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Enhancing Internal Controls with Limited Staff

One of the key elements of an effective system of internal control is an adequate segregation of duties and responsibilities. The underlying concept of this element is the organization's ability to minimize the risk of control failure by allocating control tasks along the process cycle to different members of the process team. In theory, the more people in the sequence of control tasks, the less the risk of error or fraud. However, not all organizations have the luxury of large numbers of staff among whom such tasks can be allocated and alternative sources of oversight and control must be identified.

The traditional role of an organization's officers and governing board is fiduciary oversight and not direct involvement in the operational structure of the organization. However, when the limited size of an organization's staff weakens the integrity and effectiveness of its internal control, it may be necessary for members of the governing board of the organization to insert themselves into the process.

The following are some examples of control steps in which officers of smaller organizations might consider participating to strengthen controls when their organization has insufficient staff.

Cash Controls

- Participate in check signatory process
- Institute a dual signatures policy
- Independently receive a duplicate copy of the bank statement
- Review and sign off on internally prepared bank reconciliations

Payroll Controls

- Independently receive a duplicate copy of payroll register
- Review and sign off on monthly or quarterly payroll register
- Approve all changes in payroll (new hires, terminations, changes in pay)

Program Cost Controls

- Review of program budgets
- Detailed review of program transactions
- Review of vendor history

Many of the above steps, or others, can be exercised either before-the-fact (an approval control) or after-the-fact (an oversight control). Since the former are traditional elements of management's responsibility, a board member participating in such controls may impair his independence with respect to those processes and the governing board must take this into account as it considers its broader oversight function.

An organization's internal control is an essential component of its risk management process. Officers, board members and management must always be vigilant for creative ways to strengthen controls even when an organization's size, structure or economic constraints make it difficult so to do.

For more information on how your organization can maximize the effectiveness of its internal controls contact Sanders Davies at 203-323-2400 and sdavies@odmd.com or your ODMD Not for Profit Team Professional.

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