

## Chapter 6 – Section 6.0 Internal Controls

Date of Board Approval : 8/10/11

Contacts: Board of Directors  
Treasurer  
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### 6.1 POLICY:

Every business, regardless of size, should have at some level an internal control system to protect against losses, both intentional and unintentional. The internal control systems will: 1.) Protect cash and other assets; 2.) Promote efficiency in processing transactions; and 3.) Ensure reliability of financial records. An internal control system shall be designed to provide reasonable assurance that these three objectives will be achieved.

### 6.2 PROCEDURES:

Regardless of size, one of the most important aspects of an internal control system is the concept of segregation of duties. Separating duties makes it more difficult for errors and theft to go undetected and allows for checks and balances.

A system of authorization and record keeping procedures adequate to provide reasonable accounting control over assets, liabilities, revenues, and expenditures is required.

Development of policies and procedures for prescribing and documenting the Association's internal control processes shall consist of a well thought out strategy and be reviewed and adjusted at least annually.

Skilled, well informed, and motivated employees is key for the Association to operate efficiently. Staff shall be provided with adequate training. They shall have knowledge, understanding and be involved with the application of internal controls on a daily basis. They shall be encouraged to suggest modifications to the system that would improve effectiveness.

The following Association activities require internal controls:

- Accounts Payable
- Banking and Investments
- Bank Reconciliation
- Cash
- Delinquent Accounts (assessments & fines) and related documents
- Disbursements – Documentation and Process Controls
- Disbursements – Signature Control
- Disbursements – Legal, Professional and other Outside Vendors
- Financial Statements and Reports
- Insurance Policies
- Petty Cash
- Receivables
- Safeguarding of Capital Assets
- Safe Guarding of Non-Capital Assets – Access To Records, Documents, and Electronic Data
- Supplies and Inventory
- Vendor Contracts

### 6.3 Monitoring of Internal Controls

At the time all of the controls are in place, the Board of Directors shall appoint an Audit Committee to periodically monitor the effectiveness of the controls and recommend any modifications or introduction of new controls based upon changes in business practices or conditions.

### 6.4 Sources

- Community Association Foundation Library
- “A Nonprofit Organizational Manual” by Arnold J. Olenik & Philip Olenik, 1991.
- “Evangelical Lutheran Church in America: Congregational Audit Guide”, a resource provided by the Treasurer of the Evangelical Church in America, 2008.
- Internal Controls Library: [www.accountingresearchmanager.com](http://www.accountingresearchmanager.com)
- Standards for Internal Control: [www.osc.state.ny.us/agencies/ictt/docs/internalcontrol.gov](http://www.osc.state.ny.us/agencies/ictt/docs/internalcontrol.gov)

- Understanding Internal Controls: [www.ucopedu/ctlac.com](http://www.ucopedu/ctlac.com)
- California State University Internal Controls Audit: [www.calstate/audit/internalcont.com](http://www.calstate/audit/internalcont.com)
- Internal Control Checklist: [www.lri.lsc.gov/LRI/80069Internal Control NPO.doc](http://www.lri.lsc.gov/LRI/80069Internal%20Control%20NPO.doc)