Financial Best Practice Checklist for Nonprofits

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Financial management decisions and internal controls are perhaps not the most exciting topics a nonprofit leader considers on a daily basis. But sound financial management practices are vital to organizational success. Not only will good internal controls keep an organization in compliance with all laws and out of trouble; they also position an organization to build stability and growth, thereby driving the mission. A quality financial "health check" starts with an honest, objective assessment of an organization's current needs and practices. Below we highlight a list of best practices small and medium-sized organizations can adopt for sound nonprofit finance management.

The Leadership Staff should

- ☐ Limit the number of individuals that can sign checks for the organization.
- ☐ Open a business banking/checking account in the organization's name.
- ☐ Establish internal accounting systems, including checks and balances, so one staff member does not have total control over finances.
- ☐ Ensure maintenance of accurate records of all income, expenditures, transactions, and activities throughout the year.
- ☐ Develop annual budgets that provide clear direction for all organizational spending.
- ☐ Prepare financial statements for quarterly review by the board. Statements should include balance sheet, profit and loss with a comparison to budget and a cash flow forecast.
- ☐ Ask the Treasurer of the organization to perform an independent inspection of the key records (bank statements, investment statements, bank reconciliations, credit card statements and Executive Director expense report) on a regular basis (quarterly).
- ☐ File appropriate annual reports with the IRS and State; almost all charitable nonprofits that are recognized as tax-exempt by the IRS are required to file an annual report with the IRS, known as the "Form 990."
- ☐ Comply with a conflict-of-interest policy; review and sign the policy.
- ☐ Make an annual fundraising plan.

The Board and/or Executive Committee should

- ☐ Know the names of individuals that can sign checks for the organization.
- ☐ Know all financial institutions that hold the nonprofit's assets.
- ☐ Know the name(s) listed on any bank accounts for the organization.
- ☐ Know if the organization has borrowed money and the terms of the loan(s).
- ☐ Ensure the organization has financial checks and balances.
- ☐ Review and approve any and all compensation paid to the Executive Director.
- ☐ Maintain and review a conflict-of-interest policy; review and sign the policy.
- ☐ Look over financial reports quarterly or monthly.
- ☐ Approve annual budgets.
- ☐ Confirm annual filings; review the Form 990 prior to filing with the IRS.
- ☐ Review and discuss the independent financial audit (if applicable).
- ☐ Review the annual fundraising plan.
- ☐ Serve without payment unless the organization has a policy for reimbursable out-of-pocket expenses.
- ☐ Review insurance coverages to ensure risk of loss is properly mitigated and ensure insurance policies are renewed.
- ☐ Have a written policy prohibiting employees and members of employees' immediate families from serving as board chair or treasurer.
- ☐ Oversee investments and reinvest assets when appropriate.
- ☐ Insist on the best value for goods and services through comparisons and an informed bidding process.
- ☐ Disclose any related party transactions between board members or their family, to the board of directors, the Internal Revenue Service and the auditor.
- ☐ Keep minutes of board meetings that reflect: the date, time and place of the meeting; what directors (and others) were present and whether this made a quorum; what items were submitted for a vote; and who voted for, against, or abstained; and any other information to fulfill legal obligations.
- ☐ Approve the expense reports of the Executive Director.
- ☐ Establish a cash management policy that dictates an appropriate level of reserves and a plan for establishing a reserve fund and the process for drawing funds from reserves.
- ☐ Understand and approve key contracts/commitments entered into by the organization.
- ☐ Perform a review of organizational risks to ensure understanding of operational risks including, but not limited to: reliance on single key employee, funder, event or vendor, liabilities associated with delivering programming, risks associated with long term contracts.