



4th Annual

Native CDFI Capital Access Convening

June 25–27, 2019 • Lihue, Hawaii

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Easy Financial Controls





White Buffalo CDC



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Pacific Financial Services



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Dancing Crane CDFI



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Internal Controls



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What is Internal Control?

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



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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



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Principles of Internal Controls

Control Environment	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 6. Specifies suitable objectives 7. Identifies and analyzes risk 8. Assesses fraud risk 9. Identifies and analyzes significant change
Control Activities	<ol style="list-style-type: none"> 10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys through policies and procedures
Information & Communication	<ol style="list-style-type: none"> 13. Uses relevant information 14. Communicates internally 15. Communicates externally
Monitoring Activities	<ol style="list-style-type: none"> 16. Conducts ongoing and/or separate evaluations 17. Evaluates and communicates deficiencies

7

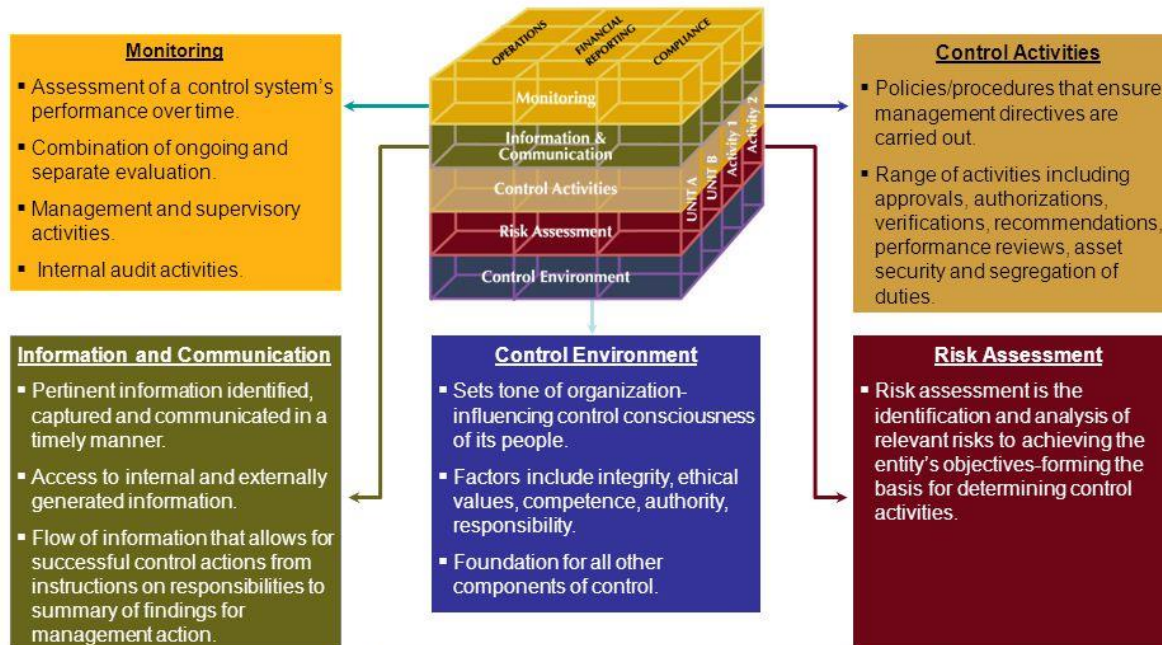


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The Five Components of a Strong Internal Control Framework



All five components must be in place for internal control to be effective.

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Internal controls function to:

- minimize risks and protect assets
- ensure accuracy of records
- promote operational efficiency
- encourage adherence to policies, rules, regulations, and laws



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Seven Examples of Internal Controls

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

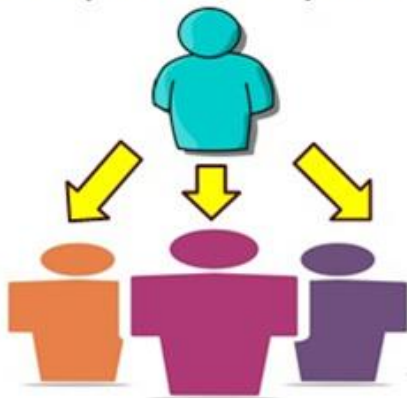


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Segregation of Duties Definition



- 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



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Segregation of Duties



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Examples of Segregation

- Vendor Maintenance & Posting Invoices
- Purchase Orders & Approvals
- Payments & Bank Reconciliation
- Paychecks & Bank Reconciliation
- Journal Entry & Approvals



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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



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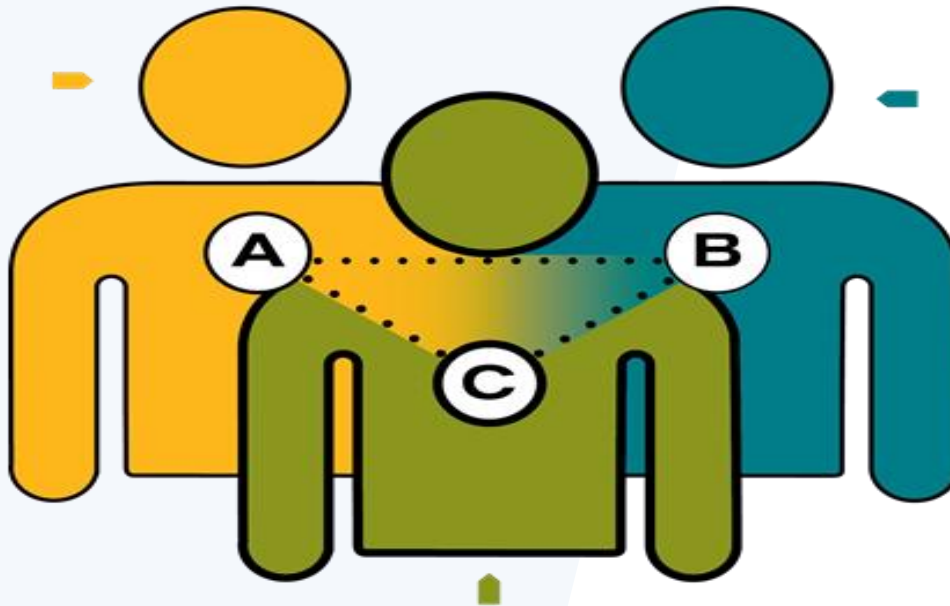
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PERSON A

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



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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

Illustration 8-5

Chapter
8-5

LO 3 Explain the applications of internal control principles to cash receipts.

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Board Oversight



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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.

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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



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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



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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



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Audit Control Procedure



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Audit Tests

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



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Policies



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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

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Must Have Policies

- Employee Handbook
- Financial Management Policy
- Procurement Policy
- Loan Policy
- Travel Policy



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Conflict of Interest Policies



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Conflicts of Interest- Disclose

- Direct financial relationships with the organization
- Familial relationships with staff members



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Whistleblower Policies



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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



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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



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