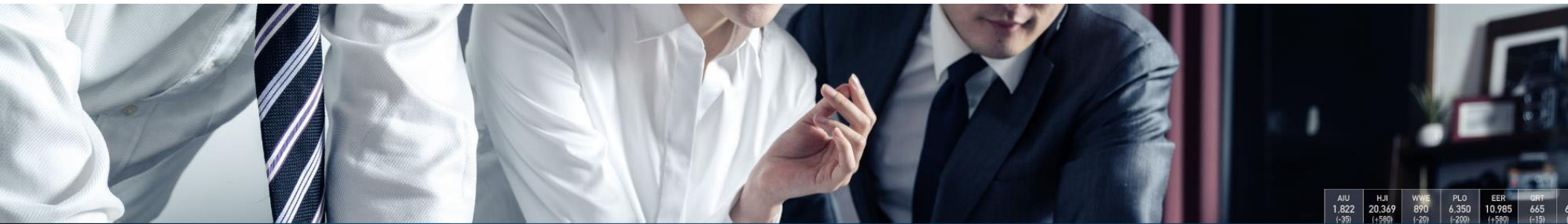




Strengthening Internal Controls Without Adding Staff

Presented by Jordan Dittmer, CPA

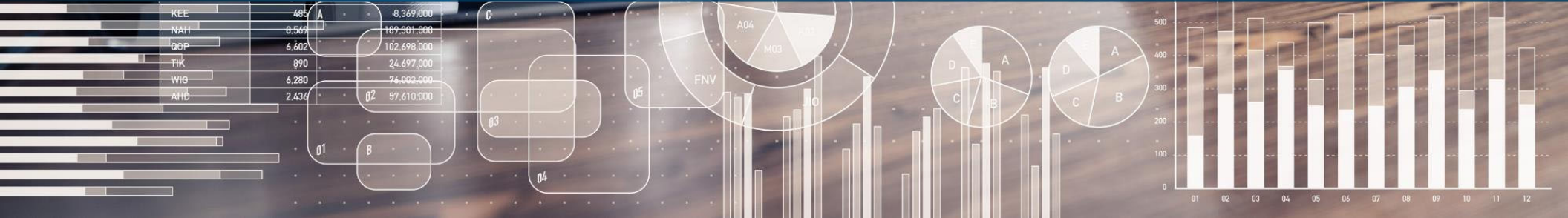


AIU	1,822 (-39)	H.JI	20,369 (+588)	WWE	890 (-20)	PLO	6,350 (-200)	EER	10,985 (+580)	GRT	665 (+15)
MBC	3,405 (+210)	LJH	9,542 (+128)	MJB	2,609 (+35)	POH	7,654 (+149)	NFR	6,522 (+122)	UGH	1,632 (+34)
YGV	3,204 (-33)	DMH	5,211 (+154)	MMI	7,155 (-40)	RT	7,150 (-150)	KJM	782 (+74)	CKX	1,901 (+101)
MBS	3,320 (+82)	WFF	212 (+12)	HJM	134 (-3)	SPF	2,022 (-18)	LSP	631 (-40)	SDH	2,287 (+10)



Welcome

- This presentation is being recorded and will be emailed to you after the event along with the slide deck.
- Submit any questions using the Q&A feature at the bottom of your screen.





Jordan Dittmer, CPA

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Jordan joined Wegner CPAs in 2019 after obtaining his master's degree in professional accountancy from the University of Wisconsin-Whitewater. He specializes in non-profit audits especially in the Madison area. In addition to auditing, he is one of the trainers for new assurance hires.



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Learning Objectives



Understand why internal controls matter for small teams.



Recognize what auditors look for when reviewing an organization's internal controls.



Learn ways to maximize internal control effectiveness with limited staff.



Utilize high-impact controls (quality over quantity of controls).



Build a simple internal control matrix.

Key Terms and Definitions

- Internal Controls: Systems designed provide assurance over operating effectiveness, financial reporting, and compliance with applicable laws and regulations.
 - Preventive controls
 - Detective controls
 - Corrective controls
- Segregation of Duties: Dividing responsibilities among different people so that no single individual has control over all parts of a critical process.
 - Authorization (approval)
 - Custody (handling the cash/assets)
 - Recordkeeping (accounting)

Overarching Theme

Internal controls exist to protect you and your organization.



Assumptions about Your Organization:

- At least one of the following is true:
 - There is a board of directors.
 - There are at least 3 employees/outside contractors.
 - There are volunteers that play a substantial role in your organization's operations.
- At least one employee or board member has at least a basic understanding of bookkeeping and financial reporting.



Understand why internal controls matter

for small teams

Long-Term Success



If you retired today, would the person filling your shoes know what to do?



Smaller organizations do not often have big onboarding or training teams

- Having several standardized processes and controls helps to preserve institutional knowledge and keep the organization's key activities flowing during turnover.



Protecting Resources and Donor Trust

- Theft or loss at a smaller nonprofit may not make the news in the same light that a \$10M scandal would at a high-profile non-profit, but the impact is still felt.
- \$5,000 may not feel like much to a large non-profit but it could to yours.
- Millions of people may not care about a small case of theft, but your donors would.



Decision Making and Financial Reporting



- With a smaller team, there are fewer people involved in the review, potentially leading to errors not being caught.
- Financial Reporting errors can lead to making the wrong financial decisions.

Recognize what auditors look for when reviewing an organization's internal controls



Controls Over Areas Susceptible to Theft

Cash Receipts

- How often are cash and checks received in the mail?
- Who opens the mail?
- Is there a deposit log filled out?

Credit Cards/Check Payments

- What is the credit card limit?
- How are credit card purchases reviewed and approved?
 - Who is reviewing the Executive Director's credit card?
- Who is reviewing the bank reconciliation?

Controls Over Sensitive Financial Areas

Contribution Revenue

- How do you ensure that contributions are accurately entered into the accounting software?
- How do you ensure fake contributions are not added?

Payroll

- How are pay rate changes approved?
- Who is reviewing payroll reports before and after submission?

Controls Over Journal Entries and Financial Reporting

Journal Entries

- Who is responsible for making journal entries?
- Who is responsible for reviewing journal entries?
- How does the review take place?

Financial Reporting

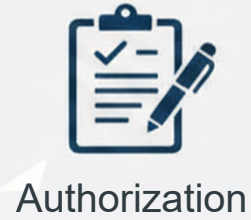
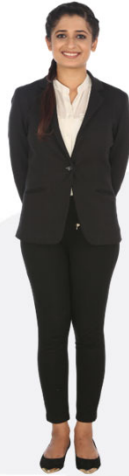
- What reports are provided to the board for review?
- Is there a budget-to-actual report being reviewed?



Learn Ways to Maximize Internal Control Effectiveness with Limited Staff



The Segregation of Duties Dilemma



Solutions (Page 1 of 2)

• Leverage your Board

- Pros:
 - A great reviewer role since they aren't performing many day-to-day functions.
 - No cost.
 - The board should already be motivated for organizational success and effective controls.
- Cons:
 - May need to work around the board's schedule.

• Use Technology

- Pros:
 - Low-effort.
 - "Human proof"
 - Examples of easy technology controls:
 - Restrict user permissions.
 - Audit logs for edits.
 - Bank and payroll alerts.
- Cons:
 - Could be expensive.

Solutions (Page 2 of 2)

- Focus on High-Risk Areas and Large Dollars

- Pros:

- Minimizes number of controls and reviews needed.
- Designed to catch the biggest errors.
- Examples to come in next section.

- Cons:

- Small mistakes may fall through the cracks.

- Increased Transparency

- Pros:

- Shared, open records keeps everyone informed.
 - Read-only access to accounting records for the board is great.
- Acts as a natural deterrent/detection tool.
- No cost.

- Cons:

- May feel a little “big brother-like”.

Utilize high-impact controls (quality over quantity of controls)



Bill Payment (Checks and Credit Cards)

- At least two approvals are required for all bills over \$XXX.
 - ED and a board member.
- Credit card statements are reviewed by someone higher up on the org chart.
- A board member reviews the bank reconciliation and journal entries monthly.



Recording Revenue

- Reconciling deposit logs to the revenue in the accounting software.
- Spot checking revenue transactions each month.
 - 5 largest transactions + 3 other transactions.
 - Reviewing donor support to see that it looks recorded correctly.



Financial Reporting

- A budget to actual is reviewed monthly by the board.
 - If there isn't a budget, then at least a year-to-year comparison.
- Other reports to consider for board review:
 - Profit & Loss
 - Balance Sheet
 - Journal Entries
- An audit log is kept of access and changes in the accounting software.



Build a simple internal control matrix



What is an Internal Control Matrix?

A user-friendly grid that links together the following:

- Processes (what you are doing)
- Risks (what could go wrong)
- Controls (what prevents or detects problems)

Processes (what are we doing)	Risks (what could go wrong)	Controls (what prevents or detects problems)
Opening mail	Cash and checks received are stolen.	Two office employees will open the mail three days a week. An individual independent of the mail opening process (the Treasurer) is responsible for sending thank-you letters.
Recording revenue	Donations are not recorded for the correct amount or in the correct period.	The President selects eight donations each month and reviews the supporting documentation.
Credit card payments	Personal expenses are charged to the company card.	The ED reviews staff credit card statements monthly. The Treasurer reviews the ED's credit card statement monthly.
Bill payment	Checks are written to personal accounts or to unapproved vendors.	Two signatures are required on checks over \$5,000. A board member will also review the bank statement and reconciliation monthly.

How to Build - #1

Start by identifying 5 – 10 key processes at your organization:

- At a minimum this should include:
 - Receiving cash/opening mail
 - Credit card payments
 - Bill payments
 - Recording revenue

Processes (what are we doing)	Risks (what could go wrong)	Controls (what prevents or detects problems)
Processing payroll		

How to Build - #2

For each of your processes, think of what could go wrong:

- What mistakes have I caught myself or others making in the past for this process?
- Put on your “fraudster hat”. If I was going to steal or manipulate financial results, how would I do it?

Processes (what are we doing)	Risks (what could go wrong)	Controls (what prevents or detects problems)
Processing payroll	An employee is not paid the correct rate.	

How to Build - #3

Now apply some of the control ideas to stop the risk:

- These can either be to prevent the error in the first place OR to detect and correct the error after it occurs.
- Be specific and detailed:
 - Who will perform the control?
 - How often?
 - How will it be documented?

Processes (what are we doing)	Risks (what could go wrong)	Controls (what prevents or detects problems)
Processing payroll	An employee is not paid the correct rate.	The Treasurer is setup to receive automatic notifications from the 3rd party payroll company when an individual's pay rate is changed.

If controls are starting to feel too burdensome...

- Reduce frequency
 - Quarterly instead of monthly
- Increase thresholds
 - Board approval on transactions over \$5k rather than \$2k
- Shift responsibilities so one person isn't doing it all
 - Use multiple board members
- Design controls that address multiple risks
 - Review of budget-to-actual reports
- Remember why we have controls
 - To protect you and your organization

QUESTIONS?





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THANK YOU



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