

INTERNAL FINANCIAL CONTROLS

A comprehensive system of internal financial controls is essential for the well managed Youth for Christ office. Here is an overview of what you need to do to implement this kind of system.

INTERNAL CONTROL OVERLAY

- Internal control is the process put into place by senior management to achieve the following goals:
 - Safeguard items of value, such as cash.
 - Achieve efficiency and effectiveness.
 - Reliability and completeness of bookkeeping.
 - Compliance with laws and regulations.
- Think of yourselves as also being guardians of the tangible things of the ministry.
- There are a lot of rules around internal control, but here are 4 keys:
 - Segregation of duties.
 - Cash is a red flag.
 1. Always have two people open the mail (donations).
 2. Always have someone you know work with cash at events.
 - Blank checks are the same as cash—lock them up.
 - Back up your computer system (son, father, grandfather—three generations of disks).
- Money in—Contributions, pledges, and non-cash contributions.
 - Contributions should be deposited on a daily or at least weekly basis.
 1. Try to segregate duties—One person prepares the deposit and another person takes the deposit to the bank
 2. Make a copy of each check and the deposit slip. Save check stubs.
 3. Staple the receipt from the bank to the copies and file for bank statement reconciliation.
 4. Your center should have a receipting process in place. Thank donors promptly.
 - A. You must provide a written acknowledgement for any single contribution of \$250 or more so that the donor can claim a charitable contribution on his/her federal income tax return.
 - B. You must provide written disclosure to a donor who receives goods in exchange for a single payment in excess of \$75.
 - C. Un-reimbursed expenses, called gifts in kind, need a written acknowledgement containing a description of expenses, an estimate of their value, and receipt by the center. The center needs to keep a record of the un-reimbursed expenses.
 5. Record the deposits into your checkbook or accounting software as of the date credited at the bank.
 6. If a donation is restricted, make sure that its use is for what it was intended.

7. If you receive a donation of more than \$10,000 in cash in one transaction or two or more related transactions, you need to complete a Form 8300 available at irs.gov.
8. You'll want to keep a weekly summary (or daily summary) of cash receipts.
 - Pledge—a promise to contribute a specified amount. For the most part, we don't record pledges until received. The exception would be at year end for most purposes (you'll want to keep an eye on this).
 - Contributed services of volunteers—may need to record if the following two criteria are met:
 1. The services create or enhance a non-financial asset (example: create software) or
 2. The services donated require specialized skills, AND are provided by persons possessing these skills, AND would typically have to be purchased if not provided by donation (example: graphic designer for a brochure).
 - Non-cash gifts are recorded at the fair market value as of the date of their donation—a tax accountant issue.

MONEY OUT—INVOICE PROCESSING

- Invoices should be batched or paid periodically; i.e., once every two weeks. Enter into your computer system daily or weekly.
- Whenever you have a new vendor, send them a W-9 Form. This is a request for taxpayer's identification number.
 - This will save you a lot of work at the end of the year.
 - You are required to send a 1099-MISC Form for:
 1. Payments of \$600 or more for non-employees (accountants, attorneys, directors, consultants).
 2. Rent of \$600 or more.
 3. Prizes and awards of \$600 or more.
 4. Royalty payments more than \$10.
 - It's easier to send out the W-9's and collect in one file through the year.
 - If a vendor does not complete a W-9, may be subject to back up withholding, which is something you'll have to do. (30% to 12/31 then 29%). Instructions are on the W-9.
 - 1099's must be postmarked by January 31st. Order forms early.
- Collect invoices into one location or file.
- Invoices should be approved by the person responsible for the budget for that area. You may want to set up an invoice approval process where larger dollar items require more review.
- Look for segregation of duties—the same person should not approve an invoice, write a check to pay it, sign the check and be responsible for mailing the check. A vendor could be made up.
- Track check numbers carefully.
- Lock blank checks up.
- Write the check number, amount paid and date paid on the invoice.
- File invoices alphabetically by vendor by year.
- One person should be responsible for making sure time-sensitive payments are made (example: power, rent).
- Keep center and personal expenses separate.
- Use the "Money Out" tool in implementing this procedure (see next bulletin).