

Strafford

Presenting a live 110-minute teleconference with interactive Q&A

Non-Profit Internal Controls: Establishing and Examining Controls To Prevent Fraud and Improve Financial Reporting

WEDNESDAY, JULY 17, 2013

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

Today's faculty features:

Frank Monti, Principal, Kahn Litwin Renzi & Co., Waltham, Mass.

Jessica Puckett, Supervisor, Henry & Horne, Tempe, Ariz.

For this program, attendees must listen to the audio over the telephone.

Please refer to the instructions emailed to the registrant for the dial-in information. Attendees can still view the presentation slides online. If you have any questions, please contact **Customer Service at 1-800-926-7926 ext. 10.**

Tips for Optimal Quality

Sound Quality

Call in on the telephone by dialing **1-866-873-1442** and enter your PIN when prompted.

If you have any difficulties during the call, press *0 for assistance. You may also **send us a chat** or e-mail sound@straffordpub.com immediately so we can address the problem.

Viewing Quality

To maximize your screen, press the F11 key on your keyboard. To exit full screen, press the F11 key again.

Continuing Education Credits

FOR LIVE EVENT ONLY

Attendees must stay on the line throughout the program, including the Q & A session, in order to qualify for full continuing education credits. Strafford is required to monitor attendance.

Record verification codes presented throughout the seminar. If you have not printed out the “Official Record of Attendance,” please print it now (see “Handouts” tab in “Conference Materials” box on left-hand side of your computer screen). To earn Continuing Education credits, you must write down the verification codes in the corresponding spaces found on the Official Record of Attendance form.

Please refer to the instructions emailed to the registrant for additional information. If you have any questions, please contact **Customer Service** at **1-800-926-7926 ext. 10**.

Program Materials

If you have not printed the conference materials for this program, please complete the following steps:

- Click on the + sign next to “Conference Materials” in the middle of the left-hand column on your screen.
- Click on the tab labeled “Handouts” that appears, and there you will see a PDF of the slides and the Official Record of Attendance for today's program.
- Double-click on the PDF and a separate page will open.
- Print the slides by clicking on the printer icon.

Non-Profit Internal Controls: Establishing and Examining Controls to Prevent Fraud and Improve Financial Reporting Seminar

July 17, 2013

Frank Monti, Kahn Litwin Renzi & Co.
fmonti.kahnlitwin.com

Jessica Puckett, Henry & Horne
jessicap@hhcpa.com

Today's Program

Why Tougher Internal Controls Are Expected
[Frank Monti]

Slide 8 - Slide 12

Review Of Relevant Accounting Standards
[Jessica Puckett]

Slide 13 - Slide 24

Common Traits And Goals Of Effective Non-Profit Controls
[Frank Monti]

Slide 25 - Slide 33

Practical Experiences With Controls Projects For Non-Profits
[Jessica Puckett and Frank Monti]

Slide 34 - Slide 54

Notice

ANY TAX ADVICE IN THIS COMMUNICATION IS NOT INTENDED OR WRITTEN BY THE SPEAKERS' FIRMS TO BE USED, AND CANNOT BE USED, BY A CLIENT OR ANY OTHER PERSON OR ENTITY FOR THE PURPOSE OF (i) AVOIDING PENALTIES THAT MAY BE IMPOSED ON ANY TAXPAYER OR (ii) PROMOTING, MARKETING OR RECOMMENDING TO ANOTHER PARTY ANY MATTERS ADDRESSED HEREIN.

You (and your employees, representatives, or agents) may disclose to any and all persons, without limitation, the tax treatment or tax structure, or both, of any transaction described in the associated materials we provide to you, including, but not limited to, any tax opinions, memoranda, or other tax analyses contained in those materials.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

Frank Monti, Kahn Litwin Renzi & Co.

WHY TOUGHER INTERNAL CONTROLS ARE EXPECTED

Why Tougher Internal Controls Are Expected From Non-Profits

Society expects much from organizations to which it has granted tax-exempt status.

Charitable assets are more than \$3.5 trillion, and annual giving exceeds \$350 billion.

Resource providers react either directly or indirectly to internal control information.

Why Tougher Internal Controls Are Expected From Non-Profits (Cont.)

Internal controls:

The process put in place by management ...

to provide reasonable assurance ...

regarding the achievement of effective and efficient operations, reliable financial reporting and compliance with laws and regulations.

Why Tougher Internal Controls Are Expected From Non-Profits (Cont.)

Notable internal control problems:

Charitable organizations are doing God's work; all their employees are angels.

William Aramony, CEO of United Way of America for more than 20 years

Baptist Foundation of Arizona

Slide Intentionally Left Blank

Jessica Puckett, Henry & Horne

REVIEW OF RELEVANT ACCOUNTING STANDARDS

Auditing Standards

- ▶ Issued by the Auditing Standards Board
- ▶ Followed in audits only
- ▶ Recently issued clarified standards in 2012



Auditing Standards (Cont.)

- ▶ Consideration of fraud in a financial statement audit
- ▶ Supersedes SAS 99
- ▶ Now SAS 122, AU-C Sect. 240
- ▶ Auditor's responsibilities relating to fraud during an audit



Auditing Standards (Cont.)

- ▶ Misstatements from fraud or error
 - Fraudulent financial reporting
 - Misappropriation of assets
- ▶ Fraud is a legal determination.



Auditing Standards (Cont.)

- ▶ Fraud: An intentional act by one or more individuals among management, those charged with governance, employees or third parties involving the use of deception that results in a misstatement in financial statements



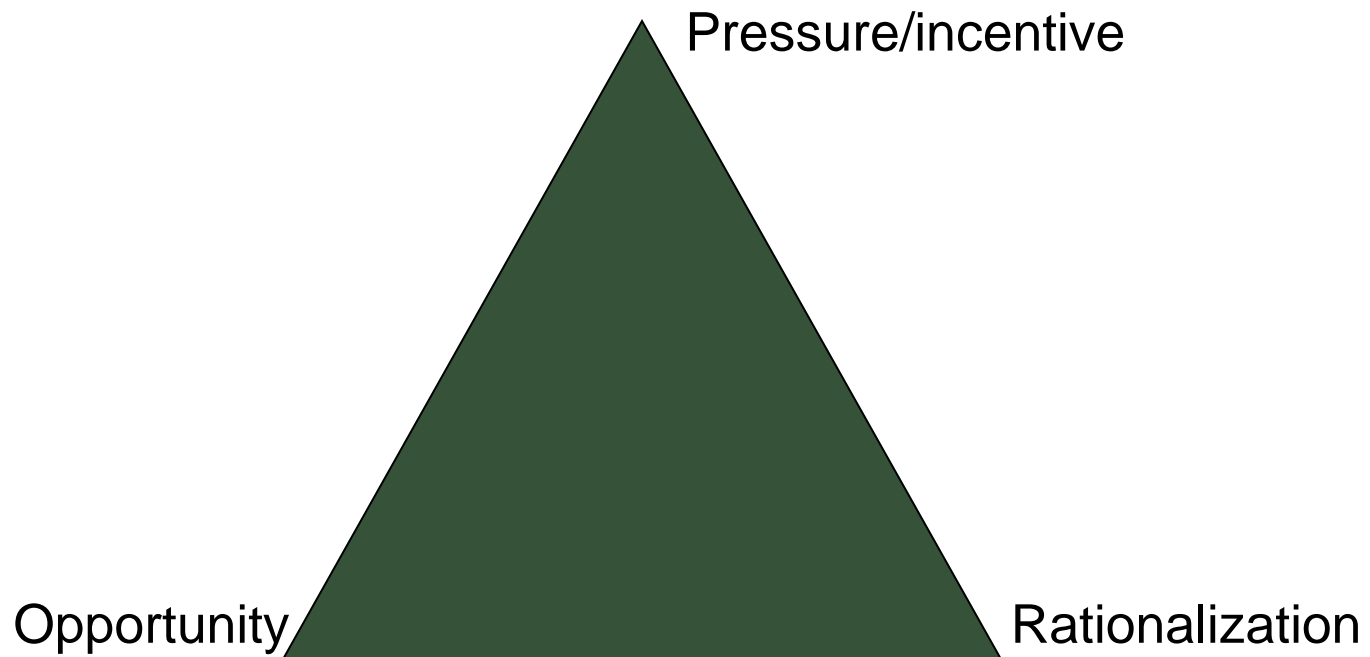
Auditing Standards (Cont.)

- ▶ Fraud risk factors
 - Events or conditions that indicate an incentive or pressure to perpetrate fraud, provide an opportunity to commit fraud, or indicate attitudes or rationalizations to justify a fraudulent action



Auditing Standards (Cont.)

- ▶ Fraud triangle



Auditing Standards (Cont.)

- ▶ Responsibility of management and those charged with governance to prevent/detect fraud
- ▶ Auditor responsibility
- ▶ Objectives of SAS 122
 - Identify and assess the risks due to fraud
 - Obtain sufficient evidence regarding those fraud risks through designing and implementing appropriate responses
 - Respond appropriately to fraud or suspected fraud identified during the audit



Auditing Standards (Cont.)

- ▶ Auditor requirements
 - Professional skepticism
 - Discussion among audit engagement team
 - Risk assessment procedures
 - Inquiries with management and those charged with governance
 - Identify and respond to risks
 - Communicate with those charged with governance
 - Consider reporting to regulatory and enforcement authorities



Auditing Standards (Cont.)

- ▶ The auditor's communication with those charged with governance
- ▶ Now SAS 115/SAS 122, AU-C Sect. 260



Auditing Standards (Cont.)

- ▶ Identifying those charged with governance
- ▶ Auditor responsibility
- ▶ Communicate timing and scope
- ▶ Significant findings or issues encountered



Slide Intentionally Left Blank

Frank Monti, Kahn Litwin Renzi & Co.

COMMON TRAITS AND GOALS OF EFFECTIVE NON-PROFIT CONTROLS

Common Traits And Goals Of Effective Non-Profit Internal Controls

The financial community has devoted much time and energy to the study of internal controls.

Five basic components of internal control have been identified.

Common Traits And Goals Of Effective Non-Profit Internal Controls (Cont.)

Five basic components of internal control have been identified.

Control environment

Risk assessment

Control activities

Information and communication

Monitoring

Common Traits And Goals Of Effective Non-Profit Internal Controls (Cont.)

Five basic components of internal control have been identified.

Control environment

Risk assessment

Control activities

Information and communication

Monitoring

Common Traits And Goals Of Effective Non-Profit Internal Controls (Cont.)

Five basic components of internal control have been identified.

Control environment

Risk assessment

Control activities

Information and communication

Monitoring

Common Traits And Goals Of Effective Non-Profit Internal Controls (Cont.)

Five basic components of internal control have been identified.

Control environment

Risk assessment

Control activities

Information and communication

Monitoring

Slide Intentionally Left Blank

Common Traits And Goals Of Effective Non-Profit Internal Controls (Cont.)

Five basic components of internal control have been identified.

Control environment

Risk assessment

Control activities

Information and communication

Monitoring

Common Traits And Goals Of Effective Non-Profit Internal Controls (Cont.)

Five basic components of internal control have been identified.

Control environment

Risk assessment

Control activities

Information and communication

Monitoring

Jessica Puckett, Henry & Horne

Frank Monti, Kahn Litwin Renza & Co.

**PRACTICAL EXPERIENCES
WITH CONTROLS PROJECTS
FOR NON-PROFITS**

Practical Experiences

- ▶ Experiences with internal control systems
 - Designing
 - Maintaining
 - Monitoring



Practical Experiences (Cont.)

- ▶ Segregation of duties



Practical Experiences (Cont.)

- ▶ What duties are incompatible?
 - C – Custody of assets
 - A – Authorization or approval of related transactions affecting those assets
 - R – Recording or reporting related transactions



Practical Experiences (Cont.)

- ▶ 1–person accounting staff
 - Bookkeeper

- ▶ 2–person accounting staff
 - Bookkeeper
 - Controller

- ▶ 3–person accounting staff
 - Bookkeeper
 - Accounting clerk
 - Controller



Practical Experiences (Cont.)

Executive director

- A – Process invoices
- A – Sign checks
- A – Prepare deposit slips
- A – Initiate bank wires
- A – Review bank recs
- A – Approve G/L entries
- R – Reconcile petty cash

Bookkeeper

- C – Access to checks
- R – Write checks
- C – Mail checks
- C – Receive cash
- R – Reconcile bank acct
- R – Record A/R
- R – Record G/L entries
- C – Disburse petty cash

Custody

Authorize

Record



Practical Experiences (Cont.)

E.D.	Controller	Bookkeeper
A - Sign checks	A - Process invoices	R - Write checks
A - Prepare deposit slips	C - Access to checks	R - Reconcile bank acct
A - Initiate bank wires	C - Mail checks	R - Record A/R
A - Review bank recs	C - Receive cash	R - Record G/L entries
A - Approval of G/L entries	C - Disburse petty cash	R - Reconcile petty cash

Custody

Authorize

Record



Practical Experiences (Cont.)

E.D.

Controller

- A – Sign checks
- A – Review bank recs
- A – Initiate bank wires
- A – Approve G/L entries

- R - Process invoices
- A - Prepare deposit slips

Accounting Clerk

Bookkeeper

- C - Access to checks
- A - Authorize check requests
- C - Mail checks
- C - Receive cash
- C - Disburse petty cash

- R - Write checks
- R - Reconcile bank acct
- R - Record A/R
- R - Record G/L entries
- R - Reconcile petty cash

Custody
 Authorize
 Record



Practical Experiences (Cont.)

- ▶ Other areas of consideration
 - Revenue
 - Promises to give
 - Cash disbursements
 - Payroll



Practical Experiences (Cont.)

▶ Revenue

- Checks (not just cash) can be stolen.
- Take money and destroy evidence (skimming)
- Establish controls as early as possible in process
- Document totality of receipts immediately when received



Practical Experiences With 2-Person Accounting Staff

E.D.	Controller	Bookkeeper
A - Sign checks	C - Access to checks	R - Write checks
A - Prepare deposit slips	A - Process invoices C - Disburse petty cash	R - Reconcile accts (bank and pc)
A - Review bank recs	C - Receive cash	R - Record A/R
A - Initiate bank wires	C - Mail checks	R - Record G/L
A – Approval of G/L entries		<div style="border: 1px solid black; padding: 5px;"> <p>Custody</p> <p>Authorize</p> <p>Record</p> </div>



Practical Experiences (Cont.)

- ▶ Promises to give
 - Those posting payments should not have access to cash.
 - Those posting adjustments should not have access to cash.



Practical Experiences (Cont.)

- ▶ Cash disbursements
 - Fictitious vendor
 - Payment to “vendor” with similar name as real vendor
 - Office Max vs. Office Maxx Supplies
 - ABC Cleaners vs. ACB Cleaners
 - Duplicate payment schemes
 - Unauthorized disbursement
 - Unsupported disbursement
 - Alternative controls



Practical Experiences (Cont.)

- ▶ Cash disbursements
 - Review of supporting documentation
 - Bank statement review
 - Review of cancelled checks
 - Bank reconciliations
 - Expense reimbursements
 - Alternative controls



Practical Experiences (Cont.)

- ▶ Payroll
 - Fictitious employees
 - Unauthorized wage increases
 - Compare payroll register to employee listing (department supervisor)
 - Monitor budget to actual
 - Review cancelled checks for multiple endorsements



Practical Experiences (Cont.)

- ▶ Understand how fraud could happen
 - Brainstorm
- ▶ Design/implement controls
- ▶ Consider alternative control opportunities
- ▶ Evaluating and maintaining
 - Changes within personnel
 - Changes of accounting practices
- ▶ Monitoring/inspecting controls



Slide Intentionally Left Blank

Board Member Involvement In Designing, Maintaining, Monitoring Internal Controls

Among the board's basic responsibilities are planning and oversight.

Make sure planning takes place

Each board meeting is a an opportunity to exercise oversight over the activities at the organization.

Board Member Involvement In Designing, Maintaining, Monitoring Internal Controls (Cont.)

Board responsibility: Ask good questions; expect good answers

What risks have we identified in our upcoming capital campaign?

Board Member Involvement In Designing, Maintaining, Monitoring Internal Controls (Cont.)

Board responsibility: Ask good questions; expect good answers

I read in the news the other day that the bookkeeper at ABC Business was terminated for stealing money from the company. She was paying her personal bills with company checks. What prevents that from happening here?

Board Member Involvement In Designing, Maintaining, Monitoring Internal Controls (Cont.)

Board responsibility: Ask good questions; expect good answers

How do we know that the controls we have in place over cash disbursements are working as designed?

Can we have a board presentation at a future meeting describing the risks related to our cash receipts and donation income function, and the controls instituted to mitigate those risks?