



# 2023 WICPA NOT-FOR-PROFIT ACCOUNTING CONFERENCE

YOUR SOURCE FOR KEY UPDATES & INSIGHTS ON TIMELY ISSUES

## HIGHLIGHTED TOPICS:



### ACCOUNTING & AUDIT UPDATE

Get an overview of recently issued standards and information on what the future holds



### NAVIGATING ECONOMIC & FINANCIAL MARKET UNCERTAINTY

Find out the best numbers for not-for-profits to watch to know where we stand in the economic market cycle and what to expect in the future



### EFFECTIVE GRANT MANAGEMENT

Learn how to develop a strategy for successfully managing grants from pre-award to post-award close out using real-world experiences to achieve your grant management goals

TUESDAY, SEPT. 12 | WICPA OFFICE & WICPA CPE LIVESTREAM

# 2023 WICPA NOT-FOR-PROFIT ACCOUNTING CONFERENCE

## MATERIALS AT A GLANCE

The following materials are from the morning sessions of the 2023 WICPA Not-For-Profit Accounting Conference held on Tuesday, Sept. 12, including:

- Accounting & Auditing Update
- Effective Grant Management
- Microsoft Teams: Increase Your Knowledge & Skills With This Key Communication & Collaboration Tool

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## SAVE THE DATE!

### **Business & Industry Fall Conference**

Monday, Sept. 18

Brookfield Conference Center & WICPA CPE Livestream

### **Accounting & Auditing Conference**

Thursday, Nov. 9

WICPA Office & WICPA CPE Livestream

### **Tax Conference**

Thursday, Nov. 2 - Friday, Nov. 3

Brookfield Conference Center & WICPA CPE Livestream

### **Accounting Technology Conference**

Thursday, Dec. 7

WICPA Office & WICPA CPE Livestream



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2:35 – 3:25 p.m.

# Internal Controls

**Rachel Swanson**, *Senior, CLA*

**Lauren Wanta**, **CPA**, *Senior Accountant, CLA*



*We'll get you there.*

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# Internal Controls

Rachel Swanson and Lauren Wanta

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## Objectives of Today's Session

- Gain an understanding of the internal control framework
- Identify areas where you can strengthen internal controls to better business procedures and help prevent fraud risks
- Discover best practices for remote work and use of technology



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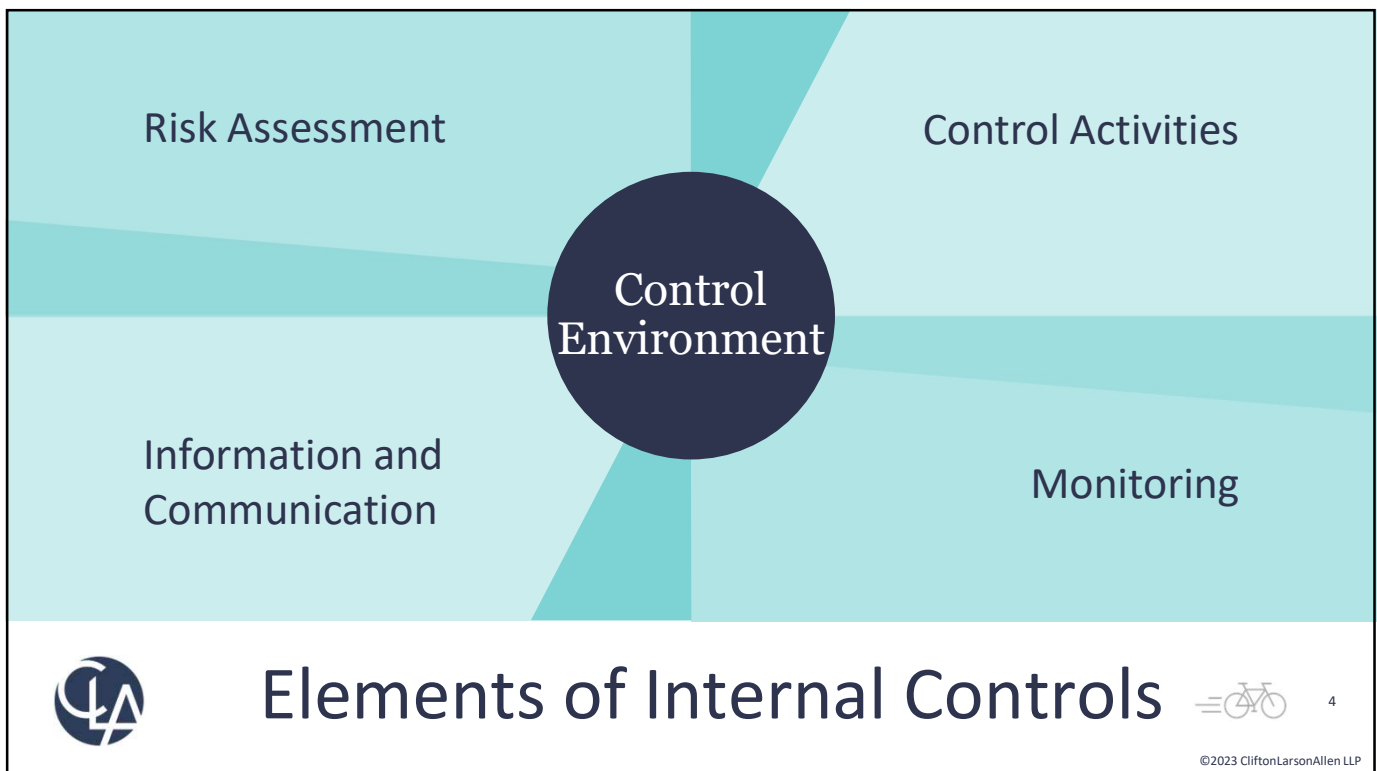


# The Purpose of Internal Controls

- To safeguard assets
- To produce accurate accounting data
- To contribute to efficient operations
- To promote compliance with board policy and donor restrictions
- Internal controls help to limit the **opportunity** to commit fraud.



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# Control Environment

The foundation of internal controls is the tone of your business at the management level.

- Having policies and procedures in place to guide the organization
- Emphasizing the importance of internal controls
- Leading by example with integrity and ethical values
- Formal budget process and regular review of variances
- Goal to attract and retain competent staff
- Effective board committees

Control Environment

Risk Assessment

Control Activities

Information & Communication

Monitoring



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# Risk Assessment

Analyzing risks of the company from internal and external factors.

- Having clear objectives about operating, financial reporting, and legal compliance functions
- Assessing and evaluating risks related to the objectives to prevent an adverse event from occurring

Control Environment

Risk Assessment

Control Activities

Information & Communication

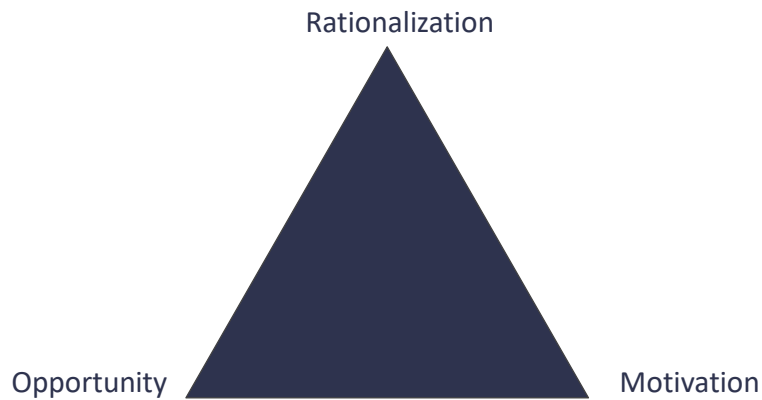
Monitoring



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# Fraud Triangle



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## Control Activities

Actions established through policies and procedures to help ensure risk responses are effectively carried out.

- Segregation of duties, approvals, authorizations, reconciliations, and security over assets
- Preventative or detective
- Manual or automated

Control Environment

Risk Assessment

Control Activities

Information & Communication

Monitoring



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# Information and Communication

Exchange of information within the company.

- Developing and maintaining effective financial management information systems
- Enables management to share clear communications to employees
- Internal and external communication
- Publicized channels for employees to report suspected fraud
- Procedures in place for handling reports of suspected fraud

Control Environment

Risk Assessment

Control Activities

Information & Communication

Monitoring



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# Monitoring

Assessing the internal control procedures in place to ensure they are operating effectively.

- Identifying and correcting weak controls
- Comparing supporting schedules to accounting records
- Following up on budgeted results vs actual results

Control Environment

Risk Assessment

Control Activities

Information & Communication

Monitoring



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## Summary Question – True or False

Internal controls that are well-documented and firmly implemented will always run effectively and efficiently.

True or False



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## Best Practices

Consistency  
and  
Effectiveness

Safeguarding  
Assets

Segregation of  
Duties

Review and  
Approval

Authorizing  
and Training



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## Consistency and *Effectiveness*

- Documenting policies and procedures in place
- Uniform training to ensure procedures performed are consistent

Having consistent and effective procedures helps to reduce errors and eliminate duplicate efforts.



Best Practices



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## Safeguarding Assets

- Safes and locked cash drawers should be used
- Tracking equipment held to reduce the risk of assets being misplaced
- Limiting access to authorized individuals



Best Practices



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## Segregation of *Duties*

- Segregating duties so one individual does not authorize, execute, and record a transaction
- Performing reconciliations of accounts

Helps to reduce the risk of inaccurate financial reporting and improper use of funds.



Best Practices



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## Review and *Approval*

- Adding a level of review and approval performed by a knowledgeable individual independent of the process
- Documenting approval
- Timely review

Helps to reduce errors and to detect irregularities and incomplete information.



Best Practices



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## Authorizing and *Training*

- Consistent training
- Limiting access to authorized personnel
- Documenting what employees can initiate purchases, approve purchases, and sign checks.



Best Practices



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## Summary Question – True or False

An appropriate way for ABC Company to limit inefficiencies within their information system is to give all employees administrative rights.

True or False



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## Specific Controls



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## Specific Controls

### Bank Accounts

- Limited number of accounts
- Use of an entity name, not an individual
- Limited number of check signers
- Monthly reconciliations
  - Timely review of reconciliation by an independent party
- Regular review of cancelled checks and statements



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# Specific Controls

## Cash Receipts

- Immediate endorsement of all receipts
- Cash on hand is held in a secure location
- Cash is deposited in a bank account on a timely basis
- Deposit detail is retained (deposit slips from bank or listing prepared internally)

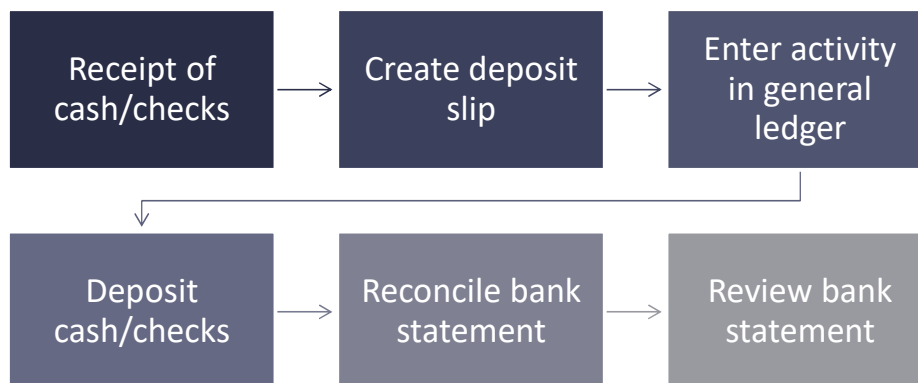


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## Cash Receipts

Cash receiving, processing, and recording functions are segregated between individuals



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# Specific Controls

## Disbursements

- Using pre-numbered checks
- No pre-signed checks
- Blank checks are securely stored
- Two signatures required on each check
- Alteration and retaining of voided checks
- Require adequate support (original invoices with proper authorization) before writing checks
- Capitalization Policy

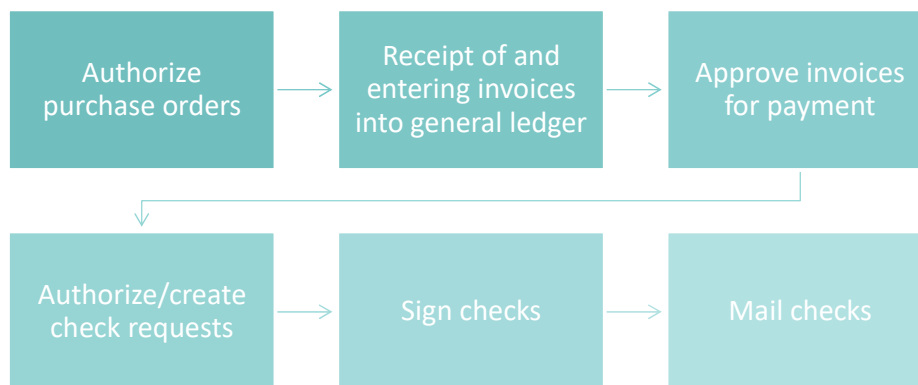


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## Cash Disbursements

Authorizing, processing, check signing, and recording functions are segregated between individuals



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## Summary Question – True or False

Segregating duties will make an organization more efficient.

True or False



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## Specific Controls

### Investments

- Custody of investments should be segregated from accounting personnel
- Use of independent custodians and investment managers
- Reconciliation of activity using investment statements
  - Timely review of reconciliation by an independent party
- Board approved Investment Policy



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# Specific Controls

## Receivables

- Specific approval required for all write-offs
- Allowance for doubtful accounts has special approval
- Regular review of delinquent accounts
- Reconciling accounts receivable aging to trial balance account(s)
  - Timely review of reconciliation by an independent party



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# Specific Controls

## Payroll

- Timesheets are maintained and approved by managers/supervisors
- New hires, terminations, wage changes, and payroll deductions are authorized
- Timely recording of payroll transactions

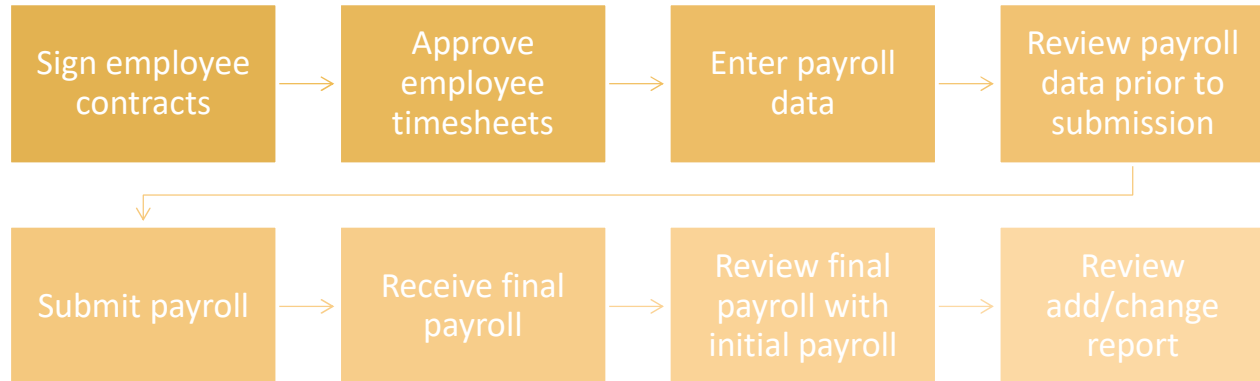


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# Payroll

Authorizing new employees, payroll approval, and recording functions are segregated between individuals



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## Specific Controls

### Payables

- All approved invoices and payments are promptly recorded in accounts payable register
- Unpaid invoices are tracked
- Invoices from unfamiliar or unusual vendors are reviewed and approved for payment
- Reconciling accounts payable aging to trial balance account(s)
  - Timely review of reconciliation by an independent party



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# Specific Controls

## Fundraising

- Thank-you letters to donors
- Internal tracking of donor restrictions
- Control access to safe
- Cash on hand is held in a secure location
- Regular reconciliation of donor databases to trial balance account(s)
  - Timely review of reconciliation by an independent party



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# Specific Controls

## Financial Reporting

- Budgets are prepared
- Financial statements are prepared on a timely, regular basis and presented to board members or management for review and discussion
- Data-retention policy
- Policy and procedures manuals



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## 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



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## 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

### President / Treasurer

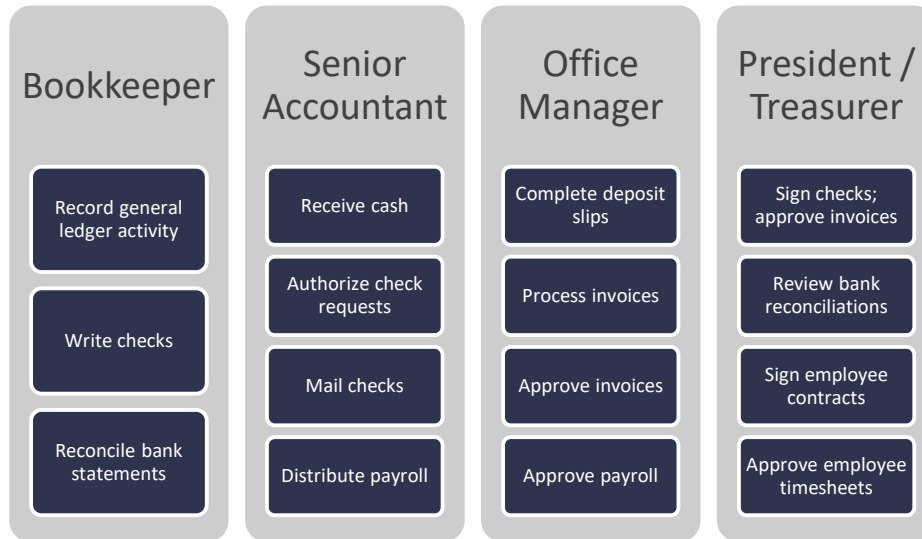
- Completes deposit slips
- Signs checks and performs bank transfers
- Review bank reconciliations
- Sign employee contracts



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## 4 Person Office



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## Summary Question – True or False

Timely reconciliations and financial statements review are key parts of a strong internal control system.

True or False



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# High Risks Areas for Fraud or Error

## Unsupported Journal Entries

*Recommended Control: Review of entry and supporting documentation by independent individual*

## Revenue

*Recommended Control: Reconciling fundraising software to trial balance account(s)*

## Cash

*Recommended Control: Timely bank reconciliations and safeguards for physical cash*

## Payroll

*Recommended Control: Reviewing payroll registers for fictitious employees and having supervisors approve timecards*



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# How to Segregate Duties With Limited Staff

## Board of Directors Involvement

- Sending Board of Directors monthly financial packets for review
  - Bank and investment account reconciliations
  - Manual journal entry reports
  - Payroll registers
  - Accounts payable and accounts receivable aging
  
- Member of the Board of Directors signs checks



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## Information Technology - Controls

- Unique logins and passwords
- Required vacation time
- Ensuring audit trail is capturing system activity
- External threats
- Banking controls (positive pay, FOB passwords, maximum thresholds for activities, etc.)
- Data recovery and back-ups of system activity



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## Remote Work Environment - Controls

- Re-evaluate and update policies and procedures documentation to account for virtual work environment
- Document approvals in electronic form
  - Invoice approval in PDF (DocuSign or Adobe functions)
  - Email approval
- Maintaining timely reconciliations
- Electronic receipt of invoices when available
- Ensure accounting system has appropriate (limited) user access
  - Limited administrative access



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## Remote Work Environment - Controls

- Review of user access listings to all systems
  - Removing terminated employees
- Use of Electronic Payments
  - ACHs and Wire Transfer
- Lockbox
  - Payments sent directly to a predetermined financial institution. Checks are posted based on reports received from bank.



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## Summary Question – True or False

Board of Directors should always take a hands-off approach to the internal control systems of their organization.

True or False



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## Key Takeaways



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## Questions?



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