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Internal Controls that Work: Practical Strategies for Every Nonprofit

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Speakers



Jordan Miller
Principal,
Nonprofit



Elizabeth Hamilton
Signing Director,
Nonprofit



Learning Objectives



Understand the purpose and principles of internal controls and how they safeguard nonprofit assets



Identify key risk areas and implement practical internal control strategies tailored to their organization's size and structure



Strengthen board engagement and governance practices related to financial oversight and compliance



If something went wrong in your organization's finances tomorrow, would your internal controls protect you—or expose you?



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Internal Controls – Why Do They Matter?



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Purpose of Internal Controls

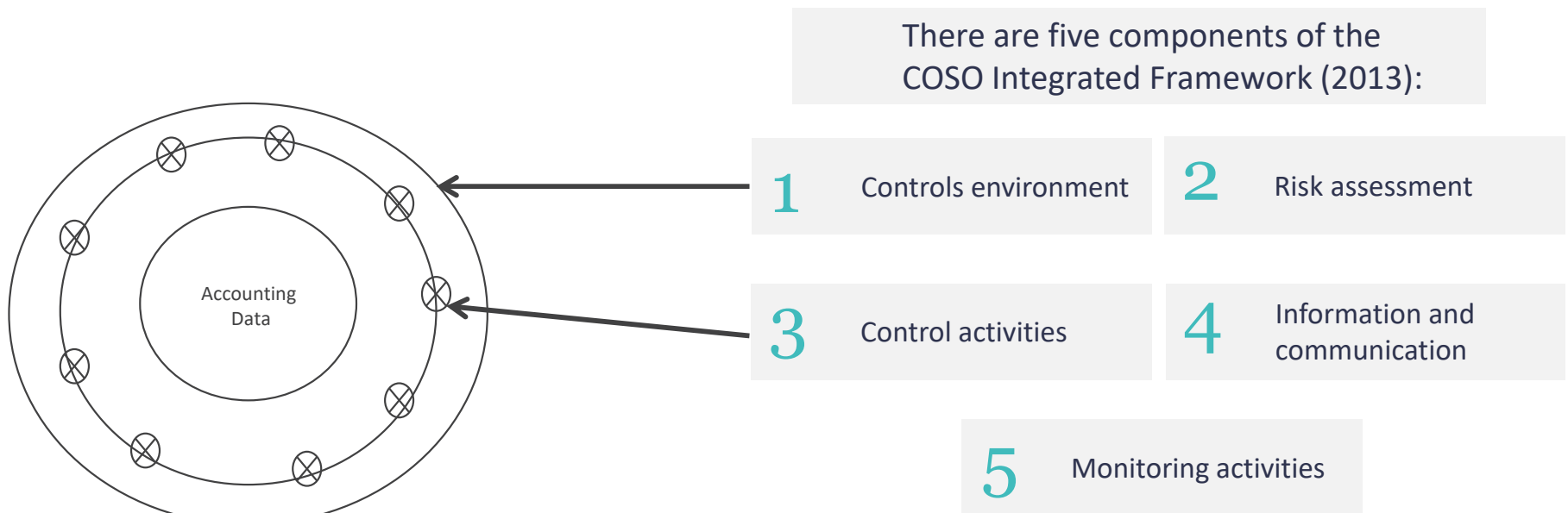
- To safeguard assets
- To produce accurate accounting data
- To contribute to efficient operations
- To promote compliance with board policy and donor restrictions
 - **BONUS:** *An employee working under a good system of internal controls is more easily protected from suspicion should any shortages or discrepancies occur.*

Internal controls help to limit the opportunity to commit fraud.



Basic Concepts

- Internal controls are a process
- People affect internal controls
- Internal controls provide reasonable, *not absolute*, assurance



Control Activities



- Segregation of duties
- Independent counting or confirmation of assets
- Controlled access to electronic data
- Adequate backup and data recovery procedures



Keys of Good Internal Controls

No one person can control a transaction from beginning to end

Involvement of multiple individuals (there is such a thing as too many!)

Ability to override controls is extremely limited

Controls are preventative not detective





Specific Areas of Concern



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SUGGESTED CONTROLS

Information Technology

Passwords

Required
vacation time

Review of user access
listings to all systems

Ensuring audit trail is
capturing system
activity

Administrative rights

External threats

Banking controls
(positive pay, FOB
passwords, maximum
thresholds for
activities, etc.)

Data recovery and
back-ups of system
activity





Fundraising

Suggested Controls

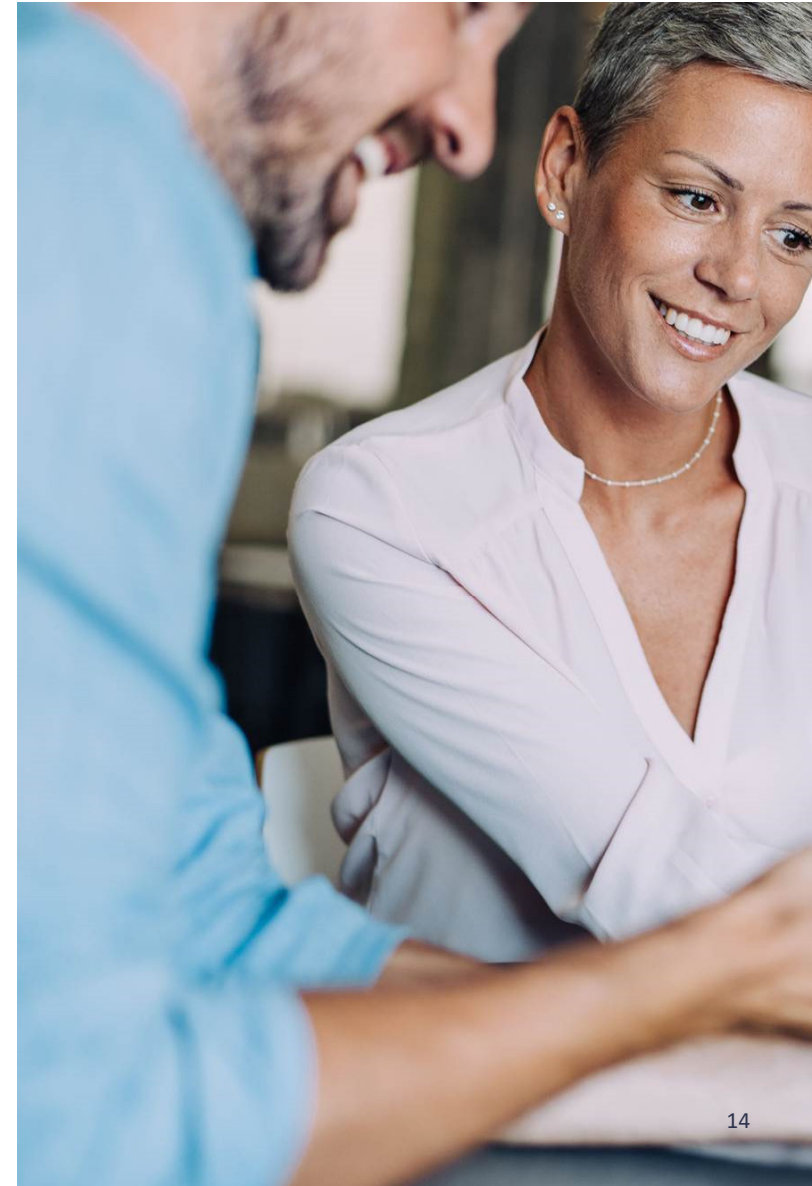
- **Thank-you letters to donors**
 - Who do donors call with questions?
- **Regular reconciliation of donor databases to general ledger**
- **Control access to safe**



Bank Accounts

Suggested Controls

- **Limited number of accounts**
- **Use of an entity name, not an individual**
- **Limited number of check signers**
- **Monthly reconciliations**
- **Regular review of cancelled checks and statements by independent party**





Receivables

Suggested Controls

- **Specific approval required for all write-offs**
- **Consider board approval above a certain dollar amount**
- **Allowance for doubtful accounts has special approval**
- **Regular review of delinquent accounts and aging reports**
- **REFUNDS!**



Purchasing and Expense Reporting

Suggested Controls

- Use pre-paid cards or debit cards with low limits
- Review of Executive Director's credit card and expenses by board member
- Require receipts for all expenses (including description of business purpose) and manager sign-off on all reports
- Enforce a three-strike system; if receipts are not submitted on-time three times, revoke purchasing privileges



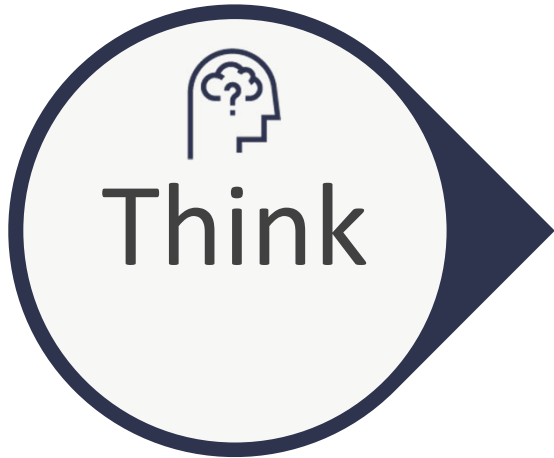


Financial Reporting

Suggested Controls

- **Budgets**
- **Detailed chart of accounts**
- **Policy and procedures manuals**
- **Month end checklist & calendar**





Take 60 seconds to answer for yourself:

- In your experience, what has been your challenges or successes around controls?
- What advice do you have for others?
- What questions do you have?



Take 4-5 minutes to share with your peers around you.

Nominate one person to share with the group



One minute report out from each group





Board's Role in Controls and Governance



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Strong Policies, Procedures, and Controls



Annual board approval
of formal policies



Focus on dual control
at every point in
process



Consider overlap with
other key
organizational policies



Ask auditors to
consider and comment



Finance Governance for Board and Staff

- Active board finance (and audit) committee – key financial liaison between staff and board
- “Monthly Packet” – CEO plays key role in oversight
 - Provides regular, key documents for CEO to review and formally approve
- Key policies and procedures – board approved
 - Finance & Accounting Manual
 - Internal Controls
 - Strong and iterative budgeting process
 - Board hires the auditor – not the staff; review key sections of 990
 - Allocation of functional expenses
 - Annual review and approval
- Board and staff have best practice training – don’t need to be CPAs – need to be able to identify yellow and red flags, and ask good questions
- Full board actively engages with financial oversight with guidance and recommendations from finance committee



Five Things Every Board Member Needs to Know

- 1) ***Financial Trends and Ratios:*** Review the organization's financial trends and ratios to determine areas of concern or strength; include this review in an annual conversation with leadership; if areas of concern are identified, identify steps to mitigate.
- 2) ***Governance and Fiduciary Responsibility:*** Enhance that there is an active and engaged finance committee; determine whether the board understands their role as fiduciaries - provide training as necessary; determine the level of involvement by CEO in finance and recommend adjustments, as necessary.
- 3) ***Policies, Procedures, and Controls:*** Finance and accounting manual is in place and reviewed at least annually and approved by the board; policies include recommended practice around controls that protect you, staff, the board, and the organization.



Five Things Every Board Member Needs to Know

- 4) **Audit:** Enhance that your processes include a robust audit trail that shows clear chain of control; ask your auditor to consider your policies and controls and make recommendations; you and your board should review the completed audit in detail and create an action plan around any challenging areas.
- 5) **990 Governance Section:** Familiarize yourself with the significance of Part VI on IRS form 990; review this section for any red/yellow flags and discuss with key leaders.





Internal Controls in a Small Organization



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Two Person Office

Bookkeeper

Record all general ledger activity

Reconcile bank statements

Receive cash

Authorize invoices

Write & mail checks

Approve payroll

President/Treasurer

Read only general ledger access

Review bank reconciliations

Complete deposit slips

Sign checks

Perform bank transfers

Approve timesheets

Distribute payroll

Sign employee contracts



Three Person Office

Bookkeeper

Record general ledger activity

Write checks

Reconcile bank statements

Office Manager

Process and approve invoices

Mailing checks

Receive cash

Approve and distribute payroll

Authorize timesheets

Controller or President

Completes deposit slips

Signs checks and performs bank transfers

Review bank reconciliations

Sign employee contracts



Four Person Office

Bookkeeper

Record general ledger activity

Write checks

Reconcile bank statements

Senior Accountant

Receive cash

Authorize check requests

Mail checks

Distribute payroll

Office Manager

Complete deposit slips

Process invoices

Approve invoices

Approve payroll

Controller or President

Sign checks; approve invoices

Review bank reconciliations

Sign employee contracts

Approve employee timesheets



Group Discussion:
What internal controls can you
implement tomorrow? Or in the
near future?





Q&A



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Evaluation Code



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