
13. Are refunds from vendors processed through the cash receipt system?		

Internal Control Questionnaire

VIII. PERSONNEL

	YES	NO
1. Are the following duties performed separately by at least two individuals in aggregate? a. Approving time sheets b. Distributing pay checks c. Maintaining payroll records d. Reviewing payroll records		
2. Does staff recruitment process include: a. Approval of job specifications at the proper level? b. Independent review and check of candidates' qualifications before hiring? c. Assignment to specific responsibilities upon hiring? d. Adequate initial job training?		
3. Is licensed staff required to maintain their licenses through continuing education?		
4. Is training provided periodically to help employees maintain job skills?		
5. Are personnel files maintained for all employees showing the employment history with the organization including: a. Employment application? b. Description of job assignments? c. Periodic performance appraisals? d. Documentation of changes in status?		
6. Are changes in payroll status (hiring, promotion, termination) approved in writing at an appropriate level of management?		
7. Are changes in employee status and personal data promptly forwarded to the payroll staff?		
8. Are final payments to terminating employees reviewed at an appropriate level of management?		

Internal Control Questionnaire

	YES	NO
9. Is the employee's time reported on time sheets approved by the supervisor?		
10. Does someone with no timekeeping duties review payroll checks for clerical accuracy before they are distributed?		
11. Are adequate records maintained to allow allocation of payroll costs to programs, specific grants and contracts?		
12. Does someone independent of payroll preparation and check preparation reconcile the payroll bank account?		

Internal Control Questionnaire

IX. COMPUTER FILES AND EQUIPMENT

	YES	**NO**
1. Do separate individuals perform the following duties? a. System design and programming b. Computer operations		
2. Is there an organization-wide policy to protect computer files and equipment?		
3. Is the responsibility for ensuring security of computer equipment and files assigned to a specific individual?		
4. Is access to computer files and equipment restricted to authorized personnel?		
5. Is there a business recovery plan to minimize the effect of accidental loss of files or interruption of processing ability?		
6. Are adequate retention, maintenance and back-up procedures in place for computer files and programs?		
7. Are proper documentation standards in place to ensure continuity of operations when there is a change in personnel?		

Internal Control Questionnaire

X. PROGRAM PERFORMANCE

	YES	NO
1. Does management have a reliable means of keeping informed of changes in legal/program requirements affecting the organization?		
2. Are new requirements communicated timely to personnel responsible for ensuring compliance?		
3. Are policies and procedures established to ensure eligibility of recipients of services?		
4. Are there policies and procedures established to ensure that matching requirement and maintenance of effort requirement are met?		
5. Does management periodically monitor compliance with program requirements?		
6. Has management set performance goals for the programs?		
7. Does management evaluate program results by reviewing periodic measurements of output and/or outcome?		
8. Does the board actively monitor program compliance and program performance?		