V. Internal Control & Banking Relationship

**Basic Controls**

Internal control refers to a system of financial checks and balances designed to minimize errors or misappropriation of assets, maximize the detection if it occur and protect the association overall. It is the treasurer’s responsibility to safeguard the assets of the association by ensuring these controls are in place.

One of the basics of good internal control is that no one person handles all aspects of any financial transaction. This creates the system of "checks and balances." An example would be the person who approves a bill to be paid should not be the same person who signs the check to pay it. However, it is likely that your association does not have paid staff support, there are only one or two bank accounts (checking and savings) and there is only one person handling everything - the treasurer. It may not be easy or practical to involve several people in all financial transactions and therefore you may assume that your association will have poor internal control. In spite of this situation, there are some possible safeguards to alleviate this potential problem.

Listed below are some basic internal controls applicable to most local associations*. Refer to Section IX – Financial & Operational Standards* – for Internal Control Policy and additional internal control activities and questions.

1. Cash Receipts:

* Incoming mail should be opened and listed by persons other than those with access to cash receipts journals and accounts receivable records. The purpose of making a list of all checks and cash received is to insure that a record is made of the amount that was received.
* A person with no access to cash should compare cash receipts records to deposit slips.
* The person opening the mail should stamp Receipts/Checks “For Deposit Only.”
* Pre-numbered receipts should be given for contributions, gifts, etc.
* Persons other than those opening mail and listing receipts should enter cash receipts in the journal daily.
* The receipts of checks and cash should be deposited intact daily with the date of the deposit indicated on the journal sheet. The bank deposit slip totals should match log sheet totals.
* Individuals handling cash should be bonded.

1. Cash Disbursements:

* All disbursements, except petty cash items, should be made by checks. Supporting documents should be attached. This is to insure that there will be a permanent record of how much and to whom money was paid.
* Checks should always be payable to a specific person/company including petty cash disbursements. This makes it more difficult to fraudulently disburse funds.
* Persons other than those approving invoices should prepare checks.
* Checks should be paid from original vendor invoices. Copies of purchase orders, invoices, and receiving reports should be attached when presented for signature.
* Checks should be entered in the disbursements journal exactly as they have been prepared.
* Signing of blank checks should never be permitted.
* Annually, the Board should authorize bank accounts and signers of checks.
* Two signatures are recommended on all checks. Two-party signatures reduce the possibility of an unauthorized disbursement. The governing board should authorize all check signers.
* Pre-printed check numbers should be used. Checks should be pre-numbered and used in sequence to control the checks used and to identify missing checks.
* If an error is made in writing a check and/or a check is returned due to duplicate payment, write “VOID” across the face of the check and stub to indicate that the check and stub are not to be used.
* Keep supply of checks in a secure place. There should be adequate controls over supplies of blank checks. This control is to ensure that checks are protected against loss by fire or theft.
* A person other than the person preparing the bank reconciliation should receive bank statements directly from the bank. This control prevents one from fraudulently issuing a check for personal use and or covering up this disbursement in the books.
* All vendor’s invoices and expense vouchers should be checked for quantities received, services performed, prices charged and clerical accuracy. Without a review of invoices, errors may be overlooked and payments could be paid in the wrong amount. Payments should be paid from original invoices only.

1. Other:

* Monthly bank reconciliations are required. In order to prove the accuracy of both the association records and those of the bank, it is necessary to reconcile and account for any differences between the two balances.
* One of the most effective controls is the use of a Budget Status Report which compares budgeted figures to actual figures on a monthly basis. If unusual or material deviations are identified and researched, the likelihood of large misappropriations not being detected fairly quickly is reduced considerably. This type of analysis can uncover problems on a timely basis.
* All banks or other institutions where funds are deposited should be instructed not to accept withdrawals payable to cash. Any electronic fund transfer or automatic debit account arrangements should be established with the authority of at least two officers of the association.
* By providing monthly reports, the detection of errors or misappropriation is more likely. A list of deposits and withdrawals should be made available for review at every regularly scheduled local business meeting. This may be as simple as photocopying the local’s check register with notes. The treasurer should verify that state affiliate and NEA dues have been transmitted to the state, noting the date they were transmitted.
* The budget and the board of directors’ minutes are an excellent source of verification of financial activities in a broad sense. Additionally, the corporate charter and bylaws should be reviewed to determine that all activities comply and that the designated individuals are performing their proper functions.
* Determinate the physical existence of assets by verifying bank balances, counting securities owned, and reviewing equipment. An examination of deeds and tax assessments is another procedure for verifying the existence of real property owned.
* Ascertain that tax returns and corporate reports are filed in a timely fashion. Failure to comply with these requirements will expose the association to possible fines or penalties.

1. Technology:

* As associations become more technologically driven and the speed of information delivery becomes paramount, both general computer and financial controls are critical to ensure information is processed correctly. These controls are needed to ensure the accuracy and completeness of your financial information, reduce the risk of unplanned business interruptions, ensure your information is secure from outside intruders and catch invalid information at the source. Consider the following questions. Do you have:
* Virus protection software to prevent destruction of programs and data?
* A disaster recovery plan?
* Proper backup and data storage procedures?

# Quick Reference Do’s

* Do make sure that the assets of the association are safeguarded and used solely for the benefit of members.
* Do adopt a budget prior to the start of the fiscal year.
* Do compare budget to actual expenses on a monthly basis.
* Do identify and explain differences between budget and actual expenses and plan accordingly.
* Do prepare and present complete and accurate financial statements to the board of directors on a monthly basis.
* Do make deposits timely. Keep detailed records of all deposit transactions.
* Do remit the NEA/LAE/SAE membership dues timely in accordance with the dues transmittal agreement.
* Do have proper supporting written documentation for every check written or wire transfer made. Make sure every disbursement is authorized. (Documentation includes invoices, receipts, approved minutes of the board of directors, etc.)
* Do require 2 signatures for every check written.
* Do reconcile the bank accounts monthly.
* Do have an Internal Audit Committee review the financial records on a quarterly basis. Do have an annual audit or review by an independent certified public accountant if your internal policies require it.
* Do comply with federal and state laws and regulations with respect to tax-exempt status. When in doubt, consult your accountant. Association funds should only be used for the exempt purpose.
* Do file all federal and state reports on time. This includes IRS Form 990, 1099’s, payroll tax reports, etc.
* Do formally adopt and implement policies regarding (a) conflicts of interest, (b) code of ethics, (c) document retention, (d) travel reimbursement policies, check signing authority, and (e) financial and operational standards.

# Quick Reference Don’t’s

* Don’t give out members’ personal information (i.e. social security number, home address, e-mail address, telephone number, health matters, etc.) to unauthorized persons. This information is confidential and subject to privacy laws.
* Don’t spend more than you make. Do not operate “in the red”.
* Don’t spend NEA/LAE/SAE membership dues for local association activities. The local association is a trustee of these funds and is not entitled to use the funds.
* Don’t conduct transactions for “private inurement” (for the benefit of an insider).
* Don’t deposit association funds into personal bank account.
* Don’t accept “post-dated” checks.
* Don’t spend funds for activities not approved by the membership.
* Don’t write checks for “Cash”.
* Don’t sign blank checks (missing payee and/or amount).
* Don’t sign checks payable to oneself.
* Don’t withdraw cash from the association’s bank accounts.
* Don’t pay bills from statements. Require vendors to provide an original invoice. Be careful of copies and faxes to avoid duplicate payment.
* Don’t “co-mingle” PAC funds with the association’s general funds.
* Don't destroy association records until after determining the appropriate period of time those records should be maintained per the Record Retention Guidelines. Those guidelines can be found within this website as an additional resource.