

Insights for Nonprofits

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Internal Controls



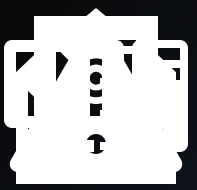
Definition and Purpose

Process used to obtain

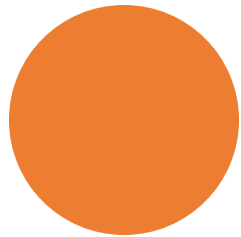
- reliable financial reporting
- effective and efficient operations
- compliance with laws and regulations

Safeguards the organization

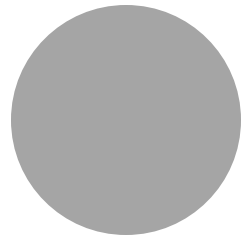
Furtheres its objectives



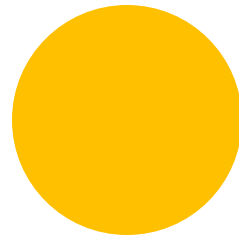
COSO Framework



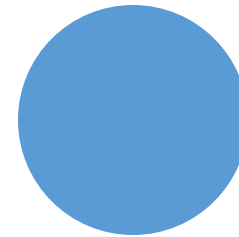
CONTROL
ENVIRONMENT



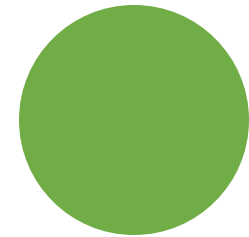
RISK ASSESSMENT



CONTROL
ACTIVITIES



INFORMATION
AND
COMMUNICATION



MONITORING
ACTIVITIES

Controls

Preventive

- Prevent fraud and error
- Can lessen the need for extensive detection controls

Detective

- Detect fraud and error after they occur
- Can mitigate potential weaknesses in preventive controls

Both preventive and detective measures are essential elements of the internal control structure.

Best Practices

- Perform a fraud risk assessment
- Adopt written policies
- Assess IT risks and electronic transaction risks
- Implement effective monitoring controls
- Segregate duties*

*Segregation of Duties

No one individual performs two or more of the following functions.

- Authorization
- Custody of assets
- Record-keeping
- Reconciliation



Detective controls help mitigate risks when organizations cannot implement optimal segregation.

Cash Receipts

- Review donor checks for restrictions
- Secure deposits and make deposits timely
- Circulate the list of donors to appropriate members of management
- Require management approval of accounts receivable or pledge receivable write-off amounts.
- Reconcile general ledger to development database
- Implement effective mail opening procedures to mitigate skimming*

*Mail Opening Procedures

- Have two people open the mail
- Open mail in public/open space
- Restrict the individual(s) opening the mail from accessing accounting or development database
- Prepare a cash receipts listing/log
- Restrictively endorse checks immediately upon receipt



Cash Disbursements

- Authorize check signers with no accounting functions or access to the general ledger
- Require supervisor approval on invoices
- Require that the check signer review the invoices prior to signing
- Have management and/or board member review and approve bank statement and bank reconciliations

Cash Disbursements

- Implement dual authorization of electronic payments
- Review employee expense reimbursements
- Implement credit card usage policy
- Have management review payroll reports
- Require timesheet approval for a supervisor
- Utilize payroll edit reports that reflect source changes to payroll

Common Errors



- Not segregating duties when segregation is practical.
- Failing to implement effective mitigating controls in response to a lack of segregation.
- Circumventing the authorized check signers via online bill pay or use of credit cards.
- Lack of support for credit card documentation
- Not reconciling the general ledger to independent systems, such as development databases, or other records such as tuition and admissions data
- Not implementing effective IT controls
- Not reconciling accounts on a monthly basis

- Not reviewing financial reports on a timely and continuous basis
- Lack of physical inventory counts and physical inventory of fixed assets
- Lack of cross training
- Excessive workload for accounting personnel
- Failure to make year-end accrual adjustments to comply with Generally Accepted Accounting Principles
- Controls designed but not implemented
- Review and approvals not documented

Resources

- Nonprofit policy sampler (Published by BoardSource)
<https://boardsource.org./product.nonprofit-policy-sampler/>
- COSO.org
- <https://www.aicpa.org/topic/not-for-profit>
- Internal Controls: Guidance for Private, Government, and Nonprofit Entities (Lynford Graham)
- Hantzmon Wiebel
<https://hwllp.cpa/diagnostics/>

Financial Reporting



Purpose

- Operational decision making and budgeting
- Financial health and key performance indicators
- Identification of principal programs and their costs
- Compliance and grant reporting
- Oversight (detective) controls
- Cash-flow projections

Common Issues

- Improper account structure
- Inaccurate
- Not timely
- Lack of balance sheet review



Account Structure

Chart of Accounts

- Track program or department spending
- Track donor restrictions
- Track net assets

QuickBooks

- Use classes or locations

True Fund Accounting Software

- Cumulative tracking of fund balances

Accuracy

- Internal controls
- Review input
- Reconcile monthly
- Repeat



Timeliness

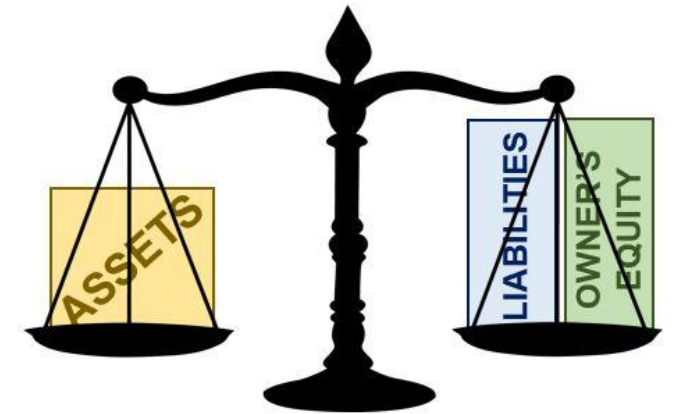
- Outline daily, weekly, and monthly duties
- Comprehensive and consistent closing procedures



Balance Sheet Review

- Often gets overlooked
- Do variances make sense
- Keep tabs on:
 - Liquid recourses
 - Money you are owed
 - Money that you owe

Balance Sheet



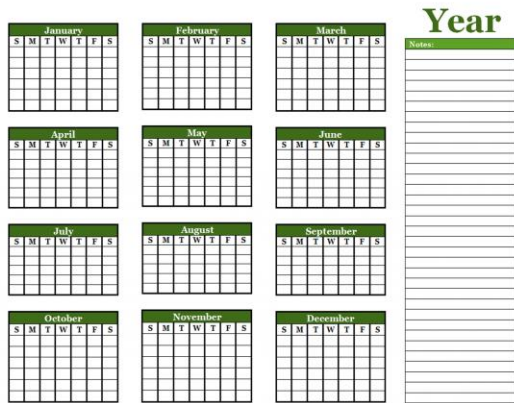
It has to balance

Keys to a Successful Audit



Treat as a Year-Long Process

- Keep schedules and reconciliations up to date
- Maintain internal control policy and procedure records
- Communicate with auditors outside of the audit



Decide Timeline and Tasks

Make a plan

- When does it need to be completed?
- Who is going to prepare it?

Communicate (a.s.a.p.)

- Behind schedule
- Deadlines and committee meeting dates
- Need for accounting assistance

Review Prior Year Audit

- Eliminate reoccurrence of adjustments
- Ensure reportable deficiencies have been addressed



Evaluate Accounting Estimate Methodologies

- Use current year information
- Prior year methodology may not be appropriate
- Document

Seek Clarification



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Stay Available



Potential Complications

- Trial balance and audit workpapers are not ready by the requested date
- Timeline for starting and completing an audit is not realistic
- Prior year net assets reported in the trial balance do not agree with audited financial statements

Potential Complications

- Workpaper support does not agree with the general ledger balances
- Significant and/or complex transactions are not reported to auditors during the year
- Loan covenant defaults require bank waivers

Questions



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