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Internal Control Basics for Small Charitable Organizations

Having internal controls in place is important for any business, and it is even more important for charities, given the regulation to which they are subject at the state and federal levels, and the importance of maintaining the confidence of donors and the general public. What are internal controls, exactly?

Internal controls are *procedures or systems* adopted by your organization and followed, to ensure that:

1. Funds or property are not stolen or used for impermissible (non-charitable) purposes;
2. Private information of donors, program participants, employees and volunteers is safeguarded.
3. Your physical and electronic premises are kept secure.
4. There are no conflicts of interest in your programs or expenditures.
5. You meet all your periodic (annual, five-year or more frequent) reporting requirements to all governmental agencies, so that you remain in good standing.

Starting off with strong documents for your Articles of Agreement, By-Laws, Conflicts of Interest Policy, Whistleblower Protection Policy and Document Retention/ Destruction Policy are key, but equally important is being familiar with what those documents *require* and actually *referring* to them frequently. Developing procedures to implement those documents and to handle your unique workflow, as soon as you are set up, will start you off on the right foot.

Working with an accountant, and/or IT and Human Resources professionals can also be a great help, but there are some basics that you will need to develop to suit your own operations. Those should include:

Financial Matters:

- Develop the workflow for taking in donations and other revenue, documenting and depositing funds promptly, ideally with two sets of eyes on all incoming funds.
- Segregate duties for paying bills and making distributions, such as authorization for a Treasurer to *prepare* checks for another officer (President or Vice-President) to *sign* for disbursements.
- Reconciliation of bank statements and registers monthly, with review by an officer who *did not* sign or prepare checks.
- Very limited amounts of cash on hand, and always strictly accounted for.

Personal Information:

- Ensure that electronic and physical folders with personal information in them (from donors, employees or volunteers, program participants or recipients of distributions) have limited physical access and, if electronic, are password protected or encrypted.
- Invest in good IT protection. Although it seems there are few safe havens from computer malware, you can and must take steps to protect your electronic files with malware scanning software and other products.

Do Your Due Diligence:

- Run background checks on potential employees and volunteers for sensitive positions. For work with children or vulnerable adults, criminal background checks may be required.
- Many smaller non-profits operate on a shoestring and there is a high level of trust among the small group of individuals running the operation. This can be very effective operationally, but it can also pose great risks for misappropriation of funds or personal information, whether intentional or accidental. Due diligence and strong procedures are even more important in a small non-profit than in some other settings.

Regulatory Compliance:

- Meeting the reporting obligations of the IRS (for charitable compliance, as well as other tax matters, include payroll for employees), the NH Charitable Trusts Unit, and other governmental agencies specific to your work, can be daunting.
- It is important to start with a calendar of all your obligations for regulatory compliance and other due dates and keep it current.

If you discover any irregularities that cannot be handled by your staff and/or governing body, it is best to bring in knowledgeable professionals (legal, accounting, HR) as soon as possible. The NH Charitable Trusts Unit is always a good resource. With good internal compliance, reviewed annually, you will be off to a great start!