Compensating Financial Controls Policy

[Organization Name] · Adopted by the Board on [date] · Version 1.0 · Owner: Board Treasurer

1. Purpose

Full segregation of financial duties is not practicable given the organization's current size and resources. The person who records transactions may also initiate payments or prepare bank reconciliations. This policy establishes the compensating controls the Board has adopted to mitigate that limitation, defines who may perform each control, and requires that every performance be documented. A control that is performed but not documented cannot be demonstrated to auditors, funders or insurers.

This policy documents and operates the controls adopted in response to the segregation-of-duties comment in the [FY____] management letter. It does not represent that the underlying structural limitation has been eliminated.

2. Roles, access and independence

Appendix A records, for each bank and card account, who authorizes spending, holds custody, records transactions, prepares the reconciliation, reviews it independently, and holds bank or system administrator access. The Reviewer for an account must have none of the other four roles on that account, no bank access beyond read-only, and no related-party relationship with anyone who holds them. A single person can hold several roles on one account, but the combination in Appendix A must not create an unreviewed path from authorization to cash.

The Board confirms Appendix A at adoption, at least annually thereafter, and whenever a person changes role or leaves. Independence is determined by the Board and remains subject to evaluation by the organization's auditor; a register can flag conflicts but cannot decide them.

3. Compensating controls

- **3.1 Independent monthly review, per account.** For every account listed in Appendix A, the Reviewer (a) obtains the statement directly from the bank through read-only access or a copy mailed to the Reviewer, never routed through the preparer; (b) receives the reconciliation prepared by the person named in Appendix A; and (c) completes the Monthly Independent Review Checklist within [15] days of month-end. The procedures are substantive, not a checkbox, and follow the Board-approved review program in Appendix C, which sets the mandatory categories, the threshold above which every item is examined, sample sizes below it, any additional procedures taken from the management letter, and the documented basis for each choice. The program is sized so that a volunteer reviewer can complete it in the time available; a program that is not performed protects no one. The checklist records which documents were used, the items and samples examined, and time spent.
- **3.2 Second approval of disbursements at or above $[threshold].** Approved before payment by a person other than the initiator, evidenced in the payment system or on the invoice. The second approver for an account is not the Reviewer for that account.
- **3.3 Review of new and changed payees.** Each month the preparer exports from the accounting system the list of vendors added or whose bank, address or contact details changed. For each entry the Reviewer confirms that a supporting document exists (W-9, contract or invoice) and that it matches an approved purpose; a document evidences the approval, not the authenticity of the payee. Separately, the preparer or accounting system runs a duplicate check of the payee's address and bank details against employee and director records and reports only the result — No match or Potential match — to the Reviewer; employee and director banking details never appear in the review record or the evidence pack. A potential match is an exception. The Reviewer signs off the list digitally: name and role, date and time, list version, number of entries examined, exceptions raised.
- **3.4 Board financial review.** Budget-to-actual, cash and restricted-fund balances are presented to the full Board at least quarterly; the minutes record the presentation and any questions raised.

- **3.5 Exceptions.** Anything the Reviewer cannot explain from the documents is logged as an exception with an owner and due date. Exceptions are closed in writing, never verbally. Open exceptions older than 30 days are reported to the Board Chair.

4. Documentation, completeness and retention

Each review is recorded with preparer, reviewer, statement source, procedures performed, documents used, exceptions raised and their resolution, and the date and time of sign-off. Completed reviews are not edited; corrections are recorded as new entries. A completeness schedule lists every required review by account and month and shows each as completed on time, late, or missed.

Records are retained for [7] years, or longer where a grant agreement, contract or applicable law requires it; the Treasurer confirms the applicable period annually.

5. Missed or late reviews

If a review is not completed within [15] days of month-end, the Board Chair is notified and either arranges the review by an independent alternate named in Appendix A or documents why it was deferred. A missed or late review is shown as such in the completeness schedule and is never back-filled as completed on time.

6. Annual evidence pack

Before an audit or financial review, and whenever required by a grant agreement, funder or insurer, the Treasurer compiles: this policy; Appendices A and C as confirmed during the year; the completeness schedule (Appendix B); all monthly checklists and vendor-review sign-offs; the exception log with resolutions; and the Board minutes recording adoption and the Treasurer's reports. The pack describes how the compensating controls were operated; it does not assert that the segregation-of-duties limitation has been removed.

7. Adoption

Adopted by resolution of the Board of Directors on ____________________.

Board Chair: ______________________ Board Treasurer: __________________

Name / date: ______________________ Name / date: ______________________

Appendix A — Roles and Access Matrix

[Organization Name] · Confirmed by the Board on [date] · Next confirmation due [date] · One block per account

Rule: the Reviewer's row must show "No" under Authorize, Custody, Record and Reconcile for the same account, bank access no higher than read-only, and no related party among the other role-holders. Replace names and accounts with your own. Sample below shows a typical configuration with an outsourced accounting firm; if reconciliations are prepared in-house, name the person and ensure the Reviewer is still independent of them.

Account 1: Operating checking — [Bank], ending ****1234

Person	Authorize spend	Custody (sign / pay / deposit)	Record in books	Reconcile (prepare)	Review (independent)	Bank & system access	Related party?	Rights confirmed
Executive Director	Yes — all	Yes — co-signer	No	No	No	Bank: full; QBO: admin	No	[date]
Finance Manager (bookkeeper)	No	Yes — initiates ACH	Yes	No	No	Bank: initiate only; QBO: full	No	[date]
Northline Nonprofit Accounting (outsourced)	No	No	No (reviews entries)	Yes — prepares monthly	No	QBO: accountant user	No	[date]
Board Chair	Yes — second approver ≥ $ [threshold]	No	No	No	No	Bank: none	No	[date]
Board Treasurer	No	No	No	No	Yes — primary	Bank: read-only; QBO: reports-only	No	[date]
Finance Committee member (independent director)	No	No	No	No	Yes — alternate	Bank: read-only	No	[date]

Account 2: Restricted grant checking — [Bank], ending ****5678

Person	Authorize spend	Custody (sign / pay / deposit)	Record in books	Reconcile (prepare)	Review (independent)	Bank & system access	Related party?	Rights confirmed
Executive Director	Yes — jointly with Board Chair for all grant disbursements	Yes — co-signer	No	No	No	Bank: full; QBO: admin	No	[date]
Finance Manager (bookkeeper)	No	Yes — initiates ACH	Yes	No	No	Bank: initiate only; QBO: full	No	[date]
Northline Nonprofit Accounting (outsourced)	No	No	No (reviews entries)	Yes — prepares monthly	No	QBO: accountant user	No	[date]
Board Chair	Yes — jointly with ED, all amounts	No	No	No	No	Bank: none	No	[date]
Board Treasurer	No	No	No	No	Yes — primary	Bank: read-only; QBO: reports-only	No	[date]
Finance Committee member (independent director)	No	No	No	No	Yes — alternate	Bank: read-only	No	[date]

Account 3: Organization credit card — [Issuer], ending ****9012

Person	Authorize spend	Custody (cardholder)	Record in books	Reconcile (prepare)	Review (independent)	Card portal access	Related party?	Rights confirmed
Executive Director	Yes — own card within policy	Yes — cardholder	No	No	No	Portal: admin	No	[date]
Program Director	No	Yes — cardholder	No	No	No	Portal: own card	No	[date]
Finance Manager	No	No	Yes	No	No	Portal: statements	No	[date]
Northline Nonprofit Accounting	No	No	No	Yes	No	Portal: statements	No	[date]
Board Treasurer	No	No	No	No	Yes — primary	Portal: read-only	No	[date]

Appendix B — Completeness Schedule

[Organization Name] · Fiscal year [FY____] · Maintained by the Board Treasurer · One row per account in Appendix A

Account	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
1 Operating ****1234												
2 Grant ****5678												
3 Card ****9012												

Enter the sign-off date, or "Late (day N)" or "Missed — see note". Every cell must be filled at year-end; a blank is a missed review. Late and missed reviews are carried into the annual evidence pack exactly as recorded here.

Deferral notes

Month	Account	Reason for deferral / late completion and who authorized it	Completed on

Appendix C — Board-approved review program

[Organization Name] · Approved with policy v1.0 on [date] · One program per account; amend only by Board resolution

Approved with this policy; amended only by Board resolution. Basis column explains why the scope was chosen (risk, volume, management-letter procedure). The monthly review is performed against the program as approved here; the program is sized for this organization, not copied from a standard sample.

Category	Scope	Sample size	Basis
Disbursements at or above $[threshold]	All (100%)	—	Threshold set at [X]% of monthly disbursements; covers [Y]% of dollars
Disbursements below threshold	Sample	[5]	Random from the statement; document selection method
Electronic transfers, ACH, wires	All	—	Highest diversion risk; management letter procedure
Card transactions	All / Sample [N]	[N]	All if under [30] per month; otherwise sample
Payments to employees, directors, related parties	All	—	Mandatory
New / changed payees (duplicate check result)	All	—	Mandatory; see 3.3
Check sequence	All	—	Mandatory
Deposits traced to donor / grant records	Sample	[3]	Largest, one random, one restricted
Payroll total vs register	All	—	Mandatory
Additional procedure from management letter	[describe]	[N]	Quote the comment it responds to