

Fiscal Responsibility

With only limited growth in revenues, all organizations are under constant pressure to achieve their mission with limited and decreasing resources. Organizations must therefore always be looking to find ways of operating more efficiently and effectively. This includes reviewing and where necessary changing or even implementing appropriate internal controls and financial policies.

A necessity of today's environment; the implementation of financial policies is not a luxury – it is required.
(Mark Oster & Doug Stevens, Grant Thornton International)

Internal controls can be defined as “policies, procedures, practices, and organizational structures designed to provide reasonable assurance that operational objectives will be achieved, and that undesired events would be prevented, or detected and corrected” (Wayne Amundson, Association Xpertise Inc.) While this includes more than just financial aspects this article will focus on internal financial controls and specifically on separation of duties.

Six Elements of a Strong System of Internal Controls

1. Employing competent, trustworthy people with clear lines of authority and responsibility
2. Having adequate separation of duties
3. Conducting independent checks on performance
4. Maintaining adequate documents and records
5. Having appropriate physical controls over assets and records
6. Having adequate separation of duties.

What is Meant by Separation of Duties?

Separation, means just that. No one person will have complete control over any financial transaction. Through a separation of duties, one person's work will serve as a complimentary check on another's. By following this principal, an organization can go a long way to ensuring that transactions are valid and properly recorded.

Financial Functions:

Within the financial process of an organization a number of functions can be clearly identified. These functions include: Accounting; Custody of Asset; & Record Keeping. Within each of these functions various roles can also be defined as follows.

Accounting:

Approver (reviews the transaction for accuracy, validity, appropriateness, and proper authorization; determines if a transaction should continue to be executed)

Deposit Preparer/Approver (consolidates and review cash receipts from cashiers and prepares the deposit; does not directly collect cash and checks from external parties)

In putter (responsible for entering the transaction into the Financial Information System)

Ledger Reviewer or Reconciler (reviews and reconciles the general ledger every month)

Custody of Asset

Cashier (receives cash or check payments on behalf of the organization)

Check Handler (handles checks to be disbursed to a vendor)

Record Keeping

Financial Report and Analysis Preparer (prepares financial reports and analysis for review by management or use by staff)

In general terms organizations should look to ensure that duties are separated as follows:

- Custody of assets from accounting
- Authorization of transactions from custody of related assets
- Operations responsibility from record keeping
- Within the accounting function separate duties

It is recognized that for many organizations it may not be possible to adhere to all of the above principles due to resource limitations or other such factors. An organization must review and assess the risk to determine if the level of risk is acceptable, or if other resources need to be sought out.

Contact Sport Manitoba's Finance Unit (Jim: 925 -5613 or Laurel: 925-5615) to discuss appropriate internal controls and separation of duties.

Web Resources: Nonprofit Financial Center <http://www.NFOnline.org>

Grant Thornton International <http://www.grantthornton.com/nfperspectives>

Association Xpertise Inc. <http://www.axi.ca>

Charity Channel : <http://charitychannel.com> (check the archives for Financial Primer, or Accounting for Newbies)

Specific Articles: <http://www.ucsc.edu/finaff/cc/tips/sepduy.htm>

<http://www.washington.edu/research/gca/uwin/checks.html>

<http://www.delawarenonprofit.org/FinMgmtFaq1.html>

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