

# **Best Practices for Nonprofits' Internal Control Self-Assessment**

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## **Abstract**

The objective of this paper is to compile a stepwise menu of tasks that allow nonprofit organizations (NPOs) to self-assess the operation of previously assembled internal control policies and procedures, and to do so at any given size and stage during its life cycle. After self-assessing policies and procedures, the nonprofit organization can provide to stakeholders evidence of efficiency in its backroom operations, which in turn allows the organization to effectively operate its said mission and build capacity.

An analysis of Copedia's Non Profit Edition policies and procedures manual template library and its internal control assessment tool yielded the following results for four defined sizes of NPOs. For Small NPOs, 80 Unique Tasks allow a small NPO to self-assess its internal controls when the organization's activities are viewed as a whole. For Medium NPOs, 107 Unique Self-Assessment Tasks are needed to assess activities. For Large NPOs, 130 Unique Tasks allow a Large NPO to self-assess its internal controls. Finally, 143 Unique Tasks allow an Extra-Large NPO to self-assess its internal controls when the organization's activities are viewed as a whole.

### **JEL classification numbers:**

**Keywords:** Nonprofit Organizations, Accounting, Auditing, Governance, Self Assessment, Internal Controls

## **1 Introduction**

The National Council of Nonprofits describes the significance of nonprofit self-assessment, measuring outcomes, and building capacity as follows:

*"Organizations that are serious about their theory of change engage in regular self-assessment and evaluation of outcomes. The results of measuring outcomes can be*

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*shared with stakeholders to illustrate the impact of an organization's programs and activities, and to demonstrate the difference the organization is making in its community and in peoples' lives (National Council of Nonprofits 2013)."*

The objective of this paper is to compile a stepwise menu of tasks that allow nonprofit organizations (NPOs) to self-assess the operation of previously assembled internal control policies and procedures, and to do so at any given size and stage during its life cycle. After self-assessing policies and procedures, the nonprofit organization can provide to stakeholders evidence of efficiency in its backroom operations, which in turn allows the organization to effectively operate its said mission and build capacity. Working in collaboration with The Chapin Foundation, The Waccamaw Community Foundation, and The Frances P. Bunnelle Foundation, the output of this multi-stage project will assist NPOs obtain affordable audits and reviews, utilize cost-effective techniques when self-assessing policies and procedures, and add to the self-assessment tasks as they grow. Achieving compliance with best practices for financial accountability, transparency, and board governance, the output of these projects facilitate the link between philanthropic leadership, charitable resources, and civic influence with community needs and opportunities.

This project is the fourth stage in an effort to address the concerns of South Carolina NPOs and to provide cost effective methods to either centralize or standardize "back-room operations" for accounting, auditing, and corporate governance issues. With this and each future project, the common goal is to provide cost effective methods for South Carolina NPOs to achieve best practices.

## 2 Project Background

In the fall of 2011, the graduate Advanced Auditing class at Coastal Carolina University surveyed South Carolina NPOs to determine what practices and programs the organizations had in place, the areas of weaknesses, and necessary steps to achieve more efficient accounting and stewardship practices. Open responses included the following comments:

- "The cost of financial reviews and preparation of the 990 tax return is extremely expensive to non-profit organizations."
- "Make sure nonprofits are aware of best practices in finance and accounting and strive to better manage the organization's assets each year, whatever their budget."
- "There could be a pool that nonprofits buy membership into that allows discounts for back office costs such as audits, marketing, purchasing, HR, legal, etc. (Maguire 2012)."

As a result of this research, in the fall of 2012 the graduate Advanced Auditing class at Coastal Carolina University conducted research in an effort to provide opportunities for South Carolina NPOs to centralize or standardize "back-room operations" for accounting, auditing, and corporate governance issues. The objective of the fall 2012 research was to assemble a stepwise menu of policies and procedures for Nonprofit Organizations (NPOs) in South Carolina. Copedia's Non Profit Edition Content Library of policies and procedures was employed to help NPOs of all sizes achieve best practices suggested by

SCANPO's Guiding Principles and Best Practices, third edition; the National Council of Nonprofits' Principles for Good Governance and Ethical Practice; and Blue Avocado's Five Internal Controls for the Very Small Nonprofit. The research determined the Copedia policies applicable to NPOs on a size basis. This research provided menus of policies for NPOs of four different sizes. All four size menus of policies meet state and federal legal requirements, achieve state and national best practices, and the stepwise format allows NPOs to add to their policies and procedures manual as they grow (Maguire 2013).

In the spring of 2013, the graduate Fraud Examination class at Coastal Carolina University conducted a financial asset mapping and gap analysis of all NPOs in Horry and Georgetown Counties of South Carolina. The project analyzed tract level census data; created a database and geographical mapping of all NPOs in the two counties; conducted a financial analysis of these NPOs based upon the ten NPO categories defined by the National Council of Nonprofits and The Urban Institute; identified geographical or financial gaps for the ten categories; and identified opportunities to build capacity by centralizing or standardizing backroom operations of the NPOs (Maguire 2013).

This project is the next step to in the effort to optimize and standardize "back-room operations" for accounting, auditing and corporate governance issues by responding to the feedback received from local NPOs, conducting research, and providing assistance at Coastal Carolina University. This project will determine the most effective and efficient testing tasks to self-assess the previously assembled policies and procedures manuals. This goal of this research is to further improve the cost effectiveness of both internal and external audits and help the NPOs achieve best practices. This research is sought not only to help local NPOs to standardize and grow, but also to help reduce the costs to build connections between the nine existing NPO sectors in Horry and Georgetown Counties (Maguire 2013).

To enhance the understanding of this paper, internal controls, self-assessment, and best practices must be defined. According to the Committee of Sponsoring Organizations, the architects of the *COSO Internal Control – Integrated Framework*: "Internal control helps entities achieve important objectives and sustain and improve performance" (COSO 2013). COSO also defines self-assessment as "a sustainable process whereby management periodically validates the operating effectiveness of the company's key controls vs. relying on internal or external auditors to make such an assessment" (2013). Finally, best practices can be defined as "proven methodologies for consistently and effectively achieving a business objective" (Vermont Department of Finance 2013), which are essentially the best ways to execute various situations within a nonprofit organization.

Functioning internal controls support transparency and accountability, which The National Council of Nonprofits deems essential for donor contributions, volunteer recruitment, reputation and recommendations (2013). Transparency allows the donor to make the decision to contribute to an NPO's mission, and information that is both accurate and available builds trust and goodwill with all types of stakeholders (IAAC 2009). Accountability assures donors that each contribution is being utilized for its intended use. According to The National Council of Nonprofits (2013), accountability and transparency help the organization obtain access to capacity building, which is whatever is needed to bring a nonprofit to the next level of operational, programmatic, financial, or organizational maturity.

Additional benefits of self-assessment of internal controls include reduced billable audit

hours, reduced information risk, and reduced fraud risk. Each nonprofit will be able to reduce billable audit hours as all needed information will be organized and more easily audited. InterAmerican Accreditation Cooperation (IAAC 2009) states, “Information risk encompasses all the challenges that result from an organization’s need to control and protect its information.” Information is a valuable asset in any form and is used to make vital decisions. Testing internal controls minimizes the risk of information being altered to negatively impact the outcome of said decisions. According to The American Institute for Certified Public Accountants (AICPA 2007), properly functioning internal controls reduce fraud risks and unintentional errors. This can be done in a preventive or detective manner. Preventive internal controls allow the organization to proactively plan and discourage errors or fraud before the incident happens. Detective internal controls allow the organization to identify smaller errors or fraud before said event becomes immense (AICPA 2007). Planning for such risks and future costs via self-assessment add value to each nonprofit organization.

### 3 Self-Assessment Decision Task Criteria

This project employs the NPO size categories defined in the fall 2012 project that assembled the policies and procedures manuals for NPOs of four different sizes. The four sizes of NPOs are – Small, Medium, Large, and Extra-Large. The primary source used to define these categories is SCANPO’s Nonprofit Membership categories (SCANPO 2012). SCANPO bases membership dues primarily on full time employee equivalents (FTEs). The four categories using SCANPO’s FTEs are therefore:

- Small NPO – Up to 2 FTEs
- Medium NPO – 3 to 15 FTEs
- Large NPO – 16-50 FTEs
- Extra-Large NPO – 51+ FTEs (SCANPO 2012).

Some sections of the Copedia manual required a secondary size definition based upon dollars or accounting method to clarify category choices. When dollar size was employed, the current sizes as defined by the Form 990 Series were used (IRS 2012).

- Small NPOs were considered small if it filed the Form 990-N and had gross receipts normally less than \$50,000.
- Medium NPOs were expected to file the Form 990-EZ with gross receipts less than \$200,000 and total assets less than \$500,000.
- Large NPOs would file the Form 990 with gross receipts greater than or equal to \$200,000 and total assets greater than or equal to \$500,000 (IRS 2012).

When accounting method was needed to clarify a category choice, the assumption was made that small NPOs mainly utilized cash basis accounting methods, medium NPOs mainly utilized modified-accrual accounting methods, and large NPOs mainly utilized full-accrual accounting method (Maguire 2013).

The third step in the fall 2012 project was to assign specific policies and procedures to NPOs of different sizes so that they achieved best practices. At the same time, we did not want to apply policies and procedures to smaller NPOs that would encumber them with policies that were too complex and that actually hindered their effective and efficient operation. Three sources of best practices were therefore employed: SCANPO’s Guiding Principles and Best Practices, third edition; the National Council of Nonprofits’

and the Panel on the Nonprofit Sector's Principles of Good Governance and Ethical Practice; and Blue Avocado's Five Internal Controls for the Very Small Nonprofit. The completed policies and procedures manuals for all four sizes of NPOs succeed in addressing every best practice category for all three of these sources (Maguire 2013).

SCANPO's Guiding Principles and Best Practices, third edition are comprised of nine major guiding principles:

1. Mission & Strategic Direction

Nonprofits engage in strategic thinking as a continuous process that drives organizational success. Board leadership thinks deliberately about its mission, values and vision, considering how to operate effectively, stay relevant and achieve sustainability.

2. Governance

Nonprofit boards govern by providing high-level vision and leadership to ensure sound stewardship of organizational assets and resources.

3. Legal & Ethical Accountability

Nonprofits, by nature, exist to serve the public good. They are obligated to display high levels of ethical behavior, accountability, transparency and compliance with the law.

4. Financial Management & Stewardship

Nonprofits effectively and responsibly manage the financial resources bestowed upon them and upon which they rely to accomplish their mission.

5. Operations & Evaluation

Nonprofits develop, implement and monitor operational plans to ensure accountability, evaluation and continuous improvement.

6. Human Resources

Nonprofits recognize that people are their most important asset. They utilize effective leadership and fair practices to attract and retain employees and volunteers.

7. Fundraising

Nonprofits provide donors with ways to support the community, causes and organizations they value. As agents of philanthropy, nonprofits have an ethical and fiduciary obligation to handle funds appropriately, honor donors' wishes and have sufficient funds to carry out its mission.

8. Marketing & Communications

Nonprofits engage in marketing that adheres to high ethical and professional standards to communicate the organization's mission, vision, values and progress toward social change to all stakeholders.

9. Information Management

Nonprofits use secure technologies to maintain accurate information that informs decision-making (SCANPO 2012).

The best practices established by the National Council on Nonprofits and the Panel on the Nonprofit Sector are comprised of 33 principles categorized into four main categories:

1. Legal Compliance and Public Disclosure

Responsibilities and practices, such as implementing conflict of interest and whistleblower policies, that will assist charitable organizations in complying with their legal obligations and providing information to the public.

2. Effective Governance

Policies and procedures a board of directors should implement to fulfill its oversight and governance responsibilities effectively.

3. Strong Financial Oversight

Policies and procedures an organization should follow to ensure wise stewardship of

charitable resources.

#### 4. Responsible Fundraising

Policies and procedures organizations that solicit funds from the public should follow to build donor support and confidence (Panel on the Nonprofit Sector 2007).

Blue Avocado recommends Five Internal Controls for the Very Small Nonprofit as follows:

1. Set the control environment to let everyone know from the top down that there are policies in place and everyone has to follow the policies.
2. Define clearly who is responsible for what.
3. Have physical controls (such as locks, and passwords).
4. If there is cash involved then have two people count it.
5. Have the bookkeeping and bank reconciling functions separated (Ho 2010).

This research was focused on taking a minimalist approach to the smallest category and slowly adding and integrating policies as the organization grows, with a culmination of all the policies being used in the largest category.

Whereas the fall 2012 project focused on the design of policies and procedures manuals, this project focuses on self-assessing the operation of these policies and procedures once they have been implemented. In its Content Library, Copedia provides an internal control assessment tool, which provides lists of all activities within each section of the manual that must be in operation in order for the policies and procedures to be effective (Hoover 2010). The first step in this project was to align the activities with specific policies in the section. The second step of the project was to assign specific activities to NPOs of different sizes based upon the policy menus created in the fall 2012 project. The third step of this project was to design tasks that could provide evidence and assurance to an NPO's board, management, employees, and external stakeholders that the established policies and procedures are in place and operating effectively. As with the fall 2012 project that addressed the design of policies and procedures manuals, we decided not to apply all the tasks to smaller NPOs since the activities are too complex and are not encountered in operations. This research was focused on taking a minimalist approach to the smallest category and slowly adding and integrating activities and self-assessment tasks as the NPO and its policies and procedures manual grows. In addition, we took into account the inability of smaller NPOs to fully segregate duties, the result of which requires increased board member involvement in supervisory and review duties. Given that all of the policies are employed for the extra-large NPO, so will all of the activities and self-assessment tasks be recommended. Analysis within each section of policies will address which self-assessment tasks will test the policies and related activities that are in operation for Small, Medium, Large, and Extra-Large NPOs.

### 3.1 C.R.I.M.E.

The Committee of Sponsoring Organizations (COSO) developed an internal control framework that is made up of five related parts. COSO defines internal control as “a process – effected by an entity's board of directors, management, and other personnel – designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) Reliability of financial reporting; (b) Effectiveness and efficiency of operations, and; (c) Compliance with applicable laws and regulations” (COSO 2013). According to COSO, “these components provide an effective framework

for describing and analyzing the internal control systems implemented in an organization” (COSO 2013). The five parts are:

Control activities;

Risk assessment;

Information and communication;

Monitoring;

Environment;

Which can be recalled with the acronym C.R.I.M.E.

The fifth and final element in the C.R.I.M.E. acronym, the Control Environment, is the most important. The environment is the tone at the top of the organization, which is often referred to as the symbol of an umbrella that overarches and crosses all organizational functions. The Control Environment affects employees' and stakeholders' perception of the organization. The tone at the top should include Control Environment factors that demonstrate integrity and ethical values and serves as a tool for managing and developing the internal and external relationships in the organization (COSO 2013).

Risk assessment is the second element and it is the recognition that every organization has internal and external risks that must be assessed in order to avoid the pitfalls of the risk. Risk assessment involves the identification, analysis, and management of the relevant risks to the NPO's goals and objectives (COSO 2013).

Control activities, the next element of the framework, are the NPO's policies and procedures that it has in place to ensure employees efficiently and effectively carry out duties defined by management. The defined activities discussed in this paper help limit risks that may hinder an organization from achieving best practices and stated goals. Examples of Control activities include segregation of duties, safeguarding assets, and authorizations (COSO 2013). In order to effectively have functioning internal controls, COSO describes certain duties within the organization that should be segregated. This presents a unique challenge to Small and possibly Medium sized NPO's, given that they do not have the quantity of employees to fully segregate duties. In these cases, it is recommended that board members take on additional supervisory and review duties in order to segregate the duties that hold the greatest risk to the NPO (BDO Consulting 2009).

Information and Communication is the fourth element of the COSO framework. Information systems play a major part of organizations' internal control systems by keeping track of operational, legal and financial information needed to run the NPO and achieve best practices within the organization. Communication plays a vital role within the internal control system because an organization must ensure that the correct information is communicated throughout the organization to both internal employees and external partners (COSO 2013).

The last element is Monitoring. Monitoring is the NPO's oversight of the internal control procedures. Monitoring is in place to minimize deficiencies in the internal control system. While monitoring, all deficiencies must be reported and action to correct any deficiencies must be taken to ensure the internal control system is effective and allows the organization to achieve best practices (COSO 2013).

The tasks presented in this paper allow NPOs to monitor their control activities, self-assess and manage risks they encounter, and communicate this information to stakeholders. This process creates a control environment that conveys an ethical tone at the top.

### 3.2 Four Types of Tests

The self-assessment process consists of four types of auditing tests. *According to Auditing Standard No.5.50 Nature of Tests of Controls*. “Some types of tests, by their nature, produce greater evidence of the effectiveness of controls than other tests. The following tests that the auditor might perform are presented in order of the evidence that they ordinarily would produce, from least to most: inquiry, observation, inspection of relevant documentation, and re-performance of a control” (PCAOB 2007).

Inquiry and Observation are less reliable than Inspection and Reperformance. With Inquiry, the person conducting the self-assessment (leader) may ask an employee for information, either financial or nonfinancial. Given that this information is based upon a person’s perspective, and if they desire to they can lie, Inquiry always needs to be supported by another, more reliable, assessment test. The same is true for Observation. In this case, the person conducting the self-assessment observes how a process is carried out. Given that the Observation is done periodically, the employee(s) could carry out the process in a different way when they are not being observed (PCAOB 2007).

Inspection and Reperformance are considered more reliable tests of internal controls. Inspection involves the review of internal and external documents and reports. Examples include the inclusion of specific policies in the NPO’s policies and procedures manual, authorizing signatures, or activity logs. With Reperformance, the person conducting the self-assessment will independently execute an activity or procedure that was previously completed by employees. This allows the leader to compare the results of the employees with the leader’s independent output. Differences suggest that an internal control is not operating effectively (PCAOB 2007).

This project classifies recommended self-assessment tasks into one of these four categories. This allows for a more efficient and cost effective self-assessment process, and it allows the NPO to evaluate evidence based upon the reliability of the type of audit test.

### 3.3 Strategy for Internal Control

The fall 2012 project addressed the design of policies and procedures manuals (Maguire 2013). One of the sections of the manuals was “Controls and Best Practices,” which contained the internal control policies for the various sections of the Copedia Content Library (Hoover 2010). As with other sections, the strategy involved choosing policies that were useful and cost effective for Small NPOs, then gradually implementing additional policies until the full set of internal control policies was adopted by Extra-Large NPOs. This strategy, reproduced below, will be carried forward into this project. This allows all four sizes of NPOs to achieve best practices in both the design and operation of their internal controls without encumbering smaller NPOs with controls, activities, and self-assessment tasks that are more sophisticated and costly than their operations warrant (Maguire 2013).

Internal Controls are used to promote orderly and efficient operations. They are also put in place to safeguard resources against errors and cases of fraud as well as to promote compliance with regulations and statutes. Through implementation of internal controls NPOs should produce quality products and services, as well as develop and maintain reliable financial and management data. With regards to NPOs there are numerous controls that must be established throughout the life of the company, but it can be difficult



for companies with one to two people to implement all of these policies simultaneously. The smallest category must establish a base level of policies that set the control environment. From the beginning, there must be policies in place that are followed by everybody without exception. Top management can set an ethically responsible tone that shows all procedures must be followed from the top down (Maguire 2013).

### **3.3.1 Small NPOs**

According to Blue Avocado, a control environment must be established from the start. This environment is similar to what non-public companies call a “SOX-like environment,” referring to the regulations and compliance controls of public companies set forth by the Sarbanes-Oxley Act of 2002 (Ho 2010). Although private companies are not required to follow SOX, many companies are trying to adhere to these policies in order to have better standing with stakeholders. All the base policies will be put in place to establish a control environment, which will enable additional policies to be added on as the company grows. Each policy dealing with the overall environment of the company includes IC-100 Internal Control Policy, IC-110 Internal Control Evaluation Tool, IC-120 Environment, IC-130 Activities, IC-140 Risk, IC-150 Information and Communication, and IC-160 Monitoring. All of these policies are general policies that must be instituted from the beginning to establish a base level of controls (Maguire 2013).

### **3.3.2 Medium NPOs**

Moving into the medium category, high risk items need to be addressed to try to limit the liability of the company. Controls over cash and checks should be implemented by medium size NPOs. Legal liability is also a concern as the NPO grows. It is recommended that all policies regarding Safety, Payroll, and Human Resources are complete in order to protect the NPO going forward and lower liability and risk. Lastly, it is recommended that full Internal Control Reviews be implemented to begin to assess and review the NPO’s internal controls as it continues to grow. Policies recommended include IC-330 Checks, IC-350 Payroll and HR, IC-410 Cash, IC-500 Internal Control Reviews, and IC-750 Safety (Maguire 2013).

### **3.3.3 Large NPOs**

NPOs in the large category will have transitioned to the accrual basis of accounting. It is recommended that all accounting controls that would fall under the accrual basis be fully implemented to match the accounting basis the NPO would be using. These categories include Revenue, AR, Expenditure, AP, and Assets. All of these controls must be fully implemented due to the shift to the accrual basis. Policies recommended include IC-210 Revenue Cycle, IC-220 Accounts Receivable, IC-300 Expenditure Cycle, IC-320 Accounts Payable, IC-400 Assets, and IC-450 Receiving (Maguire 2013).

### **3.3.4 Extra-Large NPOs**

At the extra-large NPO category, all previous controls will be in place, and all other controls will be fully implemented. The policies include Financial Reporting, Purchasing, Receiving, Data Integrity, Markets and Customers, Sales, Project Management, Job Costing, and Retail. There are adequate controls in the individual

categories to satisfy overall risk until these control policies are fully implemented at the extra-large level. Policies recommended include IC-200 Financial Reporting, IC-550 Data Integrity, IC-600 Markets and Customers, IC-610 Sales, IC-700 Project Management, and IC-710 Job Costing (Maguire 2013).

The overall goal when establishing internal controls is to initially create a SOX- like environment to establish a solid base level of control within the NPO. As the NPO grows the risk of each policy is assessed to determine what size is necessary for the company to adopt the full control. Smaller NPOs should not be burdened with policies that are neither necessary nor required, but it is necessary to protect the company from fraud and legal risks. This should create a picture of how gradual implementations of full controls can be done efficiently and effectively over the life of the NPO (Maguire 2013).

### 3.4 Seven Recommendations for all Firms to Facilitate Self-Assessment

The self-assessment function is a review with the performance of various proven tests or tasks that examine the effectiveness and efficiency of the internal controls in place within an NPO. One of the advantages of the process outlined in this paper is that one self-assessment task may apply to more than one internal control activity. Categorizing the self-assessment tasks into the four types of audit tests facilitates this efficiency. Conversely, engaging in certain internal control activities may facilitate the self-assessment process. In other words, conducting certain activities on a regular basis later allows for a cost effective task that also has a high level of assurance that the control is operating effectively. There are seven recommendations to facilitate self-assessment, which apply across the board to all NPOs of all sizes. A self-assessment process helps achieve accountability and transparency. The three main benefits, as previously discussed, of the self-assessment process are: The reduction in cost of an audit of the NPO's financial statements; the reduction of information risk; and the reduction of fraud risk to an NPO. A self-assessment helps establish confidence in the backroom functions of an NPO, which in turn provides more time to focus on the mission and goals of the NPOs. In this section the word employee also applies to volunteers and others that assist the organization in operations and representations.

We make the following recommendations:

1. All NPOs should provide all new employees with a Policies and Procedures Manual to read and understand. Upon completion, the new employee should be provided with, sign, and return an employee form, which states that they received a policy and procedures manual, they read the policy and procedures manual, and they understand the policies and procedures of the organization. In addition to new employees, the NPO should annually require existing employees to sign the employee form stating that they have received, read, and understand the policies and procedures manual. These forms provide reliable evidence during a self-assessment. Rather than inquiring of employees about their knowledge of the NPO's policies and procedures, the person conducting the self-assessment can now inspect these forms as a task. Given that inspection is a more reliable audit test than inquiry, the evidence provides a higher level of assurance for the NPO and its stakeholders. This will also hold each employee accountable for following proper procedure, which, in turn, will help the NPO achieve best practices.
2. All NPOs should invest in standard "off the shelf" not-for-profit (NFP) accounting software. With such software many best practices are achieved. The software has built-in information technology (IT) internal controls. It can help prevent employees overriding the

systems or controls. With accounting software, a leader or Board of Directors member can monitor all general ledger entries, what employee username created the entries, as well as track the transaction through the entire accounting process. A key internal control function, the control of access to accounting records, is standard in “off the shelf” accounting software. Not only will the standardized NFP accounting software impose IT controls on employees, it creates the opportunity for better testing during a self-assessment. The leader conducting the self-assessment can reperform any activity previously performed by employees, which is a more reliable test than observing employees actions periodically.

3. All NPOs should ensure that the monthly bank statement is mailed to a separate person and address for the function of bank reconciliation. We suggest that a member of the Board of Directors or the NPO’s Certified Public Accountant be responsible for receiving and reconciling the monthly bank account transactions. This step allows a person not involved in the day to day operations examine the cash received, the cash that is to be on hand, and the cash used to pay expenses. This is a strong internal control that will greatly reduce errors and fraud risk. During the self-assessment process, the leader conducting the self-assessment then has the opportunity to inspect the mailing address on the bank reconciliation, inspect the signatures of those who completed the reconciliation, and reperform the bank reconciliation.

4. All NPOs should provide “view only” access to all bank accounts of the NPO to all members of the Board of Directors for monitoring purposes. This function gives the governing body the ability to monitor the accounts without opening a window of opportunity for misappropriations. Given that monitoring is a continuous process, this is a cost effective way for board members to inspect transaction details to be sure funds are directed toward forwarding the NPO’s mission.

5. All NPOs should utilize a financial institution process of a lockbox service. With lockbox service, a third party – typically a financial institution – opens donations, payments, and other funding processes. This is an extremely important internal control when an NPO does not have the ability to segregate duties. The advantages of lockbox services include the prevention of employee theft or fraud occurring within an NPO. Expenses for accounting hours are reduced because collections and accounts receivable are processed at a separate location and typically the funds are available sooner from a financial institution. There are lockbox services that specialize in the needs of NPOs (BDO Consulting 2009). In the event that obtaining the services of a lockbox service provider is rejected by the NPO’s board, the recommendation is made that an NPO implement a requirement that establishes cash control procedures such that two or more people verify cash counts and sign cash control logs verifying the physical count and recordings of the amount.

6. All NPOs should adopt and transition to the Unified Chart of Accounts (UCOA) (NCCS 2012). The acceptance of UCOA is a policy that is applicable to all sizes of NPOs. Incorporating UCOA is recommended for the stepwise menu of policies and procedures proposed in the 2012 South Carolina Nonprofit Policies and Procedures Paper (Maguire 2013). UCOA is compatible with nonprofit accounting software systems. Financial reporting that follows UCOA will help in the preparation for an independent audit or review. Smaller NPOs can use a subset of UCOA accounts and then add accounts as they grow. In addition, The National Center for Charitable Statistics, the co-creators of UCOA, provides instructions for existing NPOs to transition from their existing chart of accounts to UCOA (NCCS 2012). UCOA is compatible with both the Form 990 and the federal Office of Management and Budget, which handles the administration of federal grants to NPOs

(NCCS 2012). Lastly, with UCOA in use, the person conducting the self-assessment can reperform any previously completed process, including the generation of financial statements, the Form 990, and federal grant job costing, all of which are then compatible with one another.

7. All NPOs should adhere to the certification of financial statements as required of public companies under the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act 2002). This is available in Copedia's Nonprofit Edition (Hoover 2010). The certification process is recommended for all sized NPOs. It provides for the NPO's chief financial leader and executive director to sign and attest that the NPO's financial statements are void of any misstatements and are presented fairly. Acknowledgement is also made that internal controls have been designed and implemented so that reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes are in accordance with generally accepted accounting principles. These documented signatures allow the person conducting the self-assessment to inspect rather than only inquire about the reliability of financial operations.

## 4 Self-Assessment Tasks for Each Policy Category

For each category of policies the self-assessment tasks have been identified. They are described below.

### 4.1 Board of Directors, Governance and Environment

Table 1: Counts of Policies, Activities, and Tasks for Board of Directors, Governance and Environment

	Small	Medium	Large	Extra-Large
<b>Required by Law</b>	0	0	0	0
<b>Recommended for Best Practices</b>	6	6	6	6
<b>Total Policies</b>	6	6	6	6
<b>Activities</b>	48	48	48	48
<b>Self-Assessment Tasks</b>	9	9	9	9

Control environment factors communicate the tone at the top and demonstrate a commitment to integrity and ethical values (COSO 2013). It also serves as a tool for managing and developing internal and external relationships within the organization. Three of these policies are in the Board of Directors and Governance section of the assembled policies and procedures manuals. The other three are in the Controls and Best Practices section of the assembled manuals, and set up the Control Environment (Maguire 2013). The six policies in this section address establishing formal policies and procedures, setting an ethical tone, and hiring and maintaining qualified personnel. Activities carried out by the NPO that will allow previously mentioned policies related to environment to operate effectively include organizational structure, codes of conduct, ethical tone, and competence (Hoover 2010).

To achieve best practices via self-assessment within the NPO's environment, the

organization should periodically observe the ethical environment along with the enforcement of Policies and Procedures (Defense Contract Audit Agency 2009). The NPO must complete the following tasks in order to self-assess that environment policies are implemented and fully functioning.

#### 4.1.1 All NPOs

The recommended inspection tasks for all size NPOs are as follows:

- Existing Documentation:
  - Policies and Procedures Manual (comprehensive)
  - Employee records such as education, experience and certifications to confirm each are properly qualified for positions
  - Organizational chart with clear lines of authority and reporting
- Documentation Signatures
  - Employee forms stating they have received, read, and understand Policies and Procedures Manual
  - Delegation of authority evidenced by multiple signatures where applicable

The recommended inquiry tasks for all size NPOs are as follows:

- Inquire of employees
  - To ensure that ethical behavior is predominant
  - To determine if Code of Ethics and Code of Conduct are properly enforced
  - To determine they know how to report unethical behavior
  - To determine if they are aware of how their performance is evaluated

## 4.2 Mission, Vision, Planning and Risk

Table 2: Counts of Policies, Activities, and Tasks for Mission, Vision, Planning and Risk

	Small	Medium	Large	Extra-Large
<b>Required by Law</b>	1	1	1	1
<b>Recommended for Best Practices</b>	3	3	3	4
<b>Total Policies</b>	4	4	4	5
<b>Activities</b>	21	21	21	21
<b>Self-Assessment Tasks</b>	11	11	11	11

Risk assessment is an element of the COSO framework for internal controls (COSO 2013). Every organization must realize they face internal and external risk and assess those risks so they do not become pitfalls. The policies in this section that address risk identification, analysis, and management are found in the Mission, Vision, and Planning section, and in the Controls and Best Practices section of the assembled manuals. Only one of these policies, Mission Statement, is required by law (Maguire 2013). The activities that allow these policies to operate effectively include: organizational goals; organizational activities; risk recognition; and risk examination (Hoover 2010).

The best practice recommendations for self-assessment in this section include: Policies and procedures that assess the Board of Directors' understanding of fiduciary duties; the assessment that assets are properly managed; and assessment that ensures charitable purposes are carried out. In addition, there should be periodic review of structures,

procedures, and programs to assess the effectiveness of the policies (Cuomo 2005). All NPOs must complete the following tasks in order to self-assess that the risk policies are being functioning properly for the protection of the organization.

#### 4.2.1 All NPOs

The recommended inspection tasks for all size NPOs are as follows:

- Existing documentation
  - Policies and Procedures Manual
    - Risk identification, analysis, and management procedures
  - Mission Statement
  - Strategic Plan
    - Activity level objectives defined
    - Activities embedded in job descriptions
    - Mechanism to measure and report results
  - Board of Director's meeting minutes for evidence of strategic planning
- Documentation Signatures
  - Employee forms stating they have received, read, and understand Policies and Procedures Manual
  - Strategic Plan
  - Business Plan

The recommended inquiry tasks for all size NPOs are as follows:

- Employees feel activity level goals are realistic and obtainable
- Activity level goals are being measured and reported
- Risk management policies and procedures are successfully joined in the organization
- Management understands their role in risk manage

### 4.3 Administration, Conduct, and Communications

Table 3: Counts of Policies, Activities, and Tasks for Administration, Conduct, and Communications

	Small	Medium	Large	Extra-Large
<b>Required by Law</b>	2	2	2	2
<b>Recommended for Best Practices</b>	14	21	23	24
<b>Total Policies</b>	16	23	25	26
<b>Activities</b>	7	18	18	19
<b>Self-Assessment tasks</b>	6	9	9	10

Information and Communication are related elements in the COSO internal control framework (COSO 2013). Both play vital roles within the internal control system because an organization must ensure that the correct information – both financial and nonfinancial -- is communicated throughout the organization to both internal employees and external partners. The policies in this section address whistleblowing, conflicts of interest, office procedures, duties, fraud and embezzlement, the setup of the accounting system, and records and information management. These policies are contained in the Administration and Conduct, Accounting Overview, Computers and Information Technology, Records

Management, and Controls and Best Practices policy sections. Activities that allow policies in this section to operate effectively include: internal communication, communications with external parties, accuracy of communicated information, whistleblower protection, incorporation of technology, accounting process organization, and records and information management. Additional activities in the Control Activities section contribute to the effective operation of these areas. In addition, several tasks assess more than one activity in the included sections, providing for additional efficiencies (Hoover 2010).

To achieve best practices via self-assessment with regard to the NPO's information and communication, the organization should review internal and external communication for accuracy. In addition, the NPO should self-assess to ensure pertinent information is given to the right people and that only effective communication is given to outside parties (Rittenberg, Martens, & Landes 2007). The NPO should have and effectively implement a code of ethics, financial management and reporting guidelines, and a whistleblower policy. The self-assessment should also include the use of technology for communication, and the management of the NPO's records and information (Hoover 2010).

#### 4.3.1 Small NPOs

The recommended inspection tasks for small NPOs are as follows:

- Existing documentation
  - Policies and Procedures Manual
  - Code of Ethics policy
  - Whistleblower policy
  - Fraud and Embezzlement policies
  - Organizational Chart
  - Grievance reporting log for reporting entries, resolution entries, and signatures
- Documentation signatures
  - Employee forms stating they have received, read, and understand Policies and Procedures Manual

The recommended inquiry tasks for small NPOs are as follows:

- Employees received information communicated by management that was relevant to their position's job duties
- Employees are comfortable that reprisals will not occur for reporting unethical behavior

#### 4.3.2 Medium and Large NPOs

In addition to the tasks previously recommended for small NPOs, the recommended inspection tasks for medium and large NPOs are as follows:

- Existing documentation
  - Communication methods used by management and access to the system
- Documentation signatures
  - Usernames and dates from communications with management

The recommended inquiry task for medium and large size NPOs are as follows:

- Employees feel important information is accessible to the right people

#### 4.3.3 Extra- Large NPOs

In addition to the tasks previously recommended for small, medium, and large NPOs, the recommended inspection task for extra-large NPOs are as follows:

- Existing documentation
- Mechanism used by management to select recipients of pertinent information

#### 4.4 Activities

Table 4: Counts of Policies, Activities, and Tasks for Policy Category of Activities

	Small	Medium	Large	Extra-Large
<b>Required by Law</b>	0	0	0	0
<b>Recommended for Best Practices</b>	1	1	1	1
<b>Total Policies</b>	1	1	1	1
<b>Activities</b>	33	33	33	33
<b>Self-Assessment tasks</b>	11	11	11	11

Activities are a related element of COSO internal control framework. Control activities are the organization's policies and procedures it has in place to ensure employees follow directives. The defined control activities help limit risks that may hinder an organization from achieving best practices and stated goals (COSO 2013). The Activities policy addresses control activities necessary to achieve best practices. The thirty-three activities that allow the policy in this section to operate effectively include the segregation of duties and the safeguarding of employees, assets, documentation, and facilities (Hoover 2010).

To achieve best practices via self-assessment with regard to the NPOs control activities, the organization should be diligent in the segregation of the duties by separating custody, authorization, recording, and reconciliation of assets. When size limits the segregation of duties, the NPO should call upon a board member to conduct any necessary reconciliations, including receiving the banking statement and preparing the bank reconciliation (BDO Consulting 2009).

##### 4.4.1 All NPOs

The recommended inspection tasks for all size NPOs are as follows:

- Existing Documentation
- Policies and Procedures Manual
- Employee Handbook
- Safety Manual
- Disaster recovery plan
- Management succession planning
- Modifications to standardized accounting software for changes in process and/or user
- Safeguarding of assets procedures
- Documentation signatures
- Employees forms stating they have received, read, and understand Policies and Procedures Manual

The recommended observation tasks for all size NPOs are as follows:

- Critical documents are in fire safe storage



- Segregation of duties

The recommended reperformance tasks for all size NPOs are as follows:

- Financial and nonfinancial performance aligned with budgets and goals
- Financial statement production using standardized accounting software
- Chart of accounts using standardized accounting software to ensure aligned with UCOA

## 4.5 Monitoring

Table 5: Counts of Policies, Activities, and Tasks for Policy Category of Monitoring

	Small	Medium	Large	Extra-Large
<b>Required by Law</b>	0	0	0	0
<b>Recommended for Best Practices</b>	1	2	2	2
<b>Total Policies</b>	1	2	2	2
<b>Activities</b>	12	12	12	12
<b>Self-Assessment tasks</b>	10	10	10	10

Monitoring is a related element in the COSO internal control framework. The NPO needs to review their internal control procedures in order to minimize deficiencies in the system (COSO 2013). Copedia's primary monitoring policy, IC-160 Monitoring, is the policy that defines the need for self-assessment (Hoover 2010). In his Blue Avocado article, Ho (2010) made the recommendation that setting the control environment was necessary even for very small NPOs. The twelve activities that will allow this monitoring policy to operate effectively include proper employee training, regularly documented reviews of internal control effectiveness with deficiencies corrected immediately, and the performance of regular internal and external audits (Hoover 2010). A second policy provides a more detailed description of the internal control review process, and is included in policies and procedures manuals at the medium size and above. Given that it is descriptive and includes no new required activities, all activities are implemented at the Small NPO level (Maguire 2013). The NPOs must complete the following tasks to self-assess that the monitoring procedures are implemented and functioning properly.

### 4.5.1 All NPOs

The recommended inspection tasks for all NPOs are as follows:

- Existing documentation
  - o Policies and Procedures Manual (comprehensive)
  - o Internal control checklist
  - o Internal audit reports
  - o Internal control weakness, deficiencies, and corrective action taken by management
  - o External audit reports
- Documentation signatures
  - o Employees forms stating they have received, read, and understand Policies and Procedures Manual

The recommended observation tasks for all NPOs are as follows:

- Employee interviews and training relating to internal controls
  - Activities to ensure proper handling of internal control issues
- The recommended reperformance tasks for all NPOs are as follows:
- Internal audit procedures
  - External audit procedures

## 4.6 Cash and Checks

Table 6: Counts of Policies, Activities, and Tasks for Cash and Checks

	<b>Small</b>	<b>Medium</b>	<b>Large</b>	<b>Extra-Large</b>
<b>Required by Law</b>	0	0	0	0
<b>Recommended for Best Practices</b>	1	5	5	5
<b>Total Policies</b>	1	5	5	5
<b>Activities</b>	12	76	76	76
<b>Self-Assessment Tasks</b>	9	15	15	15

Cash and Checks policies are contained in the Assets section of the Copedia manual. These policies address cash management, cash best practices, petty cash, check control, check signing and check distribution. Activities carried out by the NPO that will allow cash and checks policies to operate effectively include segregation of duties, authorization, security of cash and checks at earliest point, reconciliation, and keeping supporting documentation (Hoover 2010). There are a total of twelve activities that should be carried out by small NPOs and seventy-six that should be carried out by medium, large, and extra-large NPOs in order to properly implement the policies.

To achieve best practices via self-assessment for an NPO's cash and checks, the organization should segregate duties and ensure that supporting documentation is always used (Johnson 2011). Segregation of duties specifically involves the bank reconciliation, and applies to all size NPOs. The person receiving the bank statement and completing the bank reconciliation should not be involved in daily duties involving cash and checks, such as receiving cash receipts, preparing cash deposits, signing checks, or having access to blank checks (CompassPoint Nonprofit Services 2012). Also, the person reviewing the completed bank reconciliation should be in a supervisory position. For small NPOs, these duties require increased board member involvement (BDO Consulting 2009). The NPO must complete the following tasks in order to self-assess that cash and checks policies are implemented and fully functioning.

### 4.6.1 Small NPOs

The recommended inspection tasks for small NPOs are as follows:

- Existing documentation
  - Policies and Procedures Manual
  - Cash management policy
  - Bank statement postal address to authenticate it is mailed to board member or supervisor not involved in daily cash and checks activities
  - Evidence of lockbox system

- Documentation signatures
  - Employee forms stating they have received, read, and understand the Policies and Procedures Manual
  - Bank reconciliation
  - Cash count log (if no lock box system is in place)

The recommended observation tasks for small NPOs are as follows:

- Undeposited cash stored securely
- Blank checks are secured

The recommended reperformance task for small NPOs is as follows:

- Bank reconciliations
- 

#### 4.6.2 Medium, Large, and Extra-Large NPOs

In addition to all tasks previously mentioned for small NPOs, the recommended inspection tasks for medium, large, and extra-large NPOs are as follows:

- Existing documentation
  - Employee files
    - Background checks on employees handling cash
  - Accounts payable documentation to support disbursements and prevent duplicate payments
  - All check entries on deposit slips for depositor and amount
  - Ensure no personal checks were cashed by employees
  - Control log and blank checks to confirm that blank checks are not missing

The recommended reperformance task for medium, large, and extra-large NPOs is as follows:

- Analytical review of cash receipts and disbursements in general ledger

#### 4.7 Inventory

Table 7: Counts of Policies, Activities, and Tasks for Inventory

	Small	Medium	Large	Extra-Large
<b>Required by Law</b>	0	0	0	0
<b>Recommended for Best Practices</b>	1	1	2	2
<b>Total Policies</b>	1	1	2	2
<b>Activities</b>	32	32	32	32
<b>Self-Assessment Tasks</b>	6	6	6	6

The policies in this inventory section address inventory management, receiving, and warehousing. The policy implemented at the small size includes controls on both inventory and fixed assets, which is discussed in the next section. This policy provides assurance for smaller NPOs while being cost-effective. A second inventory control policy is implemented at the large NPO size. It provides a more detailed description of inventory management procedures without increasing the overall number of activities that need to be self-assessed. The thirty-two activities carried out by the NPO that will allow previously mentioned policies related to inventory to operate effectively include

protection of assets, segregation of duties, proper authorization, monitoring, and documentation (Hoover 2010).

To achieve best practices via self-assessment with regard to the NPO's inventory, the organization should address asset protection and division of duties (Johnson 2011). In order to do so, an analytical review of inventory usage should be performed and reviewed by a supervisory-level employee (BDO Consulting 2009). In addition, any modifications to inventory records should be reviewed and approved by a supervisory-level employee who is independent of the inventory process (BDO Consulting 2009). As with Cash and Checks, for small NPOs this will involve increased board member involvement. The NPO must complete the following tasks in order to self-assess that inventory policies are implemented and fully functioning.

#### 4.7.1 All NPOs

The recommended inspection tasks for all size NPOs are as follows:

- Existing documentation
  - Policies and Procedures Manual
    - Accounting for assets policy
    - Inventory management procedures
  - Inventory log
- Documentation signatures
  - Employee forms stating they have received, read, and understand the Policies and Procedures Manual
  - Employee who authorized payments for purchase different than employee who made ledger entries

The recommended observation task for all size NPOs is as follows:

- Warehousing areas for secured access

The recommended reperformance task for all size NPOs is as follows:

- Physical inventory count

#### 4.8 Fixed Assets

Table 8: Counts of Policies, Activities, and Tasks for Fixed Assets

	Small	Medium	Large	Extra-Large
<b>Required by Law</b>	0	0	0	0
<b>Recommended for Best Practices</b>	0	1	3	3
<b>Total Policies</b>	0	1	3	3
<b>Activities</b>	12	18	19	19
<b>Self-Assessment Tasks</b>	7	9	11	11

Fixed assets are the collection of items of value that NPOs own or control (CompassPoint Nonprofit Services 2012). The policies in this section address accounting for assets, capital expenditures, and disposal of assets. Small NPOs utilize the accounting for assets policy mentioned in the previous section. The twelve activities listed above specifically apply to fixed assets. Activities carried out by the NPO that will allow previously mentioned policies related to fixed assets to operate effectively include segregation of

duties, authorization, proper recording, reconciliation, safeguarding of assets, and counting of physical assets (Hoover 2010).

To achieve best practices via self-assessment with regard to the NPO's fixed assets, the organization should employ segregation of duties and general asset control. For segregation of duties, the person responsible for the disposal of assets should not approve the disposal of assets (BDO Consulting 2009). For general asset control, the disposal of assets must be approved and authorized by a supervisor, which may involve board members for smaller NPOs (BDO Consulting 2009). The NPO must complete the following tasks in order to self-assess that fixed asset policies are implemented and fully functioning.

#### 4.8.1 Small NPOs

The recommended inspection tasks for small NPOs are as follows:

- Existing documentation
  - Policies and Procedures Manual
    - Purchasing policy
    - Receiving policy
    - Accounting for assets policy
  - Fixed assets accounting records
- Documentation signatures
  - Employee forms stating they have received, read, and understand the Policies and Procedures Manual
  - Employees responsible for accounting for assets different than those with custody of assets

The recommended observation task for small NPOs is as follows:

- Assets are labeled

The recommended reperformance tasks for small NPOs are as follows:

- Asset reconciliations
- Physical asset count

#### 4.8.2 Medium NPOs

In addition to all tasks previously mentioned for small NPOs, the recommended inspection tasks for medium NPOs are as follows:

- Documentation signatures
  - Fixed asset purchases are authorized by management and Board of Directors
  - Asset count personnel is different than asset custodian

#### 4.8.3 Large and Extra-Large NPOs

In addition to all tasks previously mentioned for small and medium NPOs, the recommended inspection tasks for large and extra-large NPOs are as follows:

- Documentation signatures
  - Asset disposal signature different than those with custody
  - Reconciliations of fixed assets accounts signature different from those making accounting entries

## 4.9 Accounts Payable

Table 9: Counts of Policies, Activities, and Tasks for Accounts Payable

	Small	Medium	Large	Extra-Large
<b>Required by Law</b>	0	0	0	0
<b>Recommended for Best Practices</b>	1	4	6	6
<b>Total Policies</b>	1	4	6	6
<b>Activities</b>	0	30	35	35
<b>Self-Assessment Tasks</b>	0	15	19	19

The policies in this section address liabilities, accounts payable, accounting for expenses, and disbursements. The policy that is in all four size categories is the accounting for liabilities policy. Activities to self-assess the Accounting Overview and Financial Reporting sections address accounting for liabilities and their presentation on financial statements. Therefore, no new activities are necessary for the liabilities policy to operate effectively. Given the assumption that medium NPOs utilize a modified cash basis accounting system, accounts payable policies begin to be implemented at the medium NPO level (Maguire 2013). Activities carried out by the NPO that will allow the accounts payable policies to operate effectively include segregation of duties, verification and authorization of expenses, maintaining records, reconciliation, and the reserve for uncollectible debt (Hoover 2010).

To achieve best practices via self-assessment with regard to NPOs accounts payable, the NPO should segregate the duty of managing the vendor master file from those that handle the daily disbursement duties (BDO Consulting 2009). As with other sections, this may require more board member involvement. The NPO must complete the following tasks in order to self-assess that accounts payable policies are implemented and fully functioning.

### 4.9.1 Small NPOs

No tasks are recommended for small NPOs.

### 4.9.2 Medium NPOs

The recommended inspection tasks for medium NPOs are as follows:

- Existing documentation
  - Policies and Procedures Manual
  - Accounts Payable policy
  - Accounts payable documentation to support disbursements and prevent duplicate payments
  - Ensure purchase orders match invoices
  - Review receiving discrepancies
  - Old and unmatched payables are resolved
  - Check for cash discounts available
  - Bank statement postal address to authenticate it is mailed to board member or supervisor not involved in daily cash and checks activities
  - UCOA accounting ledger records match source documents

- Documentation signatures
  - Employee forms stating they have received, read, and understand Policies and Procedures Manual
  - Bank reconciliation
  - Vendor master list authorized by manager or board member not involved in daily disbursement duties
  - Manager's signature on all checks
  - Cardholder's signature on all receipts

The recommended reperformance tasks for medium NPOs are as follows:

- Bank reconciliations
- Reconciliation of subsidiary ledgers to the appropriate accounts

#### 4.9.3 Large and Extra-Large NPOs

In addition to all tasks previously mentioned for medium NPOs, the recommended inspection tasks for large and extra-large NPOs are as follows:

- Existing documentation
  - Policies and Procedures Manual
  - Competitive bidding procedures
  - Multiple estimates on large contracts
  - Large purchases on credit accounts
- Documentation signatures
  - Authorization on automatic and recurring payments to vendors

#### 4.10 Financial Reporting

Table 10: Counts of Policies, Activities, and Tasks for Financial Reporting

	Small	Medium	Large	Extra-Large
<b>Required by Law</b>	2	2	2	2
<b>Recommended for Best Practices</b>	0	2	2	3
<b>Total Policies</b>	2	4	4	5
<b>Activities</b>	10	15	15	15
<b>Self-Assessment Tasks</b>	9	12	12	12

NPOs must provide a statement of financial position, a statement of activities, and a statement of cash flows that represent the entity as a whole. Improper financial presentation could impact the tax-exempt status of the NPO (Blackwood & Roeger 2012). The policies in this section address recording transactions, developing and using financial reports, and ratio analysis and benchmarking (Hoover 2010). The activities that allow these policies to operate effectively include the proper closing and preparing of financial statements; utilizing the Unified Chart of Accounts (UCOA); documenting disclosures; proper approval of journal entries; identifying accounts at risk of misstatements; and recognizing accrual transactions when applicable (Hoover 2010).

For Financial Reporting, two policies achieve compliance with applicable laws (IRS 2012). These policies standardize journal entries, internal and external financial reports,

the timing of each, and who is authorized to create these entries and reports. The next two policies, implemented at the medium level, provide processes for measuring outcomes via financial analyses and benchmarking (Maguire 2013). The final policy, implemented at the extra large level, provides a more detailed discussion of these processes. There are no additional activities included in the policy, so all activities are implemented by the medium level (Hoover 2010).

To achieve best practices, personnel who review month-end reports must not authorize or share duties with the employees responsible for modifying the general ledger, recording journal entries, and creating subsidiary financial statements (BDO Consulting, 2009). For smaller NPOs, this also requires increased board member involvement in the review process.

#### 4.10.1 Small NPOs

The recommended inspection tasks for small NPOs are as follows:

- Existing documentation
  - Policies and Procedures Manual
    - Financial reporting policies
    - Records management policy
  - Posted schedule with dates for closing ledgers and preparing financial statements
- Documentation signatures
  - Employee forms stating they have received, read, and understand Policies and Procedures Manual
  - Authorizing signatures on journal entries

The recommended reperformance tasks for small NPOs are as follows:

- Reperform chart of accounts using standardized accounting software to ensure aligned with UCOA
- Reconcile subsidiary ledgers to the appropriate accounts
- Recalculate any accounting estimates made
- Reperform financial statement production using standardized accounting software
- Review financial statement notes for adequate disclosures

#### 4.10.1 Medium, Large, and Extra-Large NPOs

In addition to all tasks previously mentioned for small NPOs, the recommended reperformance tasks for medium, large, and extra-large NPOs are as follows:

- Reconcile transactions between departments
- Accrual transactions have been recognized properly by matching ledgers with billings and purchase orders
- Reperform financial and ratio analyses to identify UCOA accounts at risk of misstatement



## 4.11 Revenue

Table 11: Counts of Policies, Activities, and Tasks for Revenue

	Small	Medium	Large	Extra-Large
<b>Required by Law</b>	2	2	2	2
<b>Recommended for Best Practices</b>	1	5	11	15
<b>Total Policies</b>	3	7	13	17
<b>Activities</b>	3	15	22	52
<b>Self-Assessment Tasks</b>	3	6	10	18

The policies in this section address revenue, fundraising, gifts and donations, orders and contracts, and retail operations when applicable. These policies are contained in the Revenue and Business Development sections. Activities carried out by the NPO that will allow previously mentioned policies related to revenue to operate effectively include proper authorization, forms, signoff controls, information analysis, forecasting, internal use of software, and retail controls when applicable (Hoover 2010).

The two policies required by law are the fundraising policy and the accounting for revenue policy (Maguire 2013). Given that retail operations are optional for NPOs, these activities and tasks are included in the extra-large NPO size. However, if a smaller NPO implements retail operations, the twenty-three activities and five tasks discussed below will apply to those NPOs as well.

To achieve best practices via self-assessment with regard to the NPO's revenue, the organization should record revenue, retain receipt and invoice source documentation, and retain documented approval of changes to source documents (Moen 2012). Best practices for retail operations include consistent monitoring of store operations and the identification of any control deficiencies that may affect the retail operation's financial performance (COSO 2008).

### 4.11.1 Small NPOs

The recommended inspection tasks for small NPOs are as follows:

- Existing documentation
  - Policies and Procedures Manual
    - Fundraising policy
    - Accounting for revenue policy
- Documentation signatures
  - Employee forms stating they have received, read, and understand Policies and Procedures Manual
  - Completed revenue forms have authorized signatures

The recommended reperformance task for small NPOs is as follows:

- Chart of Accounts using standardized accounting software to ensure aligned with UCOA

### 4.11.2 Medium NPOs

In addition to all tasks previously mentioned for small NPOs, the recommended inspection tasks for medium NPOs are as follows:

- Existing documentation
- All forms are preprinted and sequential
- Preprinted forms are completely filled out

#### 4.11.3 Large NPOs

In addition to all tasks previously mentioned for small and medium NPOs, the recommended inspection tasks for large NPOs are as follows:

- Existing documentation
- Bond certifications if acquired
- Revenue forecast for date and periodic updating
- Subcontractors' qualification documents if applicable

The recommended reperformance task for large NPOs is as follows:

- Win/ loss analysis

#### 4.11.4 Extra-Large NPOs

In addition to all tasks previously mentioned for small, medium, and large NPOs, the recommended reperformance tasks for extra-large NPOs are as follows:

- Revenue forecast
- Award analysis
- Historical costs used for revenue estimates

#### 4.11.5 NPOs with Retail Operations

The recommended inspection task for NPOs with retail operations is as follows:

- Existing documentation
- Ensure that no personal checks are cashed by employees

The recommended observation tasks for NPOs with retail operations are as follows:

- Making sure that safeguards in place for:
  - Premises
  - Register
  - Office
  - Storage

### 4.12 Accounts Receivable

Table 12: Counts of Policies, Activities, and Tasks for Accounts Receivable

	Small	Medium	Large	Extra-Large
<b>Required by Law</b>	0	0	0	0
<b>Recommended for Best Practices</b>	0	1	5	8
<b>Total Policies</b>	0	1	5	8
<b>Activities</b>	0	13	21	34
<b>Self-Assessment tasks</b>	0	11	17	23

NPOs utilize Accounts Receivable policies when creditworthy donors and customers promise future payments. Policies in this section address the proper segregation of duties,

authorization, recording, and reconciliation of accounts used in the receivables process. Activities that allow policies in this section to operate effectively include receivables recording, billing, adjustments, write-offs, credit applications, and credit collections (Hoover 2010). Given that small NPOs are defined as utilizing a cash-basis accounting system, accounts receivables policies are not implemented until the medium size (Maguire 2013). The cash management policy does include basic receivables controls for small NPOs (Hoover 2010).

Best practice recommendations for self-assessment in this section involve confirmation that the person receiving cash collections and preparing deposits does not have the authority or access to record accounts receivables transactions in the accounting system. In addition, this person should not be involved in either the bank reconciliation or bad debt write-offs (BDO Consulting 2009). As with other sections, this may require increased involvement of board members. However, many of the cash and checks self-assessment tasks for the small NPO will also apply to the self-assessment of accounts receivable.

#### 4.12.1 Small NPOs

There are no tasks recommended for small NPOs.

#### 4.12.2 Medium NPOs

The recommended inspection tasks for medium NPOs are as follows:

- Existing documentation
  - Policies and Procedures Manual
    - Accounts Receivable policies
    - Credit and collection procedures
  - Bank statement postal address to authenticate it is mailed to board member or supervisor not involved in daily cash and checks activities
  - Evidence of lockbox system
  - UCOA accounting ledger records match source documents
- Documentation signatures
  - Employee forms stating they have received, read, and understand Policies and Procedures Manual
  - Bank reconciliation
  - Cash count log (if no lockbox system in place)
  - Employees that handle accounting for accounts receivable different than those who record and deposit cash receipts

The recommended observation tasks for medium NPOs are as follows:

- Undeposited cash stored securely

The recommended reperformance tasks for medium NPOs are as follows:

- Bank reconciliations
- Reconciliation of subsidiary ledgers to the appropriate accounts

#### 4.12.3 Large NPOs

In addition to all tasks previously mentioned for medium NPOs, the recommended inspection tasks for large NPOs are as follows:

- Existing documentation

- Policies and Procedures Manual
  - Accounts receivable billing procedures
- All accounts receivable billings batch numbers match records in UCOA accounting system
  - Documentation signatures
- Employees that handle accounting for accounts receivable different than those who authorize bad debt write-offs, adjustments, and disputed billings

The recommended reperformance tasks for large NPOs are as follows:

- Interest and penalty calculations on delinquent receivables
- Allowance for doubtful accounts estimate
- Aging of receivables

#### 4.12.4 Extra-Large NPOs

In addition to all tasks previously mentioned for medium and large NPOs, the recommended inspection tasks for extra-large NPOs are as follows:

- Existing documentation
- Credit applications completed for all receivables accounts
- Documentation signatures
- Employees that handle accounting for receivables different than those who have access to donor/customer master file
- Employees that handle accounting for receivables different than those who have authority to establish credit
- Employees that handle the collections and deposits different than those who have authority to approve credit applications and credit memos

The recommended reperformance tasks for extra-large NPOs are as follows:

- Donor/Customer credit balance review
- Delinquent accounts review

#### 4.13 Purchasing

Table 13: Counts of Policies, Activities, and Tasks for Purchasing

	Small	Medium	Large	Extra-Large
<b>Required by Law</b>	0	0	0	0
<b>Recommended for Best Practices</b>	1	5	9	10
<b>Total Policies</b>	1	5	9	10
<b>Activities</b>	6	13	19	19
<b>Tasks</b>	3	9	16	16

Purchasing and receiving are the processes of buying goods, services, and assets, and the receiving and warehousing of these items. The activities that allow effective implementation of the policies are segregation of duties, authorization, use of purchase orders and lastly purchase cards, which are typically referred to as P-Cards (Hoover 2010). Purchasing policies increase in complexity as NPO size increases. For small NPOs, where full segregation of duties is not possible, increased board member involvement will be

required. All of the Purchasing activities are implemented by the large NPO size. There is an additional policy for extra-large firms. This policy provides a more detailed description of a functioning purchasing department. However, all of the activities can be applied and assessed by the large size NPO (Hoover 2010).

To achieve best practices via self-assessment within the NPOs purchasing and receiving processes, the organizations should focus on authorization and verification. This includes the proper authorization of purchases, verification that payments made for purchases are accurate, and no duplicate payments are made (Moen 2012).

#### 4.13.1 Small NPOs

The recommended inspection tasks for small NPOs are as follows:

- Existing documentation
  - Policies and Procedures Manual
    - Purchasing policy
- Documentation signatures
  - Employee forms stating they have received, read, and understand Policies and Procedures Manual
  - Employee who authorized payments for purchases different than employee who made ledger entries

#### 4.13.2 Medium NPOs

In addition to all tasks previously mentioned for small NPOs, the recommended inspection tasks for medium NPOs are as follows:

- Existing documentation
  - Policies and Procedures Manual
    - Accounts Payable policies
  - All forms are preprinted and sequential
  - Preprinted forms are completely filled out
  - Purchase orders match invoices
  - Accounts payable documentation to support disbursements and prevent duplicate payments
  - UCOA accounting system ledger matches source documents

#### 4.13.3 Large and Extra-Large NPOs

In addition to all tasks previously mentioned for small and medium NPOs, the recommended inspection tasks for large and extra-large NPOs are as follows:

- Existing documentation
  - Policies and Procedures Manual
    - Competitive bidding procedures
  - Multiple estimates on large contracts
  - Mailing address on vendor invoices to confirm all invoices mailed to designated location
  - Bond and retainage forms for construction projects

The recommended reperformance tasks are:

- Review of purchasing reasonableness
- Review of backorders
- Review of any blanket purchase orders

#### 4.14 Data Integrity

Table 14: Counts of Policies, Activities, and Tasks for Data Integrity

	Small	Medium	Large	Extra-Large
<b>Required by Law</b>	0	0	0	0
<b>Recommended for Best Practices</b>	1	1	1	2
<b>Total Policies</b>	1	1	1	2
<b>Activities</b>	22	22	22	23
<b>Tasks</b>	14	14	14	15

Data Integrity affects all areas of an NPO. Policies in this section govern the acceptable use of company provided information technology (IT) equipment and data, both financial and nonfinancial. Activities that provide assurance that information is reliable include segregation of duties, data storage and protection, authorization, verification, reconciliation, access limitation, software protection, and support (Hoover 2010). COSO (2013) recommends the use of standardized, “off-the-shelf” accounting software. Since these systems have built in IT controls, they provide a cost-effective method of achieving best practices for NPOs of all sizes. In addition, DiNapoli (2010) recommends proper data storage backup and having disaster control procedures in place.

##### 4.14.1 Small, Medium and Large NPOs

The recommended inspection tasks are:

- Existing documentation
  - Policies and Procedures Manual
  - Data Integrity policy
  - Disaster Recovery Plan
  - Modifications to standardized accounting software for changes in process and/or user
  - Posted schedule with dates for closing ledgers and preparing financial statements
  - Evidence of offsite storage of backup files and dates of periodic backups
- Documentation signatures
  - Employee forms stating they have received, read, and understand Policies and Procedures Manual
  - Authorizing signatures on journal entries

The recommended inquiry task is:

- Employees received information communicated by management that was relevant to their position’s job duties

The recommended observation task is:

- Critical documents are in fire safe storage

The recommended reperformance tasks are:

- Financial statement production using standardized accounting software

- Chart of Accounts using standardized accounting software to ensure aligned with UCOA
- Reconciliation of subsidiary ledgers to the appropriate accounts
- Test passwords to confirm they only allow access to the authorized information for that employee
- List of usernames and access to confirm monthly changes of passwords and removal of terminated employees

#### 4.14.2 Extra-Large NPOs

In addition to all tasks previously mentioned for small, medium, and large NPOs, the recommended inspection task for extra-large NPOs is as follows:

- Existing documentation
- Mechanism used by management to select recipients of pertinent information

### 4.15 Project Management and Job Costing

Table 15: Counts of Policies, Activities, and Tasks for Project Management and Job Costing

	Small	Medium	Large	Extra-Large
<b>Required by Law</b>	0	0	0	0
<b>Recommended for Best Practices</b>	2	4	5	8
<b>Total Policies</b>	2	4	5	8
<b>Activities</b>	10	28	35	35
<b>Tasks</b>	9	20	30	30

Understanding the terms that are established by a grant is essential to be successful in obtaining grants with government agencies, private foundations, and donors. It is necessary for NPOs to know where the grant came from, understand the terms of the grant, and supervise where the money is going (SCANPO 2012). The National Council of Nonprofits' Legal Compliance and Public Disclosure Principle 6 recommends NPOs protect any grant money received by implementing a system of checks and balances (Panel on the Nonprofit Sector 2007). Activities that enable the implementation of these policies in an efficient and effective manner include pre-project planning, purchasing and procurement, invoicing, and job costing when applicable. For smaller NPOs, many of the activities are akin to those in Accounts Payable and Purchasing. As with those areas, board member involvement is necessary when full segregation of duties is not possible. As the NPO increases in size, the activities reflect the increase in complexity. For example, Guajardo (2010) discusses best practices with respect to construction projects and the need for internal controls on change orders. The Small Business Association [2013] advocates the use of surety bonds to ensure contractual agreements. Once an NPO is awarded any federal grants, then the accounting and reporting requirements of those grants are enacted (Maguire 2013). Since UCOA is compatible with both the Form 990 and the Office of Management and Budget's (OMB's) job costing requirements, UCOA allows for a smooth transition for tracking various projects and their costs (NCCS 2012).

There are ten policies that address job costing. Seven of these allow the NPO to be in compliance with the OMB's Cost Principles. The other three provide a more detailed description of the defined activities for project management, here with job costing (Hoover 2010). The latter three are assigned to the extra-large NPO category given that they relate to the project management policies. However, they should be enacted earlier if an NPO is awarded a federal grant. When an NPO enacts the other seven job costing policies upon receiving a grant, the use of standardized accounting software and UCOA will help provide assurance that OMB reporting requirements are being met (NCCS 2012).

#### 4.15.1 Small NPOs

The recommended inspection tasks for small NPOs are:

- Existing documentation
- Policies and Procedures Manual
  - Purchasing policy
  - Financial Reporting policies
  - Records Management policies
- Posted schedule with dates for closing ledgers and preparing financial statements
- Documentation signatures
- Employee forms stating they have received, read, and understand Policies and Procedures Manual
- Employee who authorized payments for purchases different than employee who made ledger entries
- Authorizing signatures on journal entries
- Authorizing signatures on project contracts

The recommended reperformance tasks for small NPOs are:

- Chart of Accounts using standardized accounting software to ensure aligned with UCOA
- Review of project plans and specifications
- Review of project billings

#### 4.15.2 Medium NPOs

In addition to all tasks previously mentioned for small NPOs, the recommended inspection tasks for medium NPOs are as follows:

- Existing documentation
- Policies and Procedures Manual
  - Accounts Payable policies
- Accounts payable documentation to support disbursements and prevent duplicate payments
  - Purchase orders match invoices
  - All forms are preprinted and sequential
  - Preprinted forms are completely filled out
  - UCOA accounting ledger records match source documents
- Documentation signatures
  - Vendor master list authorized by manager or board member not involved in daily disbursement duties



The recommended reperformance tasks for medium NPOs are:

- Reconciliation of subsidiary ledgers to the appropriate accounts
- Recalculation of any estimates made
- Accrual transactions have been recognized properly by matching ledgers with billings and purchase orders
- Review of project schedule

#### 4.15.3 Large and Extra-Large NPOs

In addition to all tasks previously mentioned for small and medium NPOs, the recommended inspection tasks for large and extra- large NPOs are as follows:

- Existing documentation
  - Policies and Procedures Manual
  - Competitive bidding procedures
  - Multiple estimates on large contracts
  - Subcontractors' qualification documents if applicable
  - Mailing address on vendor invoices to confirm all invoices mailed to designated location
  - Bond and retainage forms for construction projects
  - Bond certifications if acquired
  - Reports detailing estimated costs at completion for surety, bonding, purposes

The recommended reperformance tasks are:

- Cash flow forecasts
- Work-in-progress reports
- Cost reports

#### 4.16 Payroll and Human Resources

Table 16: Counts of Policies, Activities, and Tasks for Payroll and Human Resources

	Small	Medium	Large	Extra-Large
<b>Required by Law</b>	12	12	12	12
<b>Recommended for Best Practices</b>	0	1	1	1
<b>Total Policies</b>	12	13	13	13
<b>Activities</b>	41	41	41	41
<b>Tasks</b>	10	10	10	10

Payroll and Human Resources are contained in Copedia's Employee Handbook (Hoover 2010). All of the handbook policies are required by law. At the medium level, a more detailed description of controls is provided (Hoover 2010). Policies in this section address managing human resources, compensation, employee benefits, expense reimbursement, workers compensation, and personal conduct and corrective action. For policies that address workers' rights, it is important to note that these also legally apply to volunteers as well as employees (Maguire 2013). Activities that allow the payroll and human resource policies to operate effectively include the segregation of duties, payroll information security, timecard management, performance review and termination procedures, and proper and adequate employee training, including safety training (Hoover 2010).

Best practices for this section include adopting an Employee Handbook and Ethics policy, conducting employee evaluations, and periodic auditing and updating of the Employee Handbook when legal compliance dictates (Andrew & Hobish 2007). Given that all of the policies in the Employee Handbook are required by law, all of the activities are implemented for all NPO sizes (Maguire 2013). Although not specifically listed as Payroll and Human Resources activities, activities in the Mission/Vision/Planning/Risk section support this section. These activities include incorporating job descriptions into the Strategic Plan, and asking employees about their understanding of their job, responsibilities, and how their performance is measured and evaluated (Hoover 2010).

#### 4.16.1 All NPOs

The recommended inspection tasks for all NPOs are:

- Existing documentation
  - Policies and Procedures Manual
  - Employee Handbook
  - Each employee file should include
    - Job application
    - Background check
    - Performance reviews
    - Training attendance logs
  - Documentation signatures
    - Employee forms stating that they have received, read, and understand Policies and Procedures Manual
    - Timecards, both employee and authorized supervisor
    - Authorized signature for preapproved vacation and personal time
    - Employee who processed payroll different than employee who made ledger entries

The recommended observation task for all NPOs is:

- Employee training

The recommended reperformance tasks for all NPOs are:

- Payroll roster
- Payroll reports

#### 4.17 Safety, Health, and Environment

Table 17: Counts of Policies, Activities, and Tasks for Safety, Health, and Environment

	Small	Medium	Large	Extra-Large
<b>Required by Law</b>	4	4	4	4
<b>Recommended for Best Practices</b>	0	1	1	1
<b>Total Policies</b>	4	5	5	5
<b>Activities</b>	11	11	11	11
<b>Tasks</b>	9	9	9	9

Safety, Health, and Environment policies address a safety and health system, Occupational

Safety and Health Administration (OSHA) posters, safety warnings, accident reporting, and any industry specific laws that may apply (Hoover 2010). These regulations are dictated by the Occupational Safety and Health Administration at the federal level (OSHA 2012). In addition, South Carolina has its own federally approved OSHA best practices (South Carolina Department of Labor 2012). The only policy not required by federal regulations provides a more detailed description of controls for this section. There are no new activities with that policy. Given that the other policies are required by law, all of the activities are implemented at the small NPO level (Maguire 2013).

Activities that allow policies in this section to operate effectively include a safety program, safety training, a hazard communication program, and OSHA logs when applicable (Hoover 2010). Best practices for self-assessment recommend all aspects of the safety system. South Carolina OSHA asserts that having an effective safety system in place reduces workplace injuries (South Carolina Department of Labor 2012).

#### 4.17.1 All NPOs

The recommended inspection tasks for all NPOs are as follows:

- Existing documentation
  - Policies and Procedures Manual
    - Safety Manual
    - Hazard communication program
  - Training attendance logs
  - OSHA logs
  - Material safety sheets
  - Accident reporting system
- Documentation signatures
  - Employee forms stating they have received, read, and understand Policies and Procedures manual

The recommended observation tasks for all NPOs are as follows:

- Employee training
- OSHA posters clearly visible
- Safety warnings clearly visible

## 5 Summary of Findings

An analysis of Copedia's Non Profit Edition policies and procedures manual template library and its internal control assessment tool yielded the following results:

- Small NPOs
  - As determined from previous research, 56 Policies allow a small NPO to achieve best practices in the design of their Policies and Procedures Manual (Maguire 2013).
  - 280 Internal Control Activities are included in these policies and allow a small NPO to achieve best practices in the operation of their Policies and Procedures Manual.
  - 127 Separate Tasks allow a small NPO to self-assess the effectiveness of its internal controls.
  - 80 Unique Tasks allow a small NPO to self-assess its internal controls when the organization's activities are viewed as a whole.

- Medium NPOs
  - As determined from previous research, 87 Policies allow a medium NPO to achieve best practices in the design of their Policies and Procedures Manual (Maguire 2013).
  - 446 Internal Control Activities are included in these policies and allow a medium NPO to achieve best practices in the operation of their Policies and Procedures Manual.
  - 186 Separate Tasks allow a medium NPO to self-assess the effectiveness of its internal controls.
  - 107 Unique Tasks allow a medium NPO to self-assess its internal controls when the organization's activities are viewed as a whole.
- Large NPOs
  - As determined from previous research, 109 Policies allow a large NPO to achieve best practices in the design of their Policies and Procedures Manual (Maguire 2013).
  - 480 Internal Control Activities are included in these policies and allow a large NPO to achieve best practices in the operation of their Policies and Procedures Manual.
  - 219 Separate Tasks allow a large NPO to self-assess the effectiveness of its internal controls.
  - 130 Unique Tasks allow a large NPO to self-assess its internal controls when the organization's activities are viewed as a whole.
- Extra-Large NPOs
  - As determined from previous research, 124 Policies allow an extra-large NPO to achieve best practices in the design of their Policies and Procedures Manual (Maguire 2013).
  - 525 Internal Control Activities are included in these policies and allow an extra-large NPO to achieve best practices in the operation of their Policies and Procedures Manual.
  - 235 Separate Tasks allow an extra-large NPO to self-assess the effectiveness of its internal controls.
  - 143 Unique Tasks allow an extra-large NPO to self-assess its internal controls when the organization's activities are viewed as a whole.

## 6 Conclusion and Recommendations

The objective of this paper is to compile a stepwise menu of tasks that allow nonprofit organizations (NPOs) to self-assess the operation of previously assembled internal control policies and procedures, and to do so at any given size and stage during its life cycle. After self-assessing policies and procedures, the nonprofit organization can provide to stakeholders evidence of efficiency in its backroom operations, which in turn allows the organization to effectively operate its said mission and build capacity. Working in collaboration with The Chapin Foundation, The Waccamaw Community Foundation, and The Frances P. Bunnelle Foundation, the output of this multi-stage project will assist NPOs obtain affordable audits and reviews, utilize cost-effective techniques when self-assessing policies and procedures, and add to the self-assessment tasks as they grow. Achieving compliance with best practices for financial accountability, transparency, and board governance, the output of these projects facilitate the link between philanthropic leadership, charitable resources, and civic influence with community needs and opportunities.

This project is the fourth stage in an effort to address the concerns of South Carolina

NPOs and to provide cost effective methods to either centralize or standardize “back-room operations” for accounting, auditing, and corporate governance issues. With this and each future project, the common goal is to provide cost effective methods for South Carolina NPOs to achieve best practices.

The recommendation for the future is to continue to conduct research for NPOs that will provide education on how to achieve best practices. Research with the participation of Master of Accountancy graduate students at Coastal Carolina University provides the opportunity to assist the NPOs in several areas. Through the research, assistance can be provided to help NPOs achieve best practices for corporate governance, accounting, and auditing, and reduce the costs of attaining these goals.

The research will help NPOs with the adoption of and transition into the Unified Chart of Accounts (UCOA) to enable financial reporting that is compatible with the Form 990, the United States Office of Management and Budget federal grant administration reports, and various other reporting formats utilized in the NPO sector. The adoption of UCOA is a policy applicable to NPOs of all sizes, and is incorporated into the self-assessment process presented here in this paper. In addition, the self-assessment of internal controls follows best practices for proper financial reporting, accountability, transparency, and ethical leadership. If these NPOs need an online accounting system, they can choose one that is compatible with UCOA as well as their individual needs and budget. Financial reporting that follows UCOA will allow NPOs to prepare for an independent audit or review. This will lower the processing costs of the audit or review for these NPOs by lowering the billable hours required of an independent CPA. In addition, with a policy and procedures manual that adheres to best practices in both design and operation, the information risk for donors, creditors, and independent CPAs is lowered.

This research process is intended to assist South Carolina NPOs achieve compliance with best practices for financial accountability, fundraising, and board governance. Essentially, by strengthening the financial knowledge and practices of South Carolina NPOs, donors will have more confidence, NPOs will have the ability to obtain the funding needed to reach their goals, achieving efficiency in “back-room operations” will increase effectiveness in “front-room operations,” NPOs can build capacity, and continue providing charitable services to our communities.

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## Appendix A: NPO Internal Controls Self-Assessment Task Lists

### NPO Internal Controls Self-Assessment Task List Small NPOs

This table contains the complete list of tasks for Small NPOs. Medium NPOs should complete this list of tasks as well as the additional tasks for Medium NPOs below. Large NPOs should complete the Small and Medium NPOs tasks as well as the additional tasks for Large NPOs below. Extra-Large NPOs should complete all of the tasks – Small, Medium, Large, and Extra-Large NPOs tasks lists.

<u>Initial when complete</u>	<u>Task</u>	<u>P&amp;P Section(s) Assessed</u>
	<b>Inspection:</b>	
	<u>Existing Documentation:</u>	
	Policies & Procedures Manual (comprehensive)	BOD/Gov/Environment Monitoring
	Risk identification, analysis, and management P&Ps	Mission/Vision/Planning/Risk
	Code of Ethics policy	Admin/Conduct/Communication
	Whistleblower policy	Admin/Conduct/Communication
	Fraud and Embezzlement policies	Admin/Conduct/Communication
	Employee Handbook	Control Activities Payroll and HR
	Safety Manual	Control Activities Safety, Health, & Environment
	Cash Management policy	Cash and Checks
	Accounting for Assets policy	Inventory Fixed Assets
	Purchasing policy	Fixed Assets Purchasing Project Management
	Receiving policy	Fixed Assets
	Financial reporting policies	Financial Reporting Project Management
	Records management policy	Financial Reporting Project Management
	Fundraising policy	Revenue
	Accounting for revenue policy	Revenue
	Data integrity policy	Data Integrity
	Hazard communication program	Safety, Health, & Environment
	Employee records to confirm each qualified for positions	BOD/Gov/Environment
	Organizational Chart for clear lines of authority and reporting	BOD/Gov/Environment Admin/Conduct/Communication
	Mission Statement	Mission/Vision/Planning/Risk
	Strategic Plan with activity level objectives defined; activities embedded in job descriptions; and mechanism to measure and report results	Mission/Vision/Planning/Risk
	BOD meeting minutes for evidence of strategic planning	Mission/Vision/Planning/Risk
	Grievance reporting log for reporting entries, resolution entries, and signatures	Admin/Conduct/Communication
	Disaster Recovery Plan	Control Activities Data Integrity

	Management succession planning	Control Activities
	Modifications to standardized accounting software for changes in process and/or user	Control Activities Data Integrity
	Safeguarding of assets procedures	Control Activities
	Internal control checklist	Monitoring
	Internal audit reports	Monitoring
	Internal control weaknesses, deficiencies, and corrective actions taken by management	Monitoring
	External audit reports	Monitoring
	Bank statement postal address to authenticate it is mailed to board member or supervisor not involved in daily cash and checks activities	Cash and Checks Accounts Payable Accounts Receivable
	Evidence of lockbox system	Cash and Checks Accounts Receivable
	Inventory log	Inventory
	Fixed assets accounting records	Fixed Assets
	Posted schedule with dates for closing ledgers and preparing financial statements	Financial Reporting Data Integrity Project Management
	Evidence of offsite storage of backup files and dates of periodic backups	Data Integrity
	All employee files contain job application, background check, and performance reviews	Payroll and HR
	Training attendance logs	Payroll and HR Safety, Health, & Environment
	OSHA logs	Safety, Health, & Environment
	Material safety sheets	Safety, Health, & Environment
	Accident reporting system	Safety, Health, & Environment
	<u>Documentation Signatures:</u>	
	Employee forms stating they have received, read, and understand P&P Manual	BOD/Gov/Environment Mission/Vision/Planning/Risk Admin/Conduct/Communication Control Activities Monitoring Cash and Checks Inventory Fixed Assets Accounts Payable Financial Reporting Revenue Accounts Receivable Purchasing Data Integrity Project Management Payroll and HR Safety, Health, & Environment
	Delegation of authority evidenced by multiple signatures where applicable	BOD/Gov/Environment
	Strategic Plan	Mission/Vision/Planning/Risk
	Business Plan	Mission/Vision/Planning/Risk
	Bank reconciliation	Cash and Checks Accounts Payable Accounts Receivable
	Cash count log (if no lockbox system in place)	Cash and Checks Accounts Receivable

	Employee who authorized payments for purchases different than employee who made ledger entries	Inventory Purchasing Project Management
	Employees responsible for accounting for assets different than those with custody of assets	Fixed Assets
	Authorizing signatures on journal entries	Financial Reporting Data Integrity Project Management
	Completed revenue forms have authorized signatures	Revenue
	Authorizing signatures on project contracts	Project Management
	Timecards, both employee and authorized supervisor	Payroll and HR
	Authorized signature for preapproved vacation and personal time	Payroll and HR
	Employee who processed payroll different from employee who made ledger entries	Payroll and HR
	<b>Inquiry of:</b>	
	Employees to ensure that ethical behavior is predominant	BOD/Gov/Environment
	Employees to determine if Code of Ethics and Code of Conduct are properly enforced	BOD/Gov/Environment
	Employees to determine they know how to report unethical behavior	BOD/Gov/Environment
	Employees to determine if they are aware of how their performance is evaluated	BOD/Gov/Environment
	Employees to determine they feel activity level goals are realistic and obtainable	Mission/Vision/Planning/Risk
	Employees if risk management P&Ps are successfully matched in the organization	Mission/Vision/Planning/Risk
	Employees and management if activity level goals are being measured and reported	Mission/Vision/Planning/Risk
	Management to verify they understand their role in risk management	Mission/Vision/Planning/Risk
	Employees received information communicated by management that was relevant to their position's job duties	Admin/Conduct/Communication Data Integrity
	Employees are comfortable that reprisals will not occur for reporting unethical behavior	Admin/Conduct/Communication
	<b>Observation:</b>	
	Critical documents are in fire safe storage	Control Activities Data Integrity
	Segregation of duties	Control Activities
	Employee interviews and training relating to internal controls	Monitoring
	Activities to ensure proper handling of internal control issues	Monitoring
	Undeposited cash stored securely	Cash and Checks Revenue – Retail Accounts Receivable
	Blank checks are secured	Cash and Checks
	Warehousing areas for secured access	Inventory Revenue – Retail

	Assets are labeled	Fixed Assets
	Employee training	Payroll and HR Safety, Health, & Environment
	OSHA posters clearly visible	Safety, Health, & Environment
	Safety warnings clearly visible	Safety, Health, & Environment
	<b>Reperformance:</b>	
	Financial and nonfinancial performance aligned with budgets and goals	Control Activities
	Financial statement production using standardized accounting software	Control Activities Financial Reporting Data Integrity
	Chart of Accounts using standardized accounting software to ensure aligned with UCOA	Control Activities Financial Reporting Revenue Data Integrity Project Management
	Internal audit procedures	Monitoring
	External audit procedures	Monitoring
	Bank reconciliations	Cash and Checks Accounts Payable Accounts Receivable
	Physical inventory count	Inventory
	Asset reconciliations	Fixed Assets
	Physical asset count	Fixed Assets
	Reconciliation of subsidiary ledgers to the appropriate accounts	Financial Reporting Data Integrity Accounts Payable Accounts Receivable Project Management
	Recalculation of any accounting estimates made	Financial Reporting Project Management
	Review of financial statement notes for adequate disclosures	Financial Reporting
	Test passwords to confirm they only allow access to the authorized information for that employee	Data Integrity
	List of usernames and access to confirm monthly changes of passwords and removal of terminated employees	Data Integrity
	Review of project plans and specifications	Project Management
	Review of project billings	Project Management
	Payroll roster	Payroll and HR
	Payroll reports	Payroll and HR

### NPO Internal Controls Self-Assessment Task List Additional Tasks for Medium NPOs

<u>Initial when complete</u>	<u>Task</u>	<u>P&amp;P Section(s) Assessed</u>
	<b>Inspection:</b>	
	<u>Existing Documentation:</u>	
	Policies and Procedures Manual	
	Accounts Payable policies	Accounts Payable Purchasing Project Management

	Accounts Receivable policies	Accounts Receivable
	Credit and collection procedures	Accounts Receivable
	Communication methods used by management and access to the system	Admin/Conduct/Communication
	Employee files for evidence of background checks on employees handling cash	Cash and Checks
	Accounts payable documentation to support disbursements and prevent duplicate payments	Cash and Checks Accounts Payable Purchasing Project Management
	All check entries on deposit slips for depositor and amount	Cash and Checks
	Ensure no personal checks were cashed by employees	Cash and Checks Revenue - Retail
	Check control log and blank checks to confirm that blank checks are not missing	Cash and Checks
	Purchase orders match invoices	Accounts Payable Purchasing Project Management
	Review receiving discrepancies	Accounts Payable
	Old and unmatched payables are resolved	Accounts Payable
	Check for cash discounts available	Accounts Payable
	All forms are preprinted and sequential	Revenue Purchasing Project Management
	Preprinted forms are completely filled out	Revenue Purchasing Project Management
	UCOA accounting ledger records match source documents	Accounts Payable Accounts Receivable Purchasing Project Management
	<b>Documentation Signatures:</b>	
	Username and dates from communications with management	Admin/Conduct/Communication
	Fixed asset purchases are authorized by management and Board of Directors	Fixed Assets
	Asset count personnel different than asset custodian	Fixed Assets
	Vendor master list authorized by manager or board member not involved in daily disbursement duties	Accounts Payable Project Management
	Manager's signature on all checks	Accounts Payable
	Cardholder's signatures on all receipts	Accounts Payable
	Employees that handle accounting for accounts receivable different than those who record and deposit cash receipts	Accounts Receivable
	<b>Inquiry of:</b>	
	Employees feel important information is accessible to the right people	Admin/Conduct/Communication
	<b>Reperformance:</b>	
	Analytical review of cash receipts and	Cash and Checks

	disbursements in general ledger	
	Reconcile transactions between departments	Financial Reporting
	Accrual transactions have been recognized properly by matching ledgers with billings and purchase orders	Financial Reporting Project Management
	Reperform financial and ratio analyses to identify UCOA accounts at risk of misstatement	Financial Reporting
	Review of project schedule	Project Management

### NPO Internal Controls Self-Assessment Task List Additional Tasks for Large NPOs

<u>Initial when complete</u>	<u>Task</u>	<u>P&amp;P Section(s) Assessed</u>
	<b>Inspection:</b>	
	<u>Existing Documentation:</u>	
	Policies and Procedures Manual:	
	Competitive bidding procedures	Accounts Payable Purchasing Project Management
	Accounts Receivable billing procedures	Accounts Receivable
	Multiple estimates on large contracts	Accounts Payable Purchasing Project Management
	Large purchases on credit accounts	Accounts Payable
	Bond certifications if acquired	Revenue Project Management
	Revenue forecast for date, periodic updating	Revenue
	Subcontractors' qualification documents if applicable	Revenue Project Management
	All accounts receivable billings batch numbers match records in UCOA accounting system	Accounts Receivable
	Mailing address on vendor invoices to confirm all invoices mailed to designated location	Purchasing Project Management
	Bond and retainage forms for construction projects	Purchasing Project Management
	Reports detailing estimated costs at completion for surety, bonding, purposes	Project Management
	<u>Documentation Signatures:</u>	
	Asset disposal signature different than those with custody	Fixed Assets
	Reconciliations of fixed assets accounts signature different from those making accounting entries	Fixed Assets
	Authorization on automatic and recurring payments to vendors	Accounts Payable
	Employees that handle accounting for accounts receivable different than those who authorize bad debt write-offs, adjustments, and disputed billings	Accounts Receivable
	<b>Reperformance:</b>	
	Win/loss analysis	Revenue
	Interest and penalty calculations on delinquent	Accounts Receivable

	receivables	
	Allowance for doubtful accounts estimate	Accounts Receivable
	Aging of receivables	Accounts Receivable
	Review of purchasing reasonableness	Purchasing
	Review of backorders	Purchasing
	Review of any blanket purchase orders	Purchasing
	Project cash flow forecasts	Project Management
	Project work-in-progress reports	Project Management
	Project cost reports	Project Management

### NPO Internal Controls Self-Assessment Task List Additional Tasks for Extra-Large NPOs

<u>Initial when complete</u>	<u>Task</u>	<u>P&amp;P Section(s) Assessed</u>
	<b>Inspection:</b>	
	<u>Existing Documentation:</u>	
	Mechanism used by management to select recipients of pertinent information	Admin/Conduct/Communication Data Integrity
	Credit applications completed for all receivables accounts	Accounts Receivable
	<u>Documentation signatures:</u>	
	Employees that handle accounting for receivables different than those who have access to donor/customer master file	Accounts Receivable
	Employees that handle accounting for receivables different than those who have authority to establish credit	Accounts Receivable
	Employees that handle collections and deposits different than those who have authority to approve credit applications and credit memos	Accounts Receivable
	<b>Observation:</b>	
	Retail premises secured	Revenue – Retail
	Retail office secured	Revenue – Retail
	<b>Reperformance:</b>	
	Revenue forecast	Revenue
	Award analysis	Revenue
	Historical costs used for revenue estimates	Revenue
	Donor/customer balance review	Accounts Receivable
	Delinquent accounts review	Accounts Receivable

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