



INTERNAL CONTROLS FOR SMALL ORGANIZATIONS

May 29, 2024

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Today's Team



GILLIAN GORRA

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She/Her



BEBE HARDEN

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She/Her

Meeting Norms: Participate Authentically



Respect each other - judge ideas, not people



Avoid multi-tasking



Be present & engaged



Be patient with tech

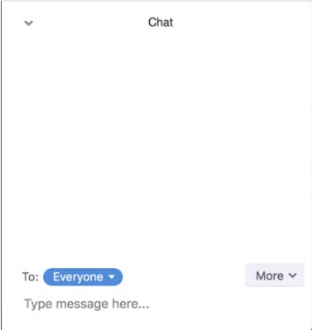
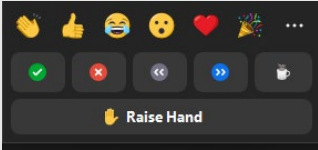
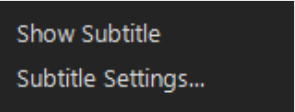


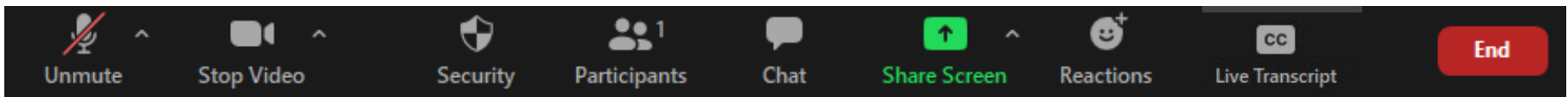
Expect confidentiality



Expect active participation

Zoom Controls

Chat	Reactions	Closed Captioning
<p data-bbox="633 291 699 354">1</p> <p data-bbox="446 386 894 529">For questions and comments during the session, open the chat and send to everyone or a specific person</p> 	<p data-bbox="1105 291 1170 354">2</p> <p data-bbox="942 386 1363 491">To react (clap/thumbs up) to something, click “Reactions” and select a reaction</p> 	<p data-bbox="1595 291 1661 354">3</p> <p data-bbox="1425 386 1846 529">To turn on close captioning, click “CC Live Transcript” Select hide or show subtitles as needed.</p>  <p data-bbox="1421 725 1846 829">Note: if not already enabled, you may need to request access</p>



1

2

3

Today's Session

- ▶ Welcome
- ▶ People & Staffing
- ▶ Internal Controls & Compliance
- ▶ Segregation of Duties
- ▶ Policies & Procedures
- ▶ Resources & Wrap Up

Poll: Finance At Your Organization

Which of the following best describes your finance team?
(Select all that apply)

- ▶ Dedicated finance staff members
- ▶ Executive Director or other leader does it all
- ▶ Board Chair or Treasurer
- ▶ Other volunteer
- ▶ Outsourced support
- ▶ Fiscally sponsored

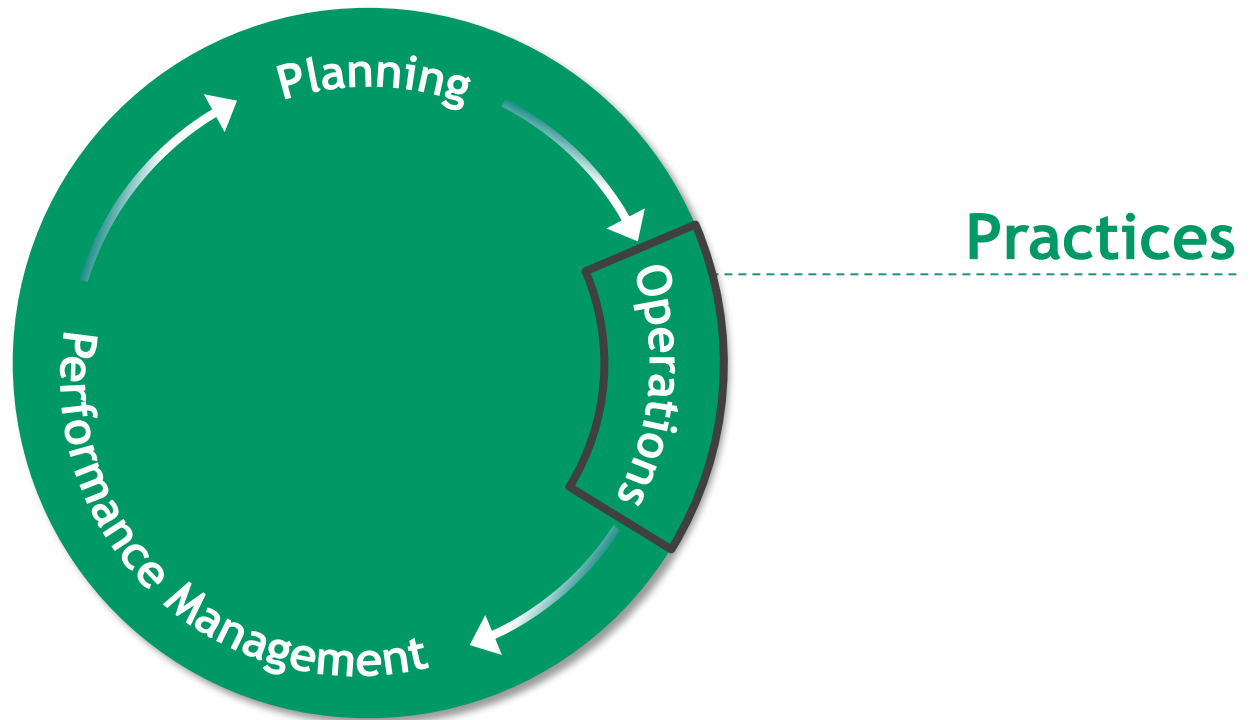
What is your organization's budget size?

- ▶ \$0 - \$250,000
- ▶ \$250,000 - \$500,000
- ▶ \$500,000 - \$1M
- ▶ \$1M - \$5M
- ▶ \$5M and above

Financial Resilience



Financial Resilience



Financial Management: A Team Sport



Levels of Financial Management



STRATEGIC

Lead and support organizational financial planning and monitoring



MANAGERIAL

Ensure finance is effectively carrying out its operational responsibilities



TRANSACTIONAL

Perform day-to-day accounting functions, data entry, and finance administrative tasks

Adapted from Jeanne Bell Peters and Elizabeth Schaffer, *Financial Leadership for Nonprofit Executives: Guiding Your Organization to Long-term Success* © 2005

Finance and Internal Controls Responsibilities



BOARD OF DIRECTORS

- ▶ Setting the strategic financial direction
- ▶ Providing on-going financial monitoring and fiscal accountability
- ▶ Ensuring compliance with applicable laws and regulations



MANAGEMENT

- ▶ Executing the organization's financial strategy
- ▶ Providing complete and timely financial information to the board
- ▶ Completing externally required forms and reports

Internal Controls

AND WHY WE NEED THEM

Mechanisms, rules, and procedures implemented by an organization to ensure the **integrity** of financial and accounting information, promote **accountability**, and **prevent** and **detect fraud or mistakes**.

1

Protect resources from waste, loss, theft, or misuse

2

Ensure resources are used appropriately in accordance with stakeholder expectations, monitoring agencies, and your budget and plan

3

Produce reliable financial statements that are based on accurate and verifiable data

The Tone from the Top

Compliance with internal controls is a shared responsibility - not just that of a single individual.

Any individual, including programmatic staff, financial staff, and leadership, has some level of **responsibility to know and understand the terms and conditions of funding**, especially federal funding.

Leadership must **set the proper tone at the top** by documenting policies & procedures and modeling desired behaviors.

Organizations must build a **culture of compliance**.

What is a Culture of Compliance?

An environment where **compliance is a focus for management** and is integral to the operations of the organization.

It is defined by the following characteristics...

Awareness of **best practices** and the risks involved with non-compliance.

Embedded in the organization's **values**, standards and behavior.

Encourages **continuous improvement**, not punishment for identifying potential areas of non-compliance.

Articulated through the organization's **policies and procedures**.

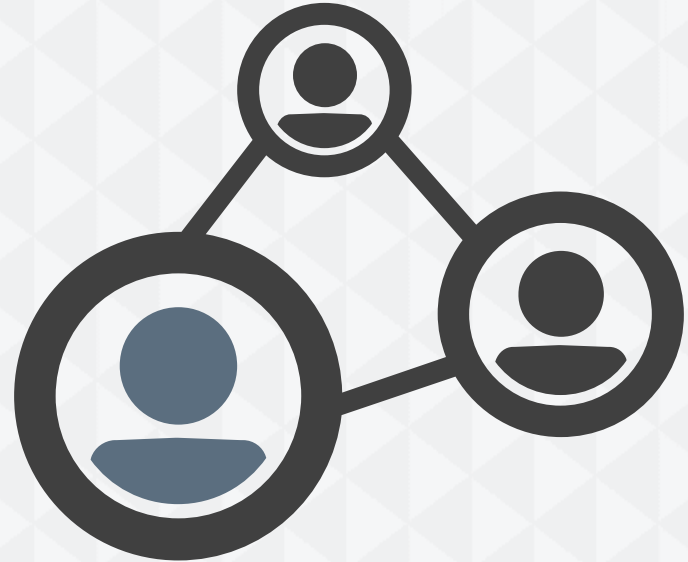
What Makes for Strong Internal Controls?

- 1 There is oversight and segregation of duties (when possible) for financial tasks and roles
- 2 Reviews and approvals are documented
- 3 The internal control process is clearly documented, including key roles and responsibilities
- 4 Controls are tested regularly and adjusted where necessary
- 5 All staff are trained on internal controls
- 6 Controls are automated where possible to reduce overrides

Activity

For each of the following case studies, consider:

- ▶ Which controls were lacking in the organization's structure?
- ▶ What can be done to prevent the activity presented in the case from occurring again in the future?



Internal Controls: Case Studies



ACCOUNTS PAYABLE

A former head of counter fraud of an international NGO fighting poverty was able to steal nearly \$100K by filing fake invoices from bogus companies.

Investigators unearthed 17 fraudulent invoice submitted over a 9-month period from two fake companies under his control. Payment of the false invoices were paid into the bank account of his friend or father, then transferred into his own account.



PAYROLL

At a nonprofit organization, the Assistant Controller was able to commit payroll fraud that was not initially detected by the auditors.

Instead of communicating to the payroll processing company that various employees had been terminated, the Assistant Controller took their bi-weekly checks and deposited them into a new bank account.

Internal Controls: Case Studies



CREDIT CARD FRAUD

The president, her assistant, and another staff member at the Washington DC Teachers' Union piled up over \$5 million in fraudulent transactions.

The president racked up \$1.8 million in unauthorized credit card charges on the union's corporate American Express cards. The assistant managed to collect \$492,000 in funds via unauthorized credit card charges and checks written to herself. The staff members used these funds to purchase fur, art, jewelry, tickets to sports/entertainment, and custom-made clothing.



SKIMMING

The former president of Mississippi College siphoned \$3M in contributions intended for the college over a 15-year period. He enacted the fraud by collecting checks made payable to the college and depositing the checks into an account that the president had fraudulently opened in the name of the college.

Subsequently, funds were transferred from this account into other accounts controlled by the president. The president provided fake receipts to donors as a means to disguise the fraud.

Thoughts & Questions





Break

Annotate

Segregation of
duties

Proper
authorization

Adequate
documentation -
evidence of
review & approval

Physical control
over assets

Review and
approval of
reconciliations

Regular
monitoring of
financial reports

Review and
approval of
journal entries

What key internal controls are in place at your organization?

Segregation of Duties

Why Segregation of Duties? Reduces the risk of one person committing or concealing fraud or mistake

- ▶ Reduces influence of a single person over a given business transaction or operation
- ▶ Minimizes opportunity to collude with others
- ▶ Assists in the detection of errors

NO ONE PERSON SHOULD:

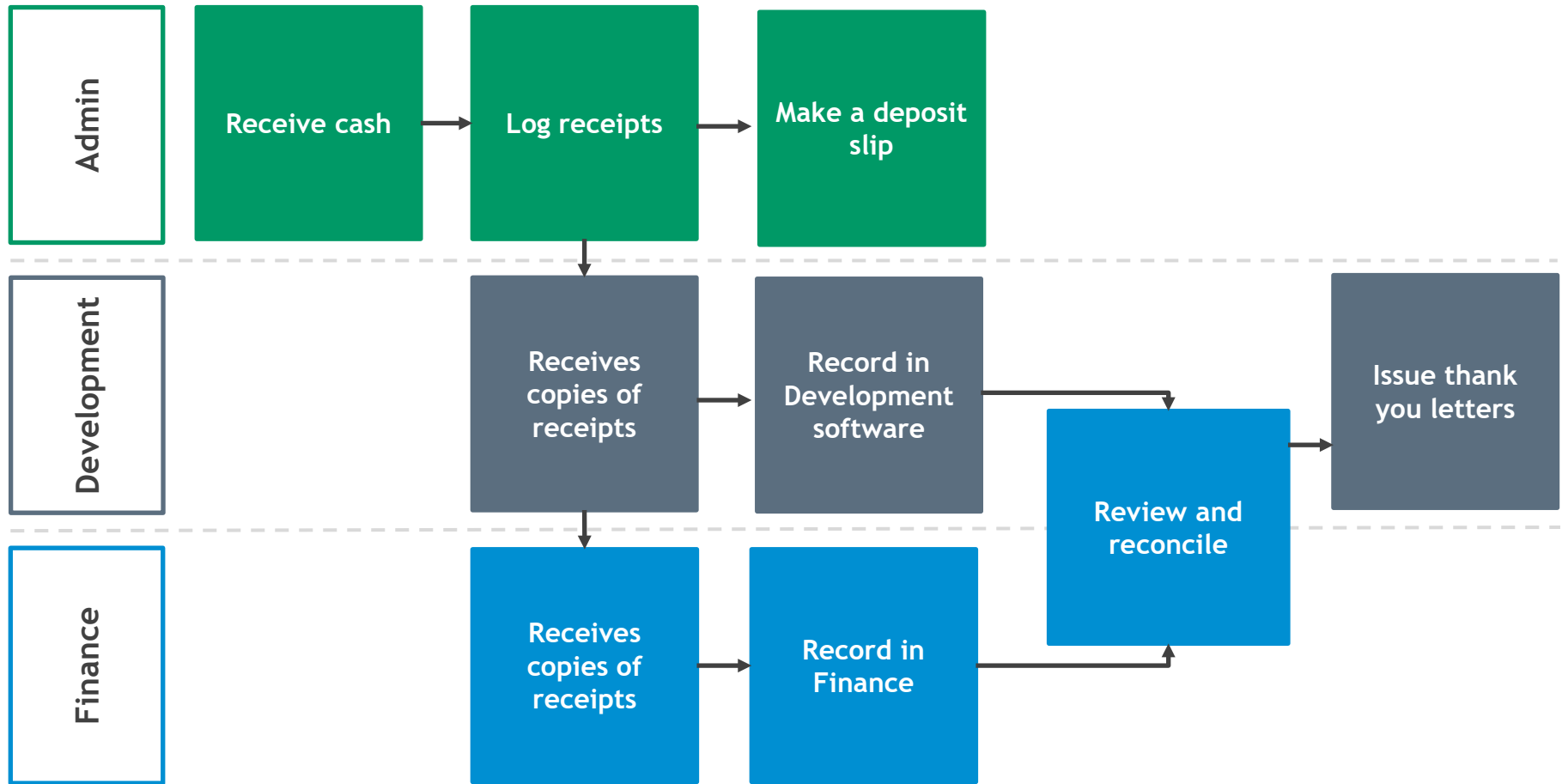


Perform all functions within an accounting cycle



Have the ability to cover up an intentional or unintentional accounting error

Sample Segregation of Duties



Internal Controls & Segregation of Duties

- ▶ **Deposits:** The same person who logs checks received in the mail is not also responsible for depositing those checks
- ▶ **Payments:** Checks are signed (or the payment is otherwise authorized) by someone who is not also tasked with cutting the checks or initiating electronic payments
- ▶ **Vendors:** An objective person periodically reviews the list of all vendors contracted
- ▶ **Bank Statement Reconciliation:** Someone who is not processing payments reconciles the bank account monthly. If this is not possible, at the very least a Board member should have read-only access to accounting activities and review regularly
- ▶ **Physical Controls:** Check stock and cash is maintained in a locked drawer; computers are password protected
- ▶ **Documentation:** Receipts are required for all purchases; timesheets for hourly staff are approved by a supervisor

What are Policies & Procedures?

- ▶ **Policies are Board-adopted resolutions.**
 - They set the tone and context for how we're going to behave.
- ▶ **Procedures are specific tasks and methods.**
 - They tell us how we're going to comply with the policy and who is involved.
- ▶ **Internal controls overlay procedures.**
 - They prevent and detect fraud or mistakes.

Why Establish Policies and Procedures?

- ▶ Establish consistency for how to treat certain transactions
- ▶ Eliminate uncertainty in some areas
- ▶ Provide clarity of responsibilities and roles
- ▶ Serve as reference point during staff transition
- ▶ Reduce risk of loss
- ▶ Promote sound fiscal management
- ▶ Meet expectations of external monitoring agents
- ▶ Serve as a training tool

Where Do We Start?

- ▶ Recommended policies to adopt:
 - Accounting policies and procedures
 - Time reporting*
 - Payroll
 - Travel and expense reimbursement
 - Procurement*
 - Records retention
 - Conflicts of interest
 - Subrecipient monitoring, if making subawards to other entities*

**Particularly important for organizations with or considering government funding*



Automating Controls

- ▶ Banking Technology
- ▶ Expense Management Software
- ▶ Electronic Bill Pay



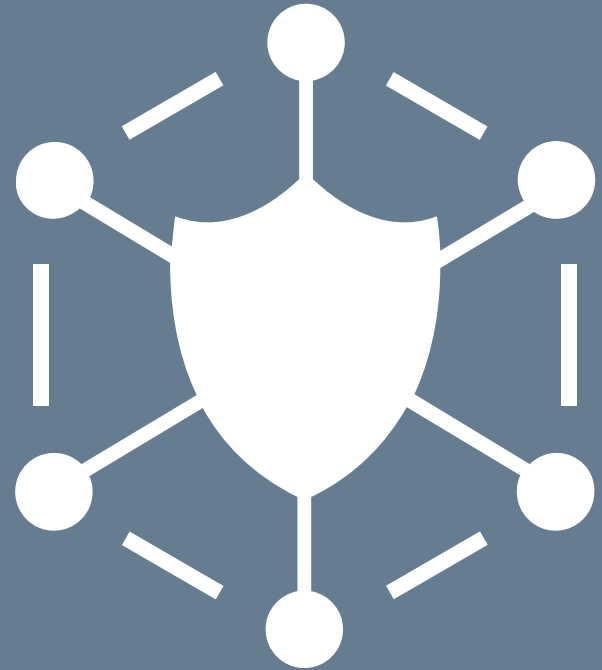
Banking Technology

EFFICIENCIES

- ▶ Electronic transfers: Reduced need for check issuance
- ▶ Remote deposit: Check scanning

CONTROLS

- ▶ Positive pay: Ensures checks are only paid to verified vendors
- ▶ ACH block and filters: Prevent unauthorized outsiders from accessing or removing funds from an account



Expense Management Software

Technology: Automated Travel and Expense Reporting Systems



Web-based,
mobile access



Scan or take a
picture of
receipts/
documentation



Electronic
approval
routing



Direct
connections
to: credit
cards, payroll,
accounting
system



Electronic
audit trail

Online Bill Pay & Automated Check Writing

AUTOMATED CHECK WRITING SERVICES PROVIDE:

- ▶ Automated invoice approval workflow that be accessed via any computer or mobile device
- ▶ Integration with accounting software
- ▶ Can use paper checks or EFT
- ▶ Elimination of the manual process of cutting and mailing checks
- ▶ Electronic archiving
- ▶ Simplified deposit process



Thoughts & Questions





Resources & Wrap Up

Financial Management Resources

This library of free tools and resources was created in collaboration with the Wallace Foundation to help organizations become “fiscally fit.”



Internal Controls Checklist

- ▶ With your leadership team, complete the **Internal Controls Self-Assessment Checklist**
- ▶ Discuss areas of strength and those that require attention

Internal Controls	Automation	Current Practice?
Purchasing		
Purchases are properly authorized prior to purchase		<input type="checkbox"/>
Competitive Bids are obtained for large purchases		<input type="checkbox"/>
All goods and services paid for have been received prior to payment		<input type="checkbox"/>
Disallowable expenses considered when purchasing for contracts		<input type="checkbox"/>
“Encumbrances” monitored against approved budgets		<input type="checkbox"/>
Efficiency Goal: Consider implementing a paperless document routing and approval process		<input type="checkbox"/>

Other Resources

- ▶ Critical Fiscal Roles Worksheet
- ▶ Technology Needs Assessment & Implementation Considerations



CompassPoint Nonprofit Fiscal Policies & Procedures: A Template and Guide

Nonprofit Fiscal Policies & Procedures: A Template and Guide

Developed by
CompassPoint
NONPROFIT SERVICES
June 2012

[Available on CompassPoint's website](#)

SAMPLE NPO Fiscal Policies & Procedures

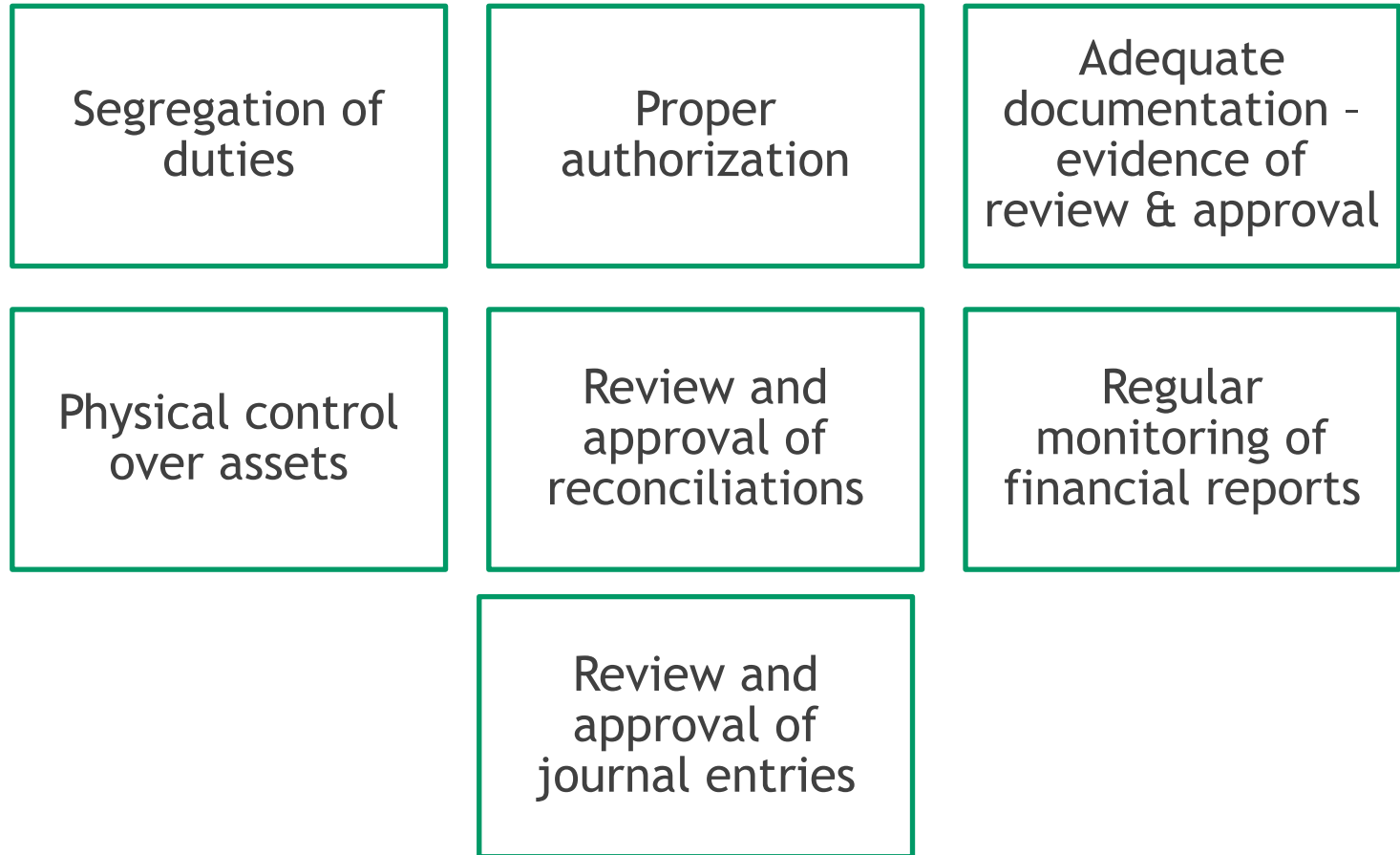
Approved by the Board of Directors, DATE

SAMPLE NPO Fiscal Policies & Procedures

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Annotate



What key internal controls will you implement next?

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