



Batts Morrison
Wales & Lee

CERTIFIED PUBLIC ACCOUNTANTS ®

Internal Financial Audit Checklist for Small Nonprofits

For Organizations with Simple Financial Activities and Structure

Organization Name:

For the Year Ended:

Members of Internal Audit Team:

Date Internal Audit Started:

Date Results Reported to Board or Governing Body:

Date Internal Audit Completed:

Disclaimer

This checklist is an educational guide only and is provided only for general informational purposes. No part of this document constitutes professional advice or services and this document as a whole does not constitute professional advice or services. This checklist is not intended to be comprehensive or exhaustive in scope. It is not a substitute for appropriate judgment. The use of appropriate judgment could result in performance of procedures other than those described in this checklist. The use of this checklist (or any variation of it) is not a substitute for obtaining professional accounting, auditing, legal, or other services. The publisher of this checklist makes no warranties whatsoever regarding the adequacy or propriety of the checklist for any purpose.

Other Resources

Additional information about the financial operations of nonprofit organizations is available in the books authored by Michael E. Batts, CPA, managing partner of Batts Morrison Wales & Lee, P.A. See www.NonprofitCPA.com/news-resources.

1. Bank accounts

a. Obtain the year-end financial reports used by the board/finance committee and identify all of the cash balances reported thereon.

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

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b. Match the cash balances on the financial reports obtained in Step 1.a. to bank reconciliations prepared by the accounting team as of the same date.

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

c. Compare the bank balances in the reconciliations to the balances as of the same date in the original bank statements (not copies - use either original bank statements or verify balances online directly with the bank). For any significant items treated as deposits in transit or otherwise added to the bank balance to reconcile to the balance per books, verify that the reconciling items are valid and correct. Scan the list of any outstanding disbursements for unusual or unexpected activity.

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

d. Investigate any significant discrepancies or unusual items.

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

2. Investment accounts

a. Obtain the year-end financial reports used by the board/finance committee and identify the investment account balances reported thereon.

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

b. Match the investment balances on the financial reports obtained in Step 2.a. to original statements (not copies) from the investment custodian(s) or to online balances obtained directly from the custodian(s).

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

c. Investigate any significant discrepancies or unusual items.

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

3. Dual control

a. Verify that the process of collecting donations (whether from collection boxes or in the mail) involves at least two unrelated people working together in the presence of each other at all times while handling or processing funds until the funds are fully processed, copies of the documentation have been provided to the accounting team, and a deposit has been prepared for the bank.

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

b. If funds are stored in a safe or other device before they are deposited with the bank, verify that access to the storage safe or device physically requires at least two unrelated people to open it and access funds, and that no overrides of that practice occur.

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

c. Verify that no persons who handle incoming funds have:

i. The ability to modify donor contribution records after initial input

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

ii. Any responsibilities related to issuing donor acknowledgments, receipts, or statements

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

iii. The ability to post entries to or modify account balances in the accounting system

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

4. Segregation of duties

- a. **Verify that no person who is an authorized signer on any of the organization's bank or investment accounts (or otherwise has any authority or ability to disburse organization funds) has any ability to post entries to or modify account balances or financial reports, including payroll records.**

(Note – it is very common for smaller nonprofit organizations that have never formally addressed internal controls to have one person in charge of all things financial. When one person has both control over funds and the accounting responsibilities for those funds, there is an elevated risk that financial misappropriation – if it were to occur – could go undetected. Having proper segregation of duties in this area not only protects the organization, it protects the reputations of the people involved. More information about internal control and proper segregation of duties is available in the book Nonprofit Finance – more information about the book can be found on the website referenced at the top of this checklist.)

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

5. Activity reviews

- a. **Verify that an appropriate official, knowledgeable about the organization's financial activities [other than an accounting team member], reviews the original bank statements (including the names of payees on canceled check images and other disbursements) or online banking activity reports every month to scan for unusual, unrecognized, or unauthorized disbursements. The reviewer should document the review performed each month.**

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

b. Verify that an appropriate official, knowledgeable about the organization’s financial activities [other than an accounting team member and other than the person who processes payroll], reviews the actual, final payroll disbursement reports immediately after each payroll for propriety. The reviewer should document the review performed each month.

Not applicable to this organization (issue doesn’t exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

6. Travel, meals, and hospitality expenses

a. If the organization has credit cards, obtain a sample of credit card statements from three months during the year and verify that proper documentation is kept to support the nature and amount of the expenditures in the credit card statement. (Make sure for travel, meals, and hospitality-type expenses that the documentation indicates the people involved and the business purpose of each expenditure.)

Not applicable to this organization (issue doesn’t exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

b. Select a sample of expenses incurred during the year for travel, meals, and hospitality-type expenses that are not charged to an organization credit card (e.g., that were reimbursed to individuals or paid directly by the organization) and verify that proper documentation is kept to support the nature and amount of the expenditures. (Make sure that the documentation indicates the people involved and the business purpose of each expenditure.)

Not applicable to this organization (issue doesn’t exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

7. Payroll tax compliance

- a. **By checking a sample of four payroll periods during the year (including the final pay period for the year), verify that payroll tax deposits (for employee payroll taxes withheld and employer payroll taxes) were made by the deadline required by federal law. (See IRS Circular E for information about timing requirements for payroll tax deposits.)**

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

8. Cash disbursements

- a. **Scan a list of all disbursements for the year for unrecognized vendors, unusual items, or questionable items and address any items identified as necessary and appropriate.**

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

9. Budget v. actual

- a. **Verify that all significant variances between actual amounts and budgeted amounts for each revenue and expense account for the year are adequately investigated and properly explained.**

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

10. Fraud inquiries

- a. **Inquire of each member of the accounting and finance team (including volunteers, board members, officers, or anyone having accounting or finance responsibilities) as to whether any of them is aware of or suspects any fraud or financial impropriety of any type in the organization. Document who was asked, when they were asked, and their responses. Investigate any expressed concerns.**

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

11. Compliance inquiries

- a. **Inquire of each member of the accounting and finance team (including volunteers, board members, officers, or anyone having accounting or finance responsibilities) as to whether any of them is aware of any IRS or other regulatory or legal compliance deficiencies in the organization. Document who was asked, when they were asked, and their responses. Investigate any expressed concerns.**

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

12. Insurance and other financial operations

- a. **Consider other areas of financial operations that warrant evaluation, including insurance coverages. At least every three years, evaluate the adequacy of specific insurance coverages maintained by the organization.**

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

13. Governance

- a. Verify that the actual number of directors/trustees and officers in place complies with the requirements of the Bylaws (or other official governing documents).**

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

- b. Verify that all elections and meetings required by the Bylaws (or other official governing documents) were held as required.**

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

14. Data Security Practices

- a. Verify that organization staff and volunteers with computer access receive quality training at least annually on safe practices for computer usage.**

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

b. Verify that computer access to all of the organization’s data (whether on the organization’s computers or stored in cloud-based applications) requires the use of robust passwords that are never shared.

Not applicable to this organization (issue doesn’t exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

c. Verify that everyone involved in the financial operations of the organization (accounting, finance, and leadership with approval authority) is knowledgeable about the fraudulent practice of “spear-phishing” – in which fraudsters send emails that appear to be genuinely from a known vendor or employee, and that request a change to the vendor or employee’s payment account information for electronic payments or direct deposits.

Not applicable to this organization (issue doesn’t exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes:

d. Verify that any request to change electronic payment information for any vendor or employee is always independently verified by two unrelated people who verify the authenticity of the request with the vendor or employee using a reliable method of communication other than email (e.g., a phone call to a number known to be associated with the vendor or employee) before the change is made.

Not applicable to this organization (issue doesn’t exist or apply to us)

Not considered necessary to address (explain reasons):

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Date:

Results/notes:

e. Verify that the organization retains the services of a competent, professional IT service firm to regularly advise the organization on appropriate data safety and security practices and that the IT firm's recommendations are appropriately implemented.

Not applicable to this organization (issue doesn't exist or apply to us)

Not considered necessary to address (explain reasons):

Addressed by:

Date:

Results/notes: