

## Co-op Toolbox - Part 3: Internal financial controls

### **Internal financial controls** (policies/procedures to protect the co-op's money)

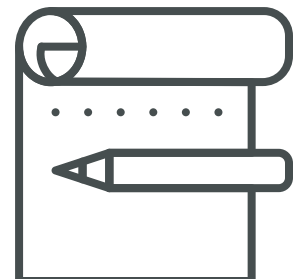
The board may delegate the administration of your co-op's finances, but the directors remain responsible as trustees for spending and controlling funds that come from the members and the government.

The board must use the good judgment that a reasonable person uses in spending their own funds. You do this by having clear by-laws, policies and procedures that protect the co-op's assets and limit its liabilities.

Directors should make sure that

- routine expense items are in the budget before signing cheques to pay for them
- the board has carried a motion in a board meeting to approve items that are not in the budget
- bills are not paid twice
- signing officers do not sign cheques to themselves or their family members
- there are cheque requisitions or purchase orders for all purchases
- someone has double checked the bank reconciliations
- the co-op avoids handling cash whenever possible
- the board has carried a motion in a board meeting to approve investment decisions.
- the co-op asks the auditor to review the financial controls as part of the audit and to recommend improvements

The list above are examples of internal financial controls that reduce the risk of losing money due to poor management or fraud. Internal controls are the policies and procedures the co-op sets for the staff, board and members to use when they are dealing with the co-op's finances.



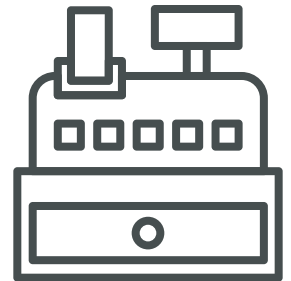
Does your co-op have a policy or written procedure for cheque signing?

- The by-laws or financial policies of the co-op will say who can be a signing officer and how many signatures each cheque requires. Two signatures are best. Tell the bank right away about any changes in signing officers.
- Signing officers should make sure that the cheque matches the details in the documents – the purchase order form, the delivery slip, the invoice, the cheque requisition, etc. If you have any doubts about the cheque, do not sign it. Ask the person who prepared the cheque for an explanation. Do not sign a blank cheque or a cheque with missing information.
- Blank cheques should be stored carefully in a safe place. Cheque signing should take place in the co-op office or at a board meeting.



Does your co-op have a policy or written procedure for accepting cash?

- The co-op should refuse cash for housing charges. Insist on cheques, money orders or direct deposit. Only accept cash for small items such as laundry money, replacing keys and photocopying.
- Cash purchases should be paid from petty cash and not from cash received (for example, laundry coins).
- It is also a good idea to make sure your insurance policy covers you for the amount of cash you might have in the office.



Does your co-op have a policy or written procedure that controls spending?

- Your co-op should be using a tendering process for major items. This helps to avoid conflict of interest and helps the co-op get the best value.
- Signing officers should make sure the amount of a purchase agrees with the co-op's spending policy and/or confirm the date of board approval if the amount is more than the spending limit.
- If the co-op advances money to committees for special projects or events, insist on receipts for this money.

Does your co-op have a policy or written procedure on access to the office and/or computer accounting system?

- One person should not control the finances, no matter how capable that person may be.
- Carefully control access to the computer accounting system's password. However, make sure to file it with your auditor so that the board will have access to the books in an emergency.



A final note: There should be an annual workshop on finance for the directors. This should include training on how to read financial statements.