



Oversight

CHAPTER OUTLINE

1. What do I need to know about oversight?
 - A. Board member fiduciary responsibilities
2. Accounting procedure and policies
 - A. Separation of duties
3. Understanding your financial culture
 - A. Artifacts
 - B. Behaviors
 - C. Underlying values
 - D. Assess your culture

Chapter 5 Summary: Oversight

INTRODUCTION

The policies and procedures designed to prevent fraud and ensure accurate reporting ground an organization's financial oversight. Nonprofit board members are ultimately responsible for the effective, responsible use of a nonprofit's resources. Strong oversight practices are critical to the integrity and success of an organization.

1. WHAT DO I NEED TO KNOW ABOUT OVERSIGHT?

As a nonprofit board member, you should understand the following concepts around oversight.

- **An organization's internal controls monitor, measure, and direct against risk and fraud.**

Internal controls should include policies and procedures that address the following.

 - Compliance with applicable laws and regulations as well as adherence to policies

- Safeguarding assets against loss and unauthorized use or disposition
 - Reliability of financial reporting
 - Effectiveness and efficiency of operations
- **Clarify who has access to what and when** through clear separation of duties and specific delegation of authority. Key areas of access include bank accounts, organizational credit cards, blank check stock, cash/checks received, accounting system, donor database, payroll system, and approval authority.
- **Establish policies and procedures to guide behaviors and outcomes.** Written policies and procedures represent an organization's detailed list of what needs to be done, who is responsible, how roles and duties are separated, and steps to achieve completion.
- To ensure everything is in order, **complete a periodic review of the nonprofit's financial policies and procedures.**
- **Avoiding fraud and maintaining a positive financial reputation is important for the nonprofit's integrity and continued success.** The organization should have safeguards in place to identify possibilities of fraud and ways to keep the organization and its participants from committing fraud.

There are oversight-related actions you can take to instill a strong nonprofit finance culture within your organization.

- **Monitor the organization's finances and internal controls.** Consider completing internal mini-audits or reviews of both the financial numbers and controls including policies and procedures. Ask questions and examine details of a few specific accounts or financial statement line-items on a rotating basis and report back to the board.
- **Develop a routine risk assessment program** that is appropriate for the organization's size and complexity. Completed at least annually, the assessment should consider the following risk types: fraud, legal, financial, operational, regulatory, program, and other items identified by the organization.
- After the organization's written accounting policies and procedures are in place and a regular review process is setup, **begin thinking about crisis planning.** Consider backup procedures, disaster recovery planning, and situations that could derail the nonprofit's plans.

A. Board member fiduciary responsibilities

In Washington, board members have three duties related to fiduciary responsibilities. The board should review these duties annually.

- **Duty of Care:** Board members will take reasonable care when making decisions, using diligence and independent judgement. Board members are expected to have a level of competence described as exercising the "care of an ordinarily prudent person in the like position" under similar circumstances.

- **Duty of Loyalty:** Board members should act in the best interest of the organization, putting the organization before self-interest. This is particularly important when the potential for personal gain exists and often arises when there is a conflict of interest.
- **Duty of Obedience:** Board members must make sure the organization is in compliance with local, state, and federal laws. Board members will stay true to the organization's mission and governing documents.

As of January 1, 2022, with the new Nonprofit Corporation Act, there is an additional duty for board members and officers to share information to the board if a board member or officer has information important to the operations or relates to a violation or probable violation of law involving the organization.

2. ACCOUNTING PROCEDURES AND POLICIES

Nonprofits should have a set of core organizational policies and procedures that are followed. Your written financial procedures highlight the organization's key internal controls, including who has access to what and when, and these documents should be made available to board members. Policies and procedures should be revisited at least annually to stay current and effective.

Procedurally, bank statements should be opened or viewed online by someone who understands the nonprofit's work and has no role in the financial operations. Reviewing bank statements is meant to identify any transactions, payees, check signers, etc. that appear out of the ordinary. If the reviewer identifies something out of the ordinary, the individual should inform the full board.

When considering expenditures, create clear policies and procedures to help someone spending money on behalf of the nonprofit understand their limits and reporting process. Check that set limits are followed and expenses are documented appropriately for your organization's process.

As you think about oversight, a whistleblower policy is critical. A whistleblower policy provides individuals a clear way to notify the board if something is suspicious, does not look or feel right, or may be detrimental to the organization.



ACTIVITY

Your turn: Review your organization’s financial policies and procedures. Here are some questions to ask yourself. Use the space provided to write down your answers and any action steps. Consider asking these questions across several board meetings to see how your answers change over time.

Ask yourself...

- Does your organization have basic, written accounting procedures that highlight key internal controls?
- Given your nonprofit’s size, have you limited access as much as possible? Does the organization have checks and balances for financial accountability?
- Thinking about your nonprofit’s current policies and procedures, what other policies might you need to implement? Are the policies and procedures up-to-date and effective?
- Reexamine Part VI Governance, Management, & Disclosure of the Form 990. Are there any best practices or policies your nonprofit should consider implementing?

Notes & Next Steps

A. Separation of duties

Separation of duties is a practice by which no one person has sole control over the lifespan of a financial transaction. This means no one person should be able to initiate, approve, record, and reconcile a transaction. Through clear separation of duties, unintentional or intentional mistakes that may occur should be discovered by another person(s).

What does separation of duties look like, especially in small nonprofits? At minimum, two people are involved in financial functions and tasks are divided for items like bookkeeping, check writing and signing, and bank statement review. A stronger practice is to have at least three people involved. In both cases,

the full board is involved by regularly receiving and reviewing financial reports to make sure actual expenditures align with the board approved budget.

The ability to demonstrate the separation of duties to an outside party is important. Documenting processes and including who has authority is a helpful step in demonstrating an organization's internal controls have adequate separation of duties.



SEPARATION OF DUTIES WORKSHEET

The following worksheet has sample separation of duties for two- and three-people approaches, which include a few examples of possible tasks. Your organization may have additional financial tasks to complete. On the following page, we've provided blank spaces for you to document your nonprofit's separation of duties. Identify your approach (two- or three-people), assign the people involved by writing down their names, and list out the divided tasks for each person. After you filled everything in, look for any tasks completed by the same person tied to a specific type of transaction. For example, the same person should not write checks, sign checks, and mail checks.

SAMPLES

TWO-PERSON SEPARATION OF DUTIES		
Person 1	Person 2	
<ul style="list-style-type: none">• Reconciles bank account(s)• Performs bookkeeping functions• Writes checks	<ul style="list-style-type: none">• Reviews bank statements for discrepancies• Signs and mails checks• Opens and posts mail• Completes deposit slips	
THREE-PERSON SEPARATION OF DUTIES		
Person 1	Person 2	Person 3
<ul style="list-style-type: none">• Reconcile bank account(s)• Performs bookkeeping functions• Writes checks	<ul style="list-style-type: none">• Opens and posts mail• Reviews bank statements for discrepancies• Mails checks	<ul style="list-style-type: none">• Signs checks• Completes deposit slips

YOUR TURN...

TWO-PERSON SEPARATION OF DUTIES		
Person 1 Name:	Person 2 Name:	
• Task:	• Task:	
• Task:	• Task:	
• Task:	• Task:	
• Task:	• Task:	
• Task:	• Task:	

THREE-PERSON SEPARATION OF DUTIES		
Person 1 Name:	Person 2 Name:	Person 3 Name:
• Task:	• Task:	• Task:
• Task:	• Task:	• Task:
• Task:	• Task:	• Task:
• Task:	• Task:	• Task:
• Task:	• Task:	• Task:

To help you assess a few more key items of your nonprofit's oversight, the following worksheet outlines steps for your organization to review. There may be other areas around internal controls, access, and reporting your nonprofit wants to assess – this as a starting place.

Oversight Steps	Have you done this?	Notes & Next Steps
<p>Internal Controls</p> <p>Does the organization have basic, written accounting procedures that highlight key internal controls?</p> <ul style="list-style-type: none"> • Regular communication about the importance of ethics and controls occurs • Procedures about the handling of money are documented and communicated • Bank reconciliation is done regularly by someone other than the bookkeeper, or if not possible, bank statements are reviewed by a person that is not the bookkeeper • Expenditure limit policy defines the spending limits for each position within the organization • Disbursements are made by check, except for limited petty cash • Incoming checks receive a “restricted” endorsement or “for deposit only” • Outgoing checks are supported by invoice, receipt, or voucher • Whistleblower policy is in place • Conflict of interest policy is in place 	<input type="checkbox"/> Yes <input type="checkbox"/> No	
<p>Access</p> <p>Given the organization's size, is access limited as much as possible? In terms of finances, has the organization clearly defined and documented who is doing what and when?</p> <ul style="list-style-type: none"> • Separation of duties divides bookkeeping functions, bank reconciliation and review, and 	<input type="checkbox"/> Yes <input type="checkbox"/> No	

<p>check writing and signing across at least two people (bookkeepers do not sign checks)</p> <ul style="list-style-type: none"> • Physical access is limited to assets (i.e., to cash, receipts, blank checks, or other assets that could be taken) • Bank account access is reviewed annually, and signers limited to as few people as needed • Credit card statements are reviewed by a person other than the cardholder and receipts are required for all charges • Cash access is controlled by at least two people counting cash together 		
<p>Reporting</p> <p>Is the board receiving the right financial reports? Is the organization submitting the right reports?</p> <ul style="list-style-type: none"> • Board regularly receives balance sheets and income statements • Donors receive acknowledgement with records kept on file • Form 990 is reviewed by board and submitted annually 	<input type="checkbox"/> Yes <input type="checkbox"/> No	

3. UNDERSTANDING YOUR FINANCIAL CULTURE

Regardless of the size of your budget or the number of financial transactions your nonprofit makes annually, every donor, funder, vendor, and worker that engages with your organization will experience your financial culture in some way. Culture is the way a group of people come together. Your nonprofit's finance culture stems from your procedures, policies, and practices. Your finance culture really matters in your organization's overall financial stability and long-term development as well as your relationships with funders.

Aspects of culture are both visible and invisible, and culture is often compared to an iceberg because 90% of an iceberg is unseen below the waterline. Your organization should aspire to create a financial culture that meets, and ideally exceeds, generally accepted accounting principles, supports your mission and values, and provides a stable foundation for the nonprofit. You can explore the visible and invisible parts of your culture to better understand where the organization is now and what changes you want to make. A strong financial culture is vital to every nonprofit.

In an organization, culture includes the systems of knowledge shared by individuals engaged with the finances – the values, beliefs, attitudes, and roles individuals take within the nonprofit. Culture in general shows up in three ways: artifacts, behaviors, and underlying values. We break this down with the following examples related to nonprofit finances.

A. Artifacts

Artifacts are the “stuff” of the organization. This includes things that someone could see by walking around your workplace or interacting with your financial processes. Some artifacts are less visible and may be known by specific workers. Artifacts can be tools, documents, procedures, and more. Together, your artifacts represent visible or accessible indicators of your nonprofit’s financial policies and procedures. Artifacts may include:

- Incorporation documents
- Payroll systems
- Whistleblower policy
- Conflict of interest policy
- Budgets
- Financial reports – balance sheets and income statements
- Donor tracking systems

B. Behaviors

Behaviors are what you can observe or witness when people interact with the nonprofit’s financial systems and implement protocols that are in place. Behaviors may include:

- Conversations and casual comments
- Participation and questions asked in meetings
- How people interact across the organization, like staff and board or bookkeeper and staff
- How individuals and teams respond when faced by a challenge or conflict

C. Underlying values

Underlying values are invisible elements that nevertheless shape a culture. A nonprofit can say strong financial controls are important, a priority, and integral to operations, and underlying convictions must exist so that everyone in the organization matches their words with appropriate actions. The invisible elements may include:

- Values related to what matters within an organization
- Assumptions that common understandings are shared
- Attitudes about recordkeeping
- Attitudes about acceptable financial behaviors

- Unspoken rules
- Beliefs and habits

D. Assess your culture

The first step in strengthening your nonprofit's financial culture is to assess your current culture. Use the "Know Your Financial Culture" worksheet on the following page to note how you would describe your culture across the three aspects (artifacts, behaviors, and underlying values). Then describe how you want your financial culture to be in the future. Remember, you can change culture.

KNOW YOUR FINANCIAL CULTURE WORKSHEET

We experience culture in three ways: through the **artifacts** (documents, tools, etc.) that we use/see, through **behaviors** that we do/see, and through **underlying values** that we do not see but experience.

Current Financial Culture: Where do you see alignment with your written policies, procedures, and reports across the three aspects of culture?

Artifacts	Behaviors	Values
Documents or other “stuff” that you can touch	Behaviors and actions you can see and experience	Attitudes and assumptions you experience but do not see

Future Financial Culture: What would you like to add/change to strengthen your nonprofit’s financial culture?

Artifacts	Behaviors	Values

Next Steps: Now that you have thought about your nonprofit’s financial culture and what you would like it to be in the future, write down three actions you can take to move towards that desired culture.

- 1.
- 2.
- 3.



1. An organization's internal controls monitor, measure, and direct against risk and fraud. Established written policies and procedures guide behaviors and outcomes and should be periodically reviewed to ensure everything is in order.
2. Set clear separation of duties that ensure no one person is able to initiate, approve, record, and reconcile a transaction. At minimum, two people are involved in financial functions and tasks, while a stronger practice is to separate duties across at least three people.
3. Safeguards should be in place to identify possible fraud as well as ways to keep the organization and its participants from committing fraud.
4. Board members are responsible for fulfilling three fiduciary duties: Duty of Care, Duty of Loyalty, and Duty of Obedience.



Here are some questions to think about:

- Does your nonprofit have any financial oversight concerns that could negatively affect the organization's work or reputation in the community?
- Is your nonprofit performing a regular risk assessment that includes considerations for business, operational, and fraud risks? For the nonprofit's size and complexity, is your risk assessment approach lacking, too much, or just right?

Reflections



Next steps:

- ☐ Assess your organization's overall accountability and internal controls by completing Jacobson Jarvis & Co.'s two easy tools in their resource [Ten Minutes Is All It Takes to Review Internal Controls](#).
- ☐ Explore the following resources on controls for small nonprofits. Identify 2-3 actions your nonprofit can take to strengthen your internal controls.
 - Blue Avocado – [Five Internal Controls for Very Small Nonprofits](#)
 - ["Controls" for Small Nonprofit Organizations: A Guide for Board Members](#) by Putnam Barber & Robert Fleming
- ☐ Review the [National Council of Nonprofits Financial Management page](#), which includes information on basic financial policies, financial literacy resources, and practice pointers.

GROW ACTIVITY ANSWERS



CHAPTER 1: BALANCE SHEET

Activity Question	Answer
1. On what date was this balance sheet “snapshot” taken? On that day, what did the nonprofit own (total assets)?	September 30, 2024 \$377,420
2. What did the nonprofit owe (total liabilities)?	\$75,933
3. Are current liabilities close to or greater than current assets?	No, current assets exceed current liabilities.
4. Is the nonprofit’s current ratio greater than one? Remember: Current Ratio = Current Assets/Current Liabilities	Yes, the current ratio is about 3.
5. How much cash and cash equivalents does the nonprofit have?	\$25,843

CHAPTER 2: INCOME STATEMENT

Activity Question	Answer
1. Assuming the fiscal year starts on January 1, what is the period of time being compared in the income statement?	January 1 to September 30, 2024, compared against the 2024 budget (January – December 2024).
2. For the period of time identified, how is the organization doing relative to the budget?	Relative to the budget, the organization is \$17,085 below budget through the end of September 2024.

GROW ACTIVITY ANSWERS

3. Are there any large budget variances? If yes, are the variances in the income, expenses, or both?	Yes, there is a large variance in income specifically from the FUN Foundation. The organization budgeted to receive \$50,000 from the FUN Foundation and only received \$15,000 to date. Other support, revenues, and expenses are generally on track as compared to budget.
4. Could this income statement be shared with funders? Would this statement provide the right level of information for a funder's needs?	Yes, this income statement has the right level of detail for most funders.
5. How diversified are the nonprofit's funding streams? Is the budget overly dependent on a single revenue stream?	The funding streams are well diversified. The organization seems somewhat dependent on grants, especially grants from the FUN Foundation that are about 23% of the total support and revenue.

CHAPTER 3: NINE-NINETY (IRS FORM 990)

Note: Activity and reflection questions for this chapter are tied to review of your nonprofit's most recent Form 990. If you would like to see examples, the Form 990 is automatically uploaded to [Candid's GuideStar](#) where the public may review an organization's Form 990.

CHAPTER 4: GIVING

Activity Question	Answer
1. According to the budget, what are the organization's four largest funding sources? What percentage of the budget does each source make up?	The organization's four largest funding sources are: foundations (32%), individual contributions (30%), admissions (13%), and government grants (11%). The FUN Foundation is a separate line item because it is a major funder.

GROW ACTIVITY ANSWERS

2. In terms of giving, what does the organization's bookkeeper or accountant need to track?

The organization's bookkeeper needs to know about any non-cash contributions such as pledges or in-kind. Also, they need to be aware of contributions with donor restrictions that mark gifts for anything other than general operating support. They need to know about any grant specific reporting requirements. If the organization advertised the special event as supporting a specific program or initiative, the bookkeeper needs to restrict the funds accordingly.

3. At this time, are the nonprofit's income streams diversified? Why or why not?

At this time, the income streams are well diversified. The organization seems somewhat dependent on foundation grants with about 32% of the total support and revenue coming from this source.

CHAPTER 5: OVERSIGHT

Note: Activity and reflection questions for this chapter are tied to your nonprofit's financial oversight procedures and policies.

NEXT STEPS

BINGO: Let's Celebrate!

You learned about the **B**alance Sheet, **I**ncome Statement, **N**ine-Ninety (IRS Form 990), **G**iving, and **O**versight! Take a moment to celebrate by capturing items you want to remember and action steps you want to take. For action steps, think about specifics related to the task (who, when, where, and how).

Balance Sheet	
Items to remember	Action steps

Income Statement	
Items to remember	Action steps

Nine-Ninety (IRS Form 990)	
Items to remember	Action steps

Giving	
Items to remember	Action steps

Oversight	
Items to remember	Action steps