OWEESTA

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Native CDFI Capital Access Convening

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Easy Financial Controls
Dancing Crane
CDFI
Internal Controls
What is Internal Control?

Internal control is the **process** by which management structures an organization.
Internal Controls: Defined

In accounting and auditing, internal control is defined as:

A process designed, implemented & maintained by

Those charged with governance, Management, Other personnel

To provide reasonable assurance

About achievement of entity’s objectives with regard to....

Reliability of Financial Reporting
Compliance with laws and regulations
Effectiveness & Efficiency of operations
Safeguarding of assets
Principles of Internal Controls

Control Environment
1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk Assessment
6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

Control Activities
10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

Information & Communication
13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring Activities
16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies
The Five Components of a Strong Internal Control Framework

**Monitoring**
- Assessment of a control system’s performance over time.
- Combination of ongoing and separate evaluation.
- Management and supervisory activities.
- Internal audit activities.

**Information and Communication**
- Pertinent information identified, captured and communicated in a timely manner.
- Access to internal and externally generated information.
- Flow of information that allows for successful control actions from instructions on responsibilities to summary of findings for management action.

**Control Environment**
- Sets tone of organization-influencing control consciousness of its people.
- Factors include integrity, ethical values, competence, authority, responsibility.
- Foundation for all other components of control.

**Control Activities**
- Policies/procedures that ensure management directives are carried out.
- Range of activities including approvals, authorizations, verifications, recommendations, performance reviews, asset security and segregation of duties.

**Risk Assessment**
- Risk assessment is the identification and analysis of relevant risks to achieving the entity’s objectives-forming the basis for determining control activities.

All five components must be in place for internal control to be effective.
Internal controls function to:

• minimize risks and protect assets
• ensure accuracy of records
• promote operational efficiency
• encourage adherence to policies, rules, regulations, and laws
Seven Examples of Internal Controls

- separation of duties
- access controls
- physical audits
- standardized documentation
- trial balances
- periodic reconciliations
- approval authority
- cash control
Segregation of Duties Definition

- Segregation of Duties (SOD) is a concept of separating “incompatible duties” so that 1 person doesn’t have all 3 duties
  - Authorization = approving
  - Safekeeping = holding the asset or access to asset
  - Record keeping = keeping track of the asset/liability

- Having 2-3 person required to complete a process
Examples of Segregation

• Vendor Maintenance & Posting Invoices
• Purchase Orders & Approvals
• Payments & Bank Reconciliation
• Paychecks & Bank Reconciliation
• Journal Entry & Approvals
More Examples of Segregation

- Custody of Cash & Account Receivable Reconciliation
- Hire & Set Compensation
- Expenses & Expense Approvals
- Asset Custody & Asset Inventory
- Sales & Approvals
- Customer Maintenance & Credit Notes
PERSON A
Opens mail and removes checks
Restrictively endorses checks
Makes a log of the checks received and forwards checks to accounts receivable

PERSON B (accounts receivable)
Prepares deposit and sends to Person C for review and deposit in bank
Applies check payments to outstanding accounts
Compares total payments recorded to copy of bank deposit

PERSON C
Reviews deposit and deposits checks at bank
Cash Controls

Internal Control over Cash Receipts

- **Establishment of Responsibility**
  Only designated personnel are authorized to handle cash receipts (cashiers)

- **Documentation Procedures**
  Use remittance advice (mail receipts), cash register tapes, and deposit slips

- **Independent Internal Verification**
  Supervisors count cash receipts daily; treasurer compares total receipts to bank deposits daily

- **Segregation of Duties**
  Different individuals receive cash, record cash receipts, and hold the cash

- **Physical, Mechanical, and Electronic Controls**
  Store cash in safes and bank vaults; limit access to storage areas; use cash registers

- **Other Controls**
  Bond personnel who handle cash; require employees to take vacations; deposit all cash in bank daily

LO 3 Explain the applications of internal control principles to cash receipts.
Board Oversight
The “Three D’s” of sitting on a Board of Directors

**Duty of Care**
- Board members are expected to actively participate in organizational planning and decision-making and to make sound and informed judgments.

**Duty of Loyalty**
- When acting on behalf of the organization, board members must put the interests of the nonprofit before any personal or professional concerns and avoid potential conflicts of interest.

**Duty of Obedience**
- Board members must ensure that the organization complies with all applicable federal, state, and local laws and regulations, and that it remains committed to its established mission.

In addition to its legal responsibilities, the board acts in a fiduciary role by maintaining oversight of the nonprofit’s finances. Board members must evaluate financial policies, approve annual budgets, and review periodic financial reports to ensure that the organization has the necessary resources to carry out its mission and remains accountable to its donors and the general public.
Board Oversight
Options

- A strong, involved treasurer
- A quality finance committee
- Recruiting a mix of board members, but at least a few strong enough with financials
Board Financial Responsibilities

• Understand and review the financial statements
• Review and approve the annual budget
• Review auditor qualifications and audit, annually
Signs The Org is in Trouble

1. Not sharing financial statements with board at least quarterly; not able to produce easily
2. More than two years with a net loss, especially large unrestricted net asset losses
3. Dwindling cash
4. Dwindling loan capital
More Signs The Org is in Trouble

5. A lot of loans to family or board members
6. Irregular board meetings
7. Board members leaving/not full board
8. Any “secretive” staff or board members
Audit Control
Procedure
Audit Tests

• inquiry
• observation
• examination or inspection of evidence
• re-performance
• computer assisted audit technique (CAAT)
Policies

Policies & Procedures

Regulations
Guideline
Law
Conduct

Solution
POLICY

The formal guidance needed to coordinate and execute activity throughout the district. When effectively deployed, policy statements help focus attention and resources on high priority issues - aligning and merging efforts to achieve the district's vision. Policy provides the operational framework within which the district functions.

- Widespread application
- Changes less frequently
- Usually expressed in broad terms
- States "what" and/or "why"
- Answers operational issues

PROCEDURE

The operational processes required to implement district policy. Operating practices can be formal or informal, specific to a department or building or applicable across the entire district. If policy is "what" the district does operationally, then its procedures are "how" it intends to carry out those operating policy expressions.

- Narrow application
- Prone to change
- Often stated in detail
- States "how", "when", and/or "who"
- Describes process
Must Have Policies

• Employee Handbook
• Financial Management Policy
• Procurement Policy
• Loan Policy
• Travel Policy
Conflicts of Interest - Disclose

• Direct financial relationships with the organization
• Familial relationships with staff members
Whistleblower Policies

IS THERE ANY KIND OF WHISTLEBLOWER PROTECTION AT THIS COMPANY?

YES, MANAGEMENT IS PROTECTED AGAINST WHISTLEBLOWERS LIKE YOU.

ARE YOU GOING TO FIRE ME?

NO, NO, NO. I'LL JUST MAKE YOU WANT TO QUIT.
Whistleblower Policies

• Federal law prohibits retaliation against employees who report fraud
• Everyone in the organization has the responsibility to report violations of law, regulations, or ethics
• Designate a point person or committee to receive and investigate possible violations
• Violations don’t need to be true to receive protection, but they must be made in good faith
Protecting Whistleblowers

Confidentiality
• Identity is kept as secret as possible
• May need to be disclosed to conduct investigation or allow for legal defense

No Retaliation
• Termination
• Cut in pay or hours
• Threats
• Poorer work assignments
Board Oversight

- Strong Policies and Enforcement
- Separation of Duties
- Conflict of Interest Policies
- Audit
- Whistleblower Policies

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