



Internal Controls: *How Many Eyes are Enough?*

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Objectives of Today's Session

- Identify areas where you can strengthen internal controls to better business procedures and help prevent fraud risks
- Understand that you can have good internal controls in a smaller business environment



Purpose of Internal Controls

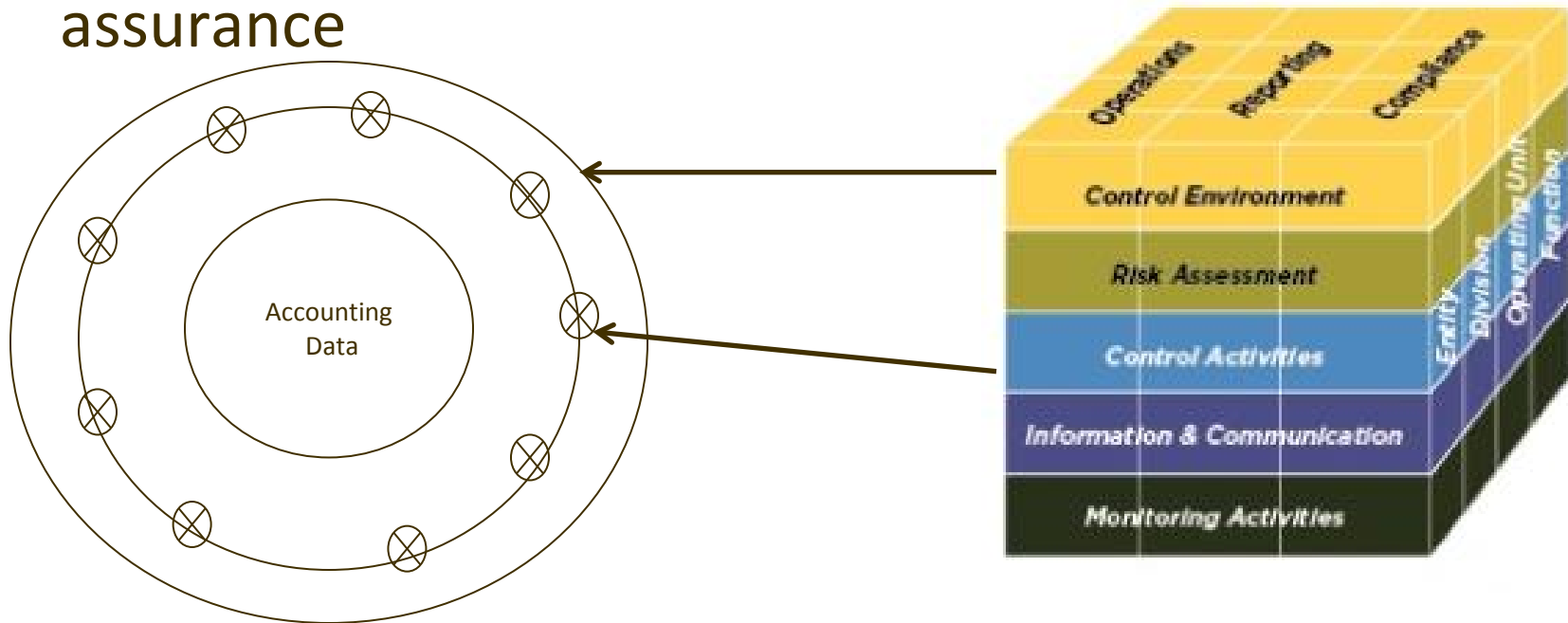
- To safeguard assets
- To produce accurate accounting data
- To contribute to efficient operations
- To promote compliance with board policy and donor restrictions
 - **BONUS:** *An employee working under a good system of internal controls is more easily protected from suspicion should any shortages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



A Strong Control Environment is Indicated by:

- Clear lines of authority
- Public code of conduct
- Formal budget process
- Low staff turnover
- Effective board involvement
- Internal audit functions



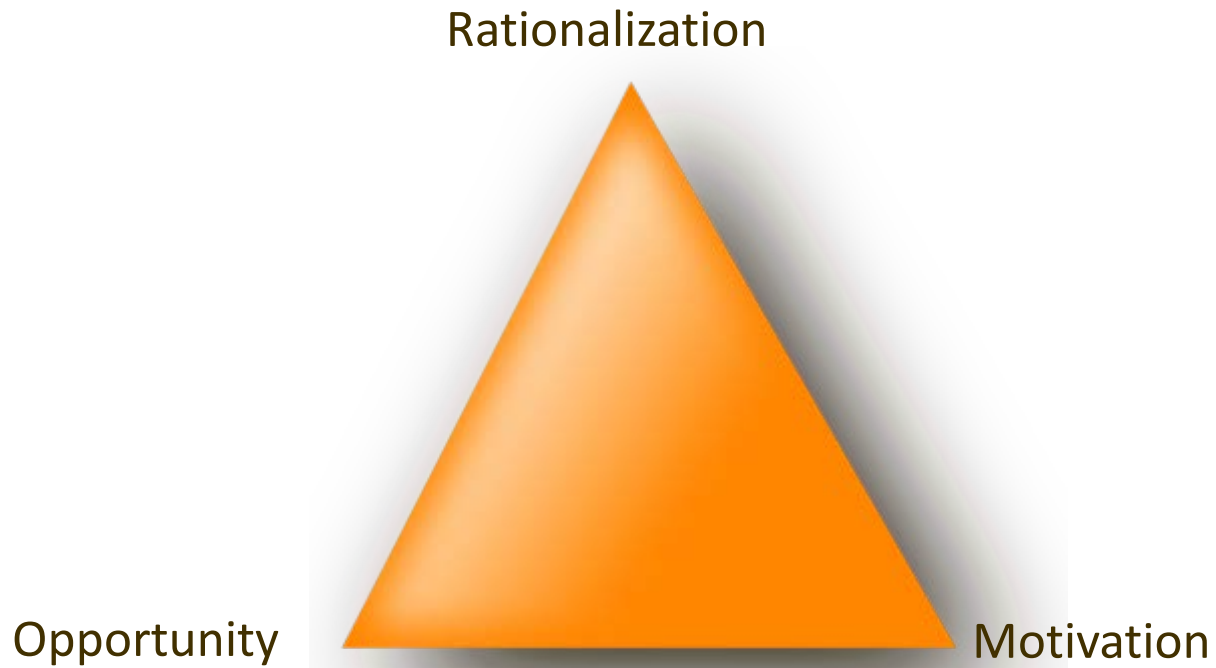
- Control environment**
- 1 Demonstrates commitment to integrity and ethical values
 - 2 Exercises oversight responsibilities
 - 3 Establishes structure, authority, and responsibility
 - 4 Demonstrates commitment to competence
 - 5 Enforces accountability

Risk Assessment

- Clear objectives about operating, financial reporting, and legal compliance functions
- Entity-wide review to assess and evaluate risk



Fraud Triangle



Control Activities

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



Information and Communication

- Support for developing and maintaining effective financial management information systems
- Publicized channels for employees or interested parties to report suspected fraud
- Documented procedures for handling reports of suspected fraud
- Communicating to all employees as well as volunteers



Monitoring

- Prompt follow-up on budget versus actual variances
- Comparison of actual assets against accounting records
- Are the controls in place still being used?



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



2 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



3 Person Office

Bookkeeper

Record general ledger activity

Write checks

Reconcile bank statements

Office Manager

Process and approve invoices

Mailing checks

Receive cash

Approve & distribute payroll

Authorize timesheets

Controller or President

Completes deposit slips

Signs checks and performs bank transfers

Review bank reconciliations

Sign employee contracts



4 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



Case Studies



Case Study #1

Catholic Charities of ABC City has an executive director and bookkeeper. They both have full access to the general ledger and checking account. The bookkeeper reconciles the bank account but it is currently not reviewed. The executive director signs checks. The bookkeeper keeps the signature stamp locked in her desk. The Treasurer of the Board requests to review the bank statements on a quarterly basis.

- What changes should be made in the internal control structure of this organization?



Case Study #2

Catholic Charities of XYZ City has an executive director, controller, and bookkeeper. The executive director is the authorized check signer. The bookkeeper reconciles the bank statements and the controller reviews them. The bookkeeper receives cash/checks and the controller enters them into the general ledger. The bookkeeper makes the deposit and verifies it against the general ledger.

- What changes should be made in the internal control structure of this organization?



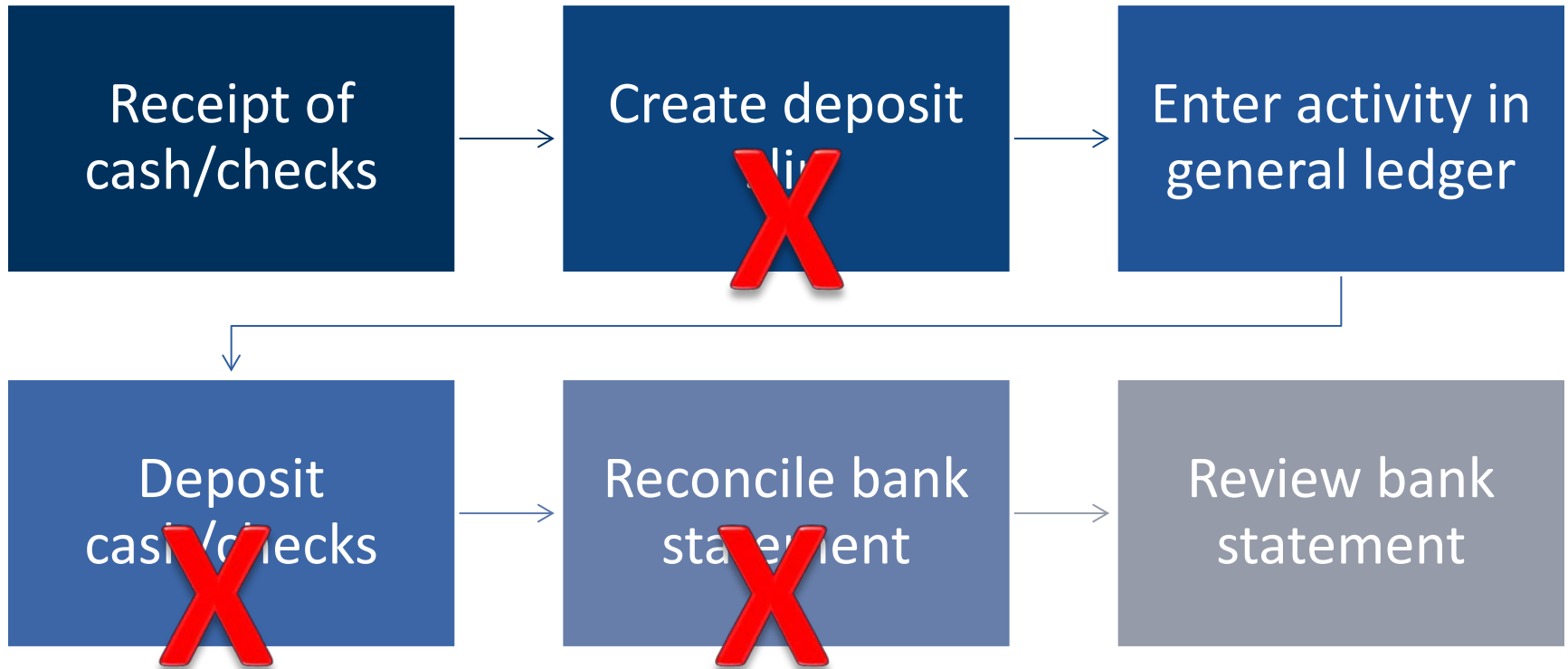
Case Study #3

Catholic Charities of LMN City has an executive director, controller, senior accountant and office manager. The executive director signs all employee contracts. The senior accountant enters and edits payroll information and submits payroll. The controller reviews the payroll report after processing. The processed payroll information is sent to the senior accountant. The office manager is collecting timesheets for all employees each pay period.

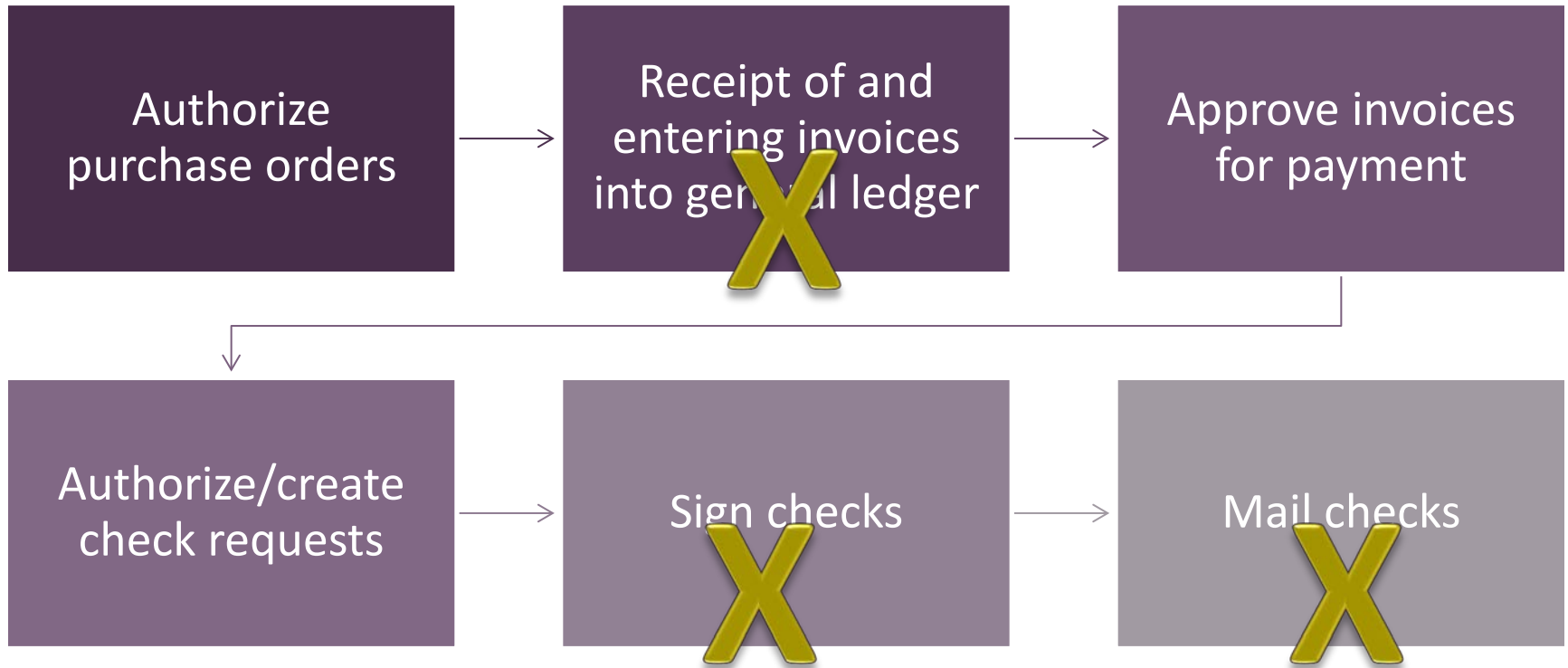
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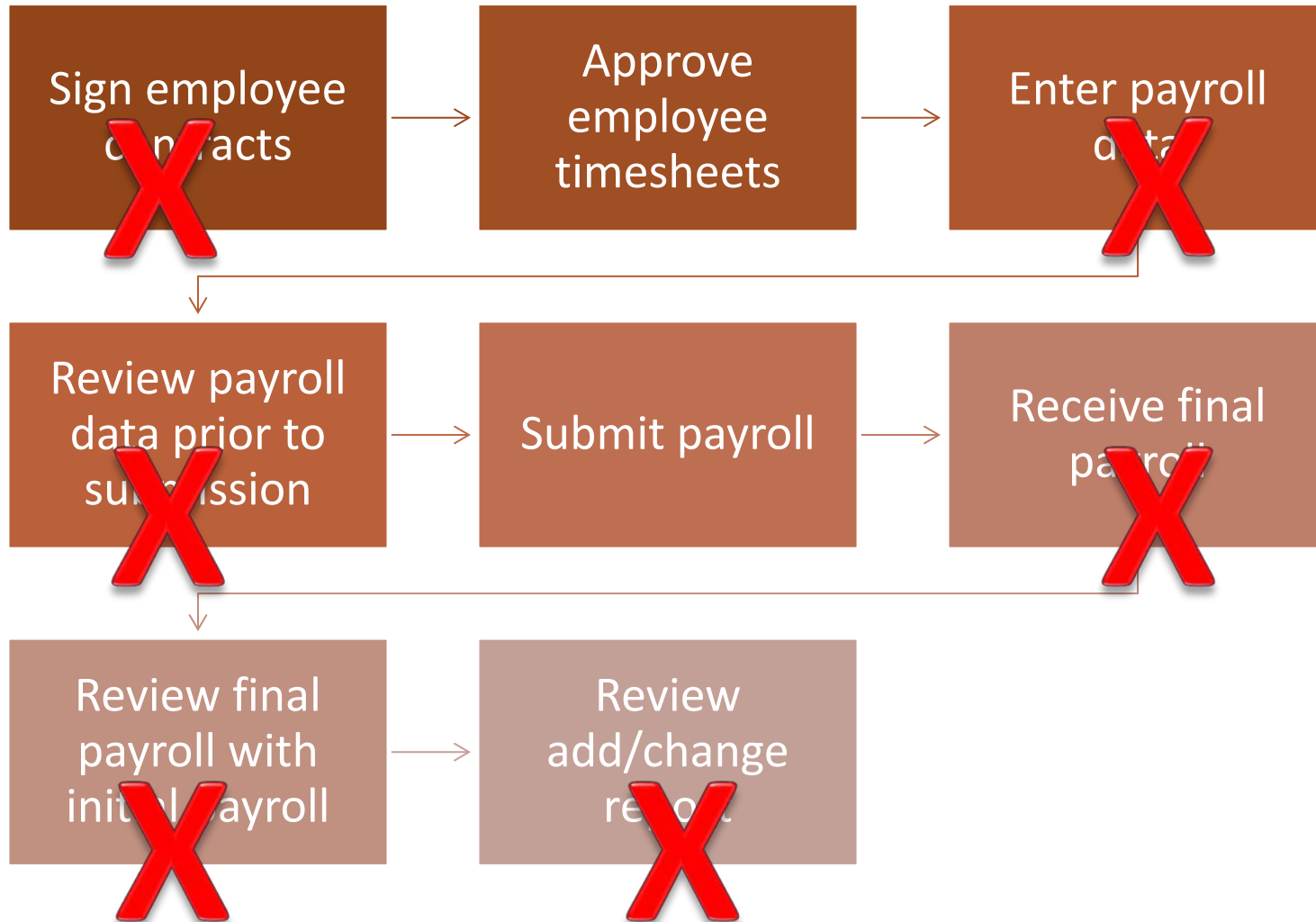
Cash Receipts



Cash Disbursements



Payroll





Other areas of concern

Information Technology

Suggested Controls

- 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
- Use of Desktop deposit



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



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

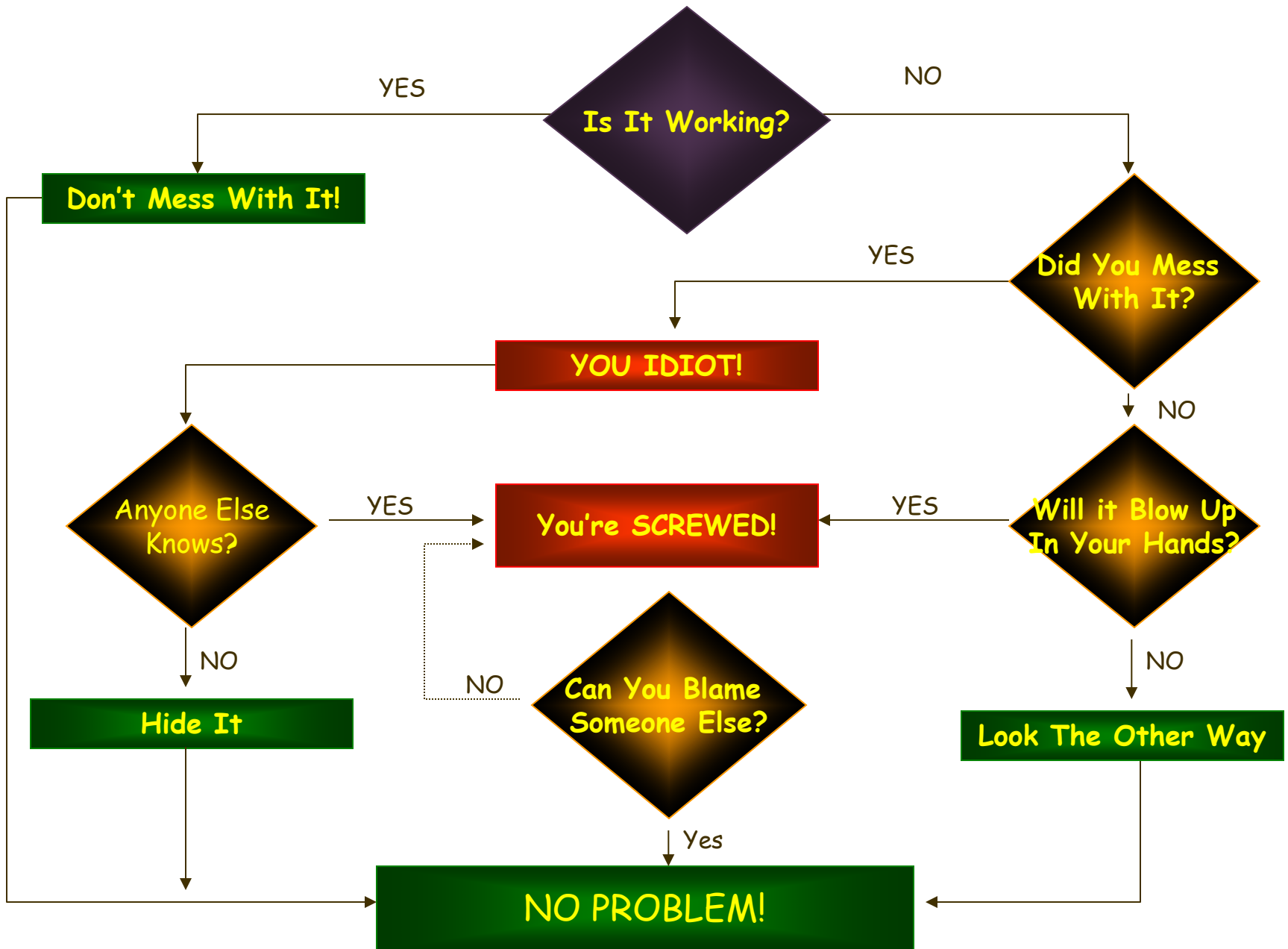


Financial Reporting

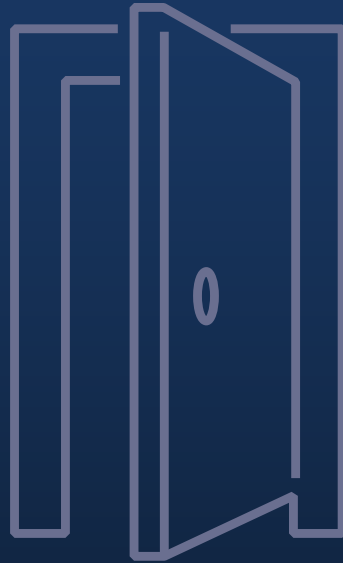
Suggested Controls

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





Questions?



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