

Reading and Understanding Nonprofit Financial Statements

CONTACT INFO

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MY FOCUS

SMBs and Non-profit entities

Accounting Systems

MY EXPERIENCE

35+ years accounting across nonprofits/SMBs. Last 10 years providing outsourced accounting with a focus on nonprofits. Sage Intacct certifications, 1st in the Nation AICPA Client Accounting Advisory certificate. He is also a Quickbooks Online Proadvisor & Qbix Enterprise Diamond Proadvisor

CL Davidson, CPA
Qbix Accounting Solutions



What does it mean to be a nonprofit?

- A nonprofit is an organization that uses surplus revenues to achieve its goals rather than distributing them as profit or dividends.
- The mission of the organization is the main goal, however profits are key to the growth and longevity of the organization.

Your Role in Financial Oversight

- Ensure that resources are used to accomplish the mission
- Ensure financial health and that contributions are used in accordance with donor intent
- Review financial statements
- Compare financial statements to budget
- Engage independent auditors

Cash Basis vs. Accrual Basis

- Cash Basis
 - Revenues and expenses are not recognized until money is exchanged.
- Accrual Basis
 - Revenues and expenses are recognized when an obligation is made.

Financial Statements

- Statement of Activities = Income Statement = Profit (Loss)
 - Measures the revenues against the expenses
 - $\text{Revenues} - \text{Expenses} = \text{Change in Net Assets} = \text{Profit (Loss)}$
- Statement of Financial Position = Balance Sheet
 - Measures the assets against the liabilities and net assets
 - $\text{Assets} = \text{Liabilities} + \text{Net Assets}$
- Statement of Cash Flows
 - Measures the changes in cash

Things to Consider

- Trends for both revenues and expenses
- Restrictions placed on revenues by donor/grantor
- Relationship between fundraising revenues and fundraising expenses
- Key revenue sources
- Largest expense categories

Imalittle Nonprofit

Cash Basis Statement of Financial Position			Accrual Basis Statement of Financial Position			
	12/31/2018	12/31/2017		12/31/2018	12/31/2017	Change
Cash	10,000	5,000	Cash	10,000	5,000	5,000
Accounts Receivable	-	-	Accounts Receivable	20,000	5,000	(15,000)
	<u>10,000</u>	<u>5,000</u>		<u>30,000</u>	<u>10,000</u>	
Fixed Assets	41,000	40,000	Fixed Assets	41,000	40,000	(1,000)
Accumulated Depreciation	<u>(20,000)</u>	<u>(19,000)</u>	Accumulated Depreciation	<u>(20,000)</u>	<u>(19,000)</u>	1,000
Net Fixed Assets	<u>21,000</u>	<u>21,000</u>	Net Fixed Assets	<u>21,000</u>	<u>21,000</u>	
Total Assets	<u>31,000</u>	<u>26,000</u>	Total Assets	<u>51,000</u>	<u>31,000</u>	
Accounts Payable	-	-	Accounts Payable	40,000	5,000	35,000
Accrued Payroll	-	-	Accrued Payroll	3,000	2,000	1,000
Note Payable	<u>9,000</u>	<u>10,000</u>	Note Payable	<u>9,000</u>	<u>10,000</u>	(1,000)
Total Debt	<u>9,000</u>	<u>10,000</u>	Total Debt	<u>52,000</u>	<u>17,000</u>	
Beginning Net Assets	16,000		Beginning Net Assets	14,000	-	
Change in Net Assets (Net Income)	<u>6,000</u>	<u>-</u>	Change in Net Assets (Net Income)	<u>(15,000)</u>	<u>-</u>	
Ending Net Assets	<u>22,000</u>	<u>16,000</u>	Ending Net Assets	<u>(1,000)</u>	<u>14,000</u>	
Total Debt and Net Assets	<u>31,000</u>	<u>26,000</u>	Total Debt and Net Assets	<u>51,000</u>	<u>31,000</u>	

Statement of Financial Position

- Accrual Basis
- Also includes breakdown of net assets
 - Unrestricted
 - Temporarily restricted (specific use only)
 - Permanently restricted (principal can never be used)

Cash Basis Statement of Activities			Accrual Basis Statement of Activities			Calculation
				Unrestricted	Restricted	
	FYE 12/31/2018			FYE 12/31/2018		
Revenues	70,000		Revenues	75,000		
			Restricted Revenues		10,000	
			Transfers to Unrestricted	<u>10,000</u>	<u>(10,000)</u>	
			Total Revenues	<u>85,000</u>	-	70000+15000
Expenses	53,000		Expenses	88,000		53000+35000
Depreciation	1,000		Depreciation	1,000		
Payroll	<u>10,000</u>		Payroll	<u>11,000</u>		10000+1000
Total Expenses	<u>64,000</u>		Total Expenses	<u>100,000</u>		
Change in Net Assets (Net Income)	<u>6,000</u>		Change in Net Assets (Net Income)	<u>(15,000)</u>		

Statement of Cash Flows		
Net Income (Loss)		(15,000)
Add non-cash depreciation		1,000
Items decreasing cash		
Accounts receivable change		(15,000)
Items increasing cash		
Accounts payable change		35,000
Accrued payroll change		<u>1,000</u>
Cash Flows from Operating Activities		<u>7,000</u>
Purchase of Equipment		<u>(1,000)</u>
Cash Flows from Investing Activities		<u>(1,000)</u>
Payment on Debt		<u>(1,000)</u>
Cash Flows From Financing Activities		<u>(1,000)</u>
Total Increase (Decrease) in cash		5,000
Beginning Cash		<u>5,000</u>
Ending Cash		<u><u>10,000</u></u>

Other Statements

Statement of Functional Expenses
Budget to Actual Statement of Activities

Nonprofit Sample, Inc.
Statement of Functional Expenses
For The Year Ended June 30, 20XX

	Program Services	Management & General	Fundraising	Total
Salaries and Wages	\$85,833.33	\$34,166.67	\$35,000.00	\$155,000.00
Rent	\$7,974.19	\$3,174.19	\$3,251.61	\$14,400.00
Employment Taxes	\$8,514.11	\$3,389.11	\$3,471.77	\$15,375.00
Utilities	\$3,722.43	\$1,481.74	\$1,517.88	\$6,722.06
Insurance Expense	\$8,254.65	\$3,285.83	\$3,365.97	\$14,906.45
Office Supplies and Expense	\$8,317.99	\$2,079.50	\$3,465.84	\$13,863.31
Professional Fees		\$3,375.55		\$3,375.55
Depreciations Expense	\$1,163.00	\$1,163.00		\$2,326.00
Interest Expense	\$460.34	\$183.24	\$187.71	\$831.30
Repairs and Maintenance	\$138.03			\$138.03
Fundraising			\$2,789.57	\$2,789.57
Travel Expenses	\$72.31			\$72.31
Postage	\$1,038.72	\$1,038.72		\$2,077.44
	<u>\$125,489.10</u>	<u>\$53,337.56</u>	<u>\$53,050.36</u>	<u>\$231,877.02</u>

Nonprofit Sample, Inc.
Budgeted Income Statement
Year-to-Date Variance, June 20XX

	12 Months Ended June 30, 20XX	12 Months Ended June 30, 20XX Budget	Variance Fav<Unf>	% Var
Income				
PROGRAM FEES	\$62,400.00	\$120,000.00	(\$57,600.00)	-48.0%
FUNDRAISING - EVENT	\$37,525.00	\$50,000.00	(\$12,475.00)	-25.0%
FUNDRAISING - RELIGIOUS DONATIONS	\$12,826.00	\$20,000.00	(\$7,174.00)	-35.9%
FUNDRAISING - DIRECT MAIL	\$7,724.00	\$20,000.00	(\$12,276.00)	-61.4%
FUNDRAISING - INDIVIDUALS	\$15,365.00	\$7,000.00	\$8,365.00	119.5%
GRANTS - ABOVE \$5,000	\$125,000.00	\$180,000.00	(\$55,000.00)	-30.6%
GRANTS - BELOW \$5,000	\$7,500.00	\$5,000.00	\$2,500.00	50.0%
TOTAL Income	\$268,340.00	\$402,000.00	(\$133,660.00)	-33.2%
***** GROSS PROFIT	\$268,340.00	\$402,000.00	(\$133,660.00)	-33.2%
Expenses				
HOURLY EARNING	\$150,000.00	\$210,000.00	\$60,000.00	28.6%
CONTRACT LABOR	\$5,000.00	\$1,500.00	(\$3,500.00)	-233.3%
PAYROLL TAXES	\$15,375.00	\$22,500.00	\$7,125.00	31.7%
ACCOUNTING	\$3,210.00	\$8,000.00	\$4,790.00	59.9%
BANK CHARGES	\$531.43	\$0.00	(\$531.43)	#DIV/0!
CREDIT CARD FEES	\$899.00	\$1,500.00	\$601.00	40.1%
EDUCATION	\$162.00	\$1,200.00	\$1,038.00	86.5%
DEPRECIATION	\$2,326.00	\$2,500.00	\$174.00	7.0%
EVENT COSTS	\$7,694.72	\$17,000.00	\$9,305.28	54.7%
DIRECT MAIL	\$2,789.57	\$7,000.00	\$4,210.43	60.1%
INSURANCE	\$10,711.65	\$13,500.00	\$2,788.35	20.7%
W/C INSURANCE	\$2,669.80	\$3,250.00	\$580.20	17.9%
INTEREST	\$831.30	\$0.00	(\$831.30)	#DIV/0!
LEGAL & PROFESSIONAL FEES	\$165.55	\$6,500.00	\$6,334.45	97.5%
LICENSE & FEES	\$434.14	\$1,000.00	\$565.86	56.6%
MAINTENANCE & REPAIR	\$138.03	\$500.00	\$361.97	72.4%
MEALS & ENTERTAINMENT	\$426.89	\$250.00	(\$176.89)	-70.8%
COMPUTER / I.T.	\$346.89	\$3,150.00	\$2,803.11	89.0%
OFFICE SUPPLIES	\$10,882.96	\$7,600.00	(\$3,282.96)	-43.2%
POSTAGE	\$2,077.44	\$600.00	(\$1,477.44)	-246.2%
RENT	\$14,400.00	\$14,400.00	\$0.00	0.0%
SUBSCRIPTION & DUES	\$170.00	\$200.00	\$30.00	15.0%
PROPERTY TAXES	\$10.00	\$10.00	\$0.00	0.0%
TELEPHONE	\$5,972.79	\$6,000.00	\$27.21	0.5%
TRAVEL	\$72.31	\$0.00	(\$72.31)	#DIV/0!
UTILITIES	\$749.27	\$1,200.00	\$450.73	37.6%
TOTAL Expenses	\$238,046.74	\$329,360.00	\$91,313.26	27.7%
***** NET PROFIT	\$30,293.26	\$72,640.00	(\$42,346.74)	-58.3%

Levels of Assurance

- Audited
 - Org statements subjected to confirmations and analytical review
- Reviewed
 - Org statements subjected to analytical review
- Compiled
 - Org statements which could be your statements
- Prepared
- Internally Prepared

Audit Report

We have audited the accompanying balance sheets of X Company as of December 31, 20X2, and the related statements of income, retained earnings, and cash flows for the years then ended. **These financial statements are the responsibility of the Company's management.** Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain **reasonable assurance about whether the financial statements are free of material misstatement.** An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the **financial statements referred to above, present fairly, in all material respects, the financial position of X Company** as of December 31, 20X2, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America



Reviewed Report

I have reviewed the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. **A review includes primarily applying analytical procedures to management's** financial data and making inquiries of company management. A review is **substantially less in scope than an audit**, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, **I do not express such an opinion.**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes **the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.**

My responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me to **perform procedures to obtain limited assurance** as a basis for reporting whether I am aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I believe that the results of my procedures provide a reasonable basis for our conclusion.

Based on my reviews, **I am not aware of any material modifications** that should be made to the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.



Compilation Report

I have compiled the accompanying statement of financial position of Orgname as of December 31, 2010, and the related statements of activity and cash flows for the year then ended. I **have not audited or reviewed** the accompanying financial statements and, accordingly, **do not express an opinion or provide any assurance** about whether the financial statements are in accordance with U.S. generally accepted accounting principles.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles and for **designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.**

My responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The **objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance** that there are no material modifications that should be made to the financial statements.

Prepared Reports

- Nonattest
- First Page (basis of statements)
 - *Substantially all disclosures and the statement of cash flows required by accounting principles generally accepted in the United States of America have been omitted.*
- Disclaimer on each page
 - *These financial statements and supplementary information have not been subjected to an audit, review or compilation engagement, and no CPA provides any assurance on them.*

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How to Prevent Theft from Your Nonprofit

AKA Internal Controls

CL Davidson CPA

Qbix Accounting Solutions



The COSO* Definition of Internal Control

Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance:

- Effectiveness and efficiency of operations
 - Reliability of financial reporting
 - Compliance with applicable laws and regulations
-
- Committee Of Sponsoring Organizations of the Treadway Commission

Simple Definition

Internal control is what we do to see that the things we want to happen **will** happen ...



And the things we don't want to happen **won't** happen.

Internal Controls *Are Common Sense*

- What do you worry about going wrong?
- What steps have been taken to assure it doesn't?
- How do you know things are under control?

Internal Controls are everywhere:

You exercise internal control principles in your personal life when you:

- Lock your house when you leave
- Keep copies of important papers in your safety deposit box
- Balance your checkbook
- Keep your ATM/debit card PIN number separate from your card
- Make travel plans

Objectives of Internal Controls

- **Strategic** – high-level goals and objectives, aligned with and supporting the mission.
- **Operational** – effective and efficient use of resources.
- **Reporting** – integrity and reliability of reporting.
- **Compliance** – compliance with applicable laws and regulations.
- **Stewardship** – protection and conservation of assets.

Business analysis, program design or ... think C.A.R.E.S.

- Compliance with applicable laws and regulations.
 - Accomplishment of the entity's mission (objectives and goals).
 - Relevant and reliable financial reporting.
 - Effective and efficient operations.
 - Safeguarding of assets.
- ► Can anyone think of anything in the business that is not impacted by internal controls?

Weak Internal Controls Increase Risk Through...

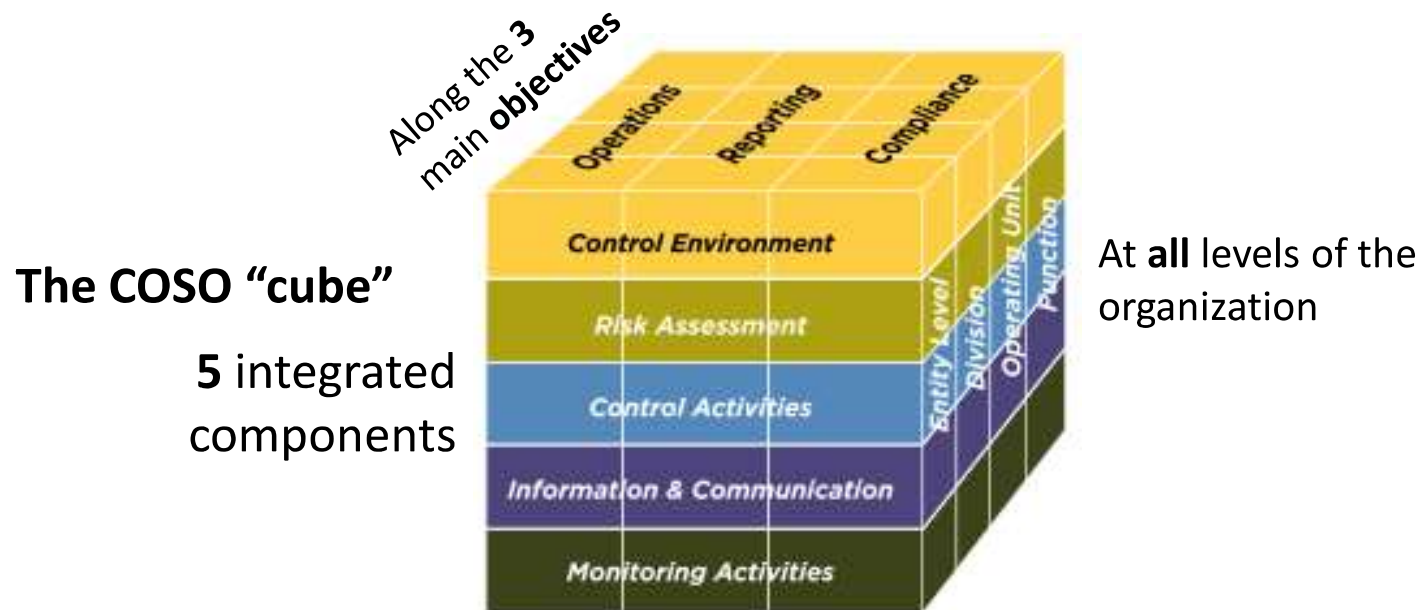
- Business Interruption - system breakdowns or catastrophes, excessive re-work to correct for errors
- Erroneous Management Decisions - based on erroneous, inadequate or misleading information
- Fraud, Embezzlement and Theft -by management, employees, customers, vendors, or the public at large
- Statutory Sanctions- penalties arising from failure to comply with regulatory requirements, as well as overt violations
- Excessive Costs/Deficient Revenues - expenses which could have been avoided, as well as loss of revenues to which the organization is entitled
- Loss, Misuse or Destruction of Assets -unintentional loss of physical assets such as cash, inventory and equipment

But too much of a good thing....

When looking at controls:

- More is not necessarily better
 - Controls that do not work together leaving holes
 - Cost of duplicated or inefficient controls.
 - Controls that do not align with the importance of the risks
- Complex and poorly implemented controls
 - Not understood or followed
 - Inconsistently applied
 - Control effectiveness can degrade over time
- No value for money
 - Controls cost money
 - Duplication of ineffective controls do not provide benefits

Updated COSO Framework



COSO cube – 5 Integrated Components

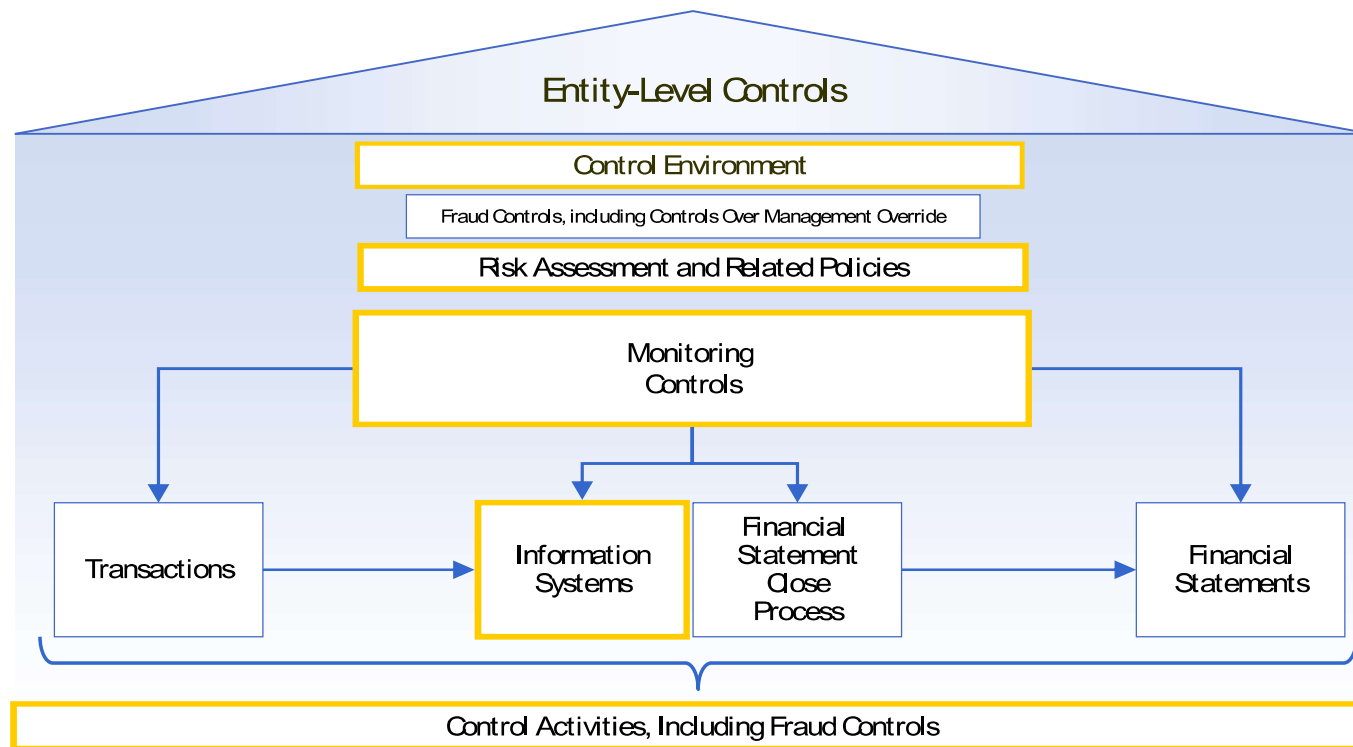


1. Control Environment

- The set of standards, processes, and structures that provide the basis for carrying out internal control
 - Comprises integrity and ethical values of the organization
-
- The Board and Senior Management - **and you!**
 - Establish **tone at the top**
 - Establish expected standards of conduct and reinforce expectations
 - Parameters enable the Board to carry out its governance oversight responsibilities
 - University tone at the top: [Policy 804, Standards of Ethical Conduct](#)

COSO cube – 5 Integrated Components

Control Environment for Financial Reporting



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The **Control Environment** should ensure controls are in place, covering areas such as:

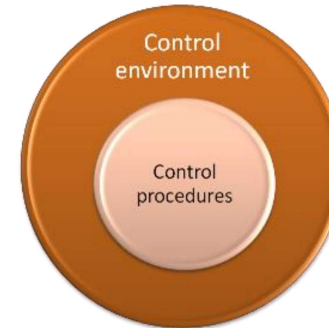
- Hiring practices
- Training programs
- Whistleblower policies
- Code of **Ethics**
- Clear lines of responsibility and authority
- Etc.



As part of our regular business processes, we should continually monitor and update the Control Environment for dynamic changes

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Difference between
Compliance v. Integrity Strategy:



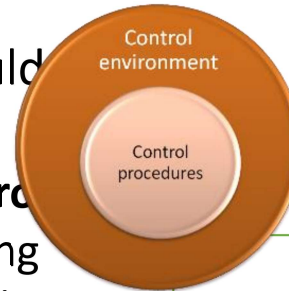
A **‘Compliance Strategy’** tries to prevent violations of regulations and self-interested behavior by employees by imposing standards of conduct that are intended to compel acceptable behavior.

An **‘Integrity Strategy’** seeks to create conditions that support right action by communicating the values and vision of the organization, aligning the standards of employees with those of the organization, and relying on the whole management team, not just lawyers and compliance officers.

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The **Control Environment** should be documented:

- **Process documentation/ control**
 - Determine extent of existing documentation; leverage this
 - Create new if no documentation exists
 - Update for changes in operations



Types of documentation that can be used:

- Process Narratives
- Organizational charts
- Flowcharts
- Questionnaires
- Memorandums
- Checklists

COSO cube – 5 Integrated Components



2. Risk Assessment

- Involves a dynamic and iterative process for identifying and assessing risks
 - Risk: the possibility that an event will occur and adversely affect the achievement of objectives.
-
- The Board and Senior Management (and you!)
 - Establish **objectives** linked at different levels of the entity
 - Must take holistic approach – look at the full organization
 - Apply internal control to achieve multiple objectives
 - Prevent domino effects, e.g., weakness in financial reporting that jeopardizes operations
 - Establish risk tolerances
 - Increasingly important when resources are constrained

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Risk Management

A **process** applied in a strategic setting and across the entity, designed to identify and **manage risks to stay within risk appetite/tolerance level**, to provide reasonable assurance about achieving entity goals and objectives.



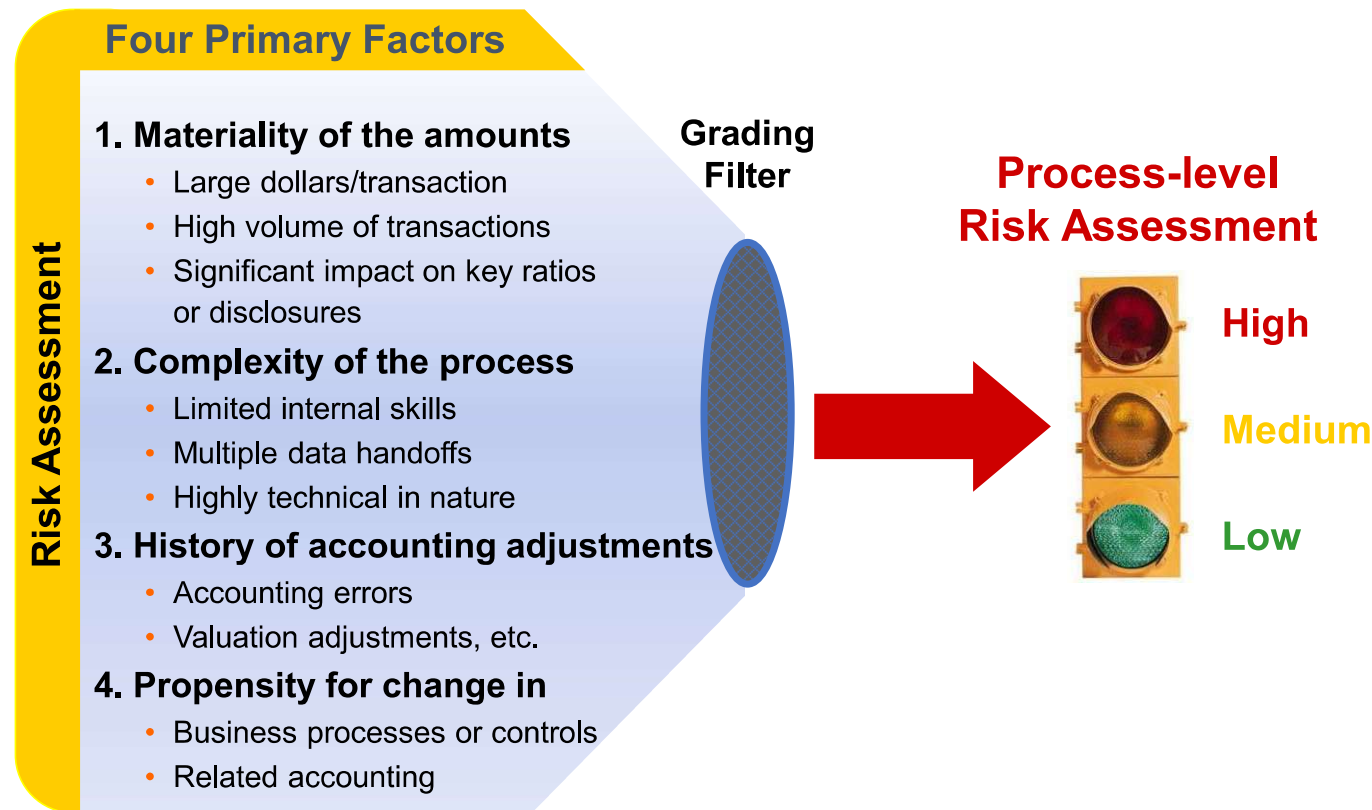
Risk Assessment

An **element of internal control** within the risk management process that enables management to identify and assess key risks to achieving its objectives; this **forms the basis on which control activities are determined**.

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Risk assessment

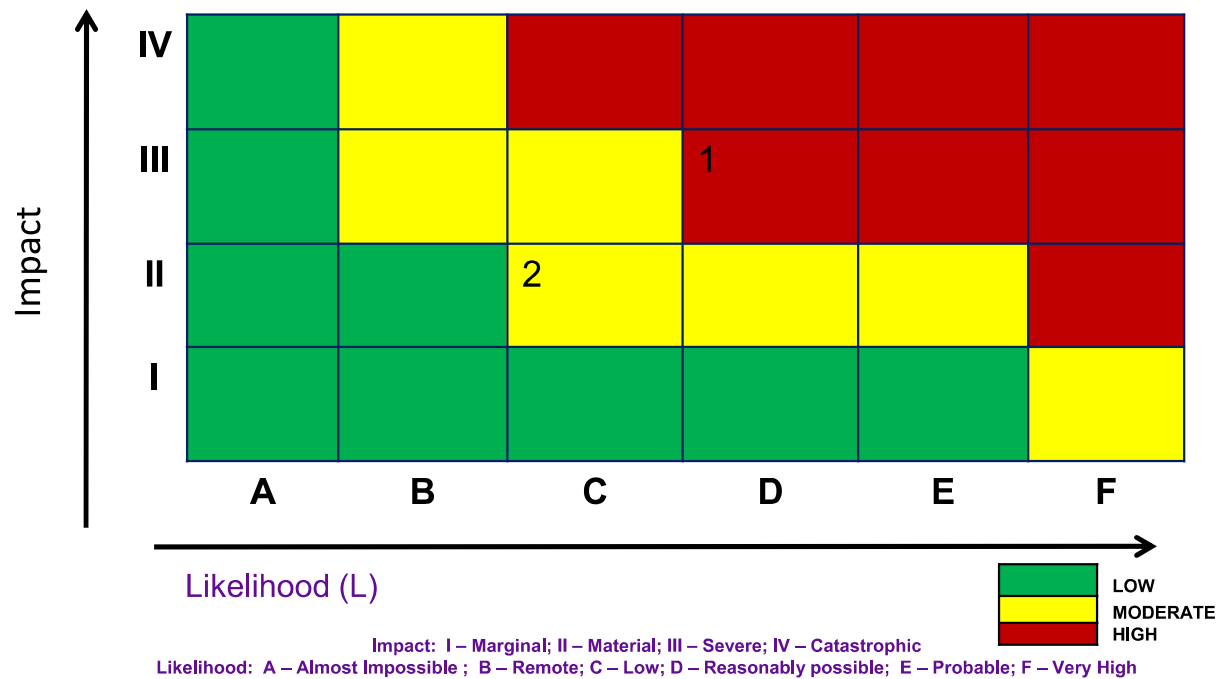
should occur at the business process level as well as the entity level.



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Risk Mapping

Consider the organization's risk tolerance and risk appetite related to the risk response



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Risk Strategies



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3. Control Activities

- The actions established through policies and procedures that help ensure management's directives to mitigate risks are carried out.
- Performed at all levels within the entity

Types:

- Preventive and detective and corrective
- Compensating
- Manual and automated

Examples:

- Approvals & Authorizations
- Embedded verifications
- Reconciliations
- Independent Reviews
- Asset security
- Segregation of duties

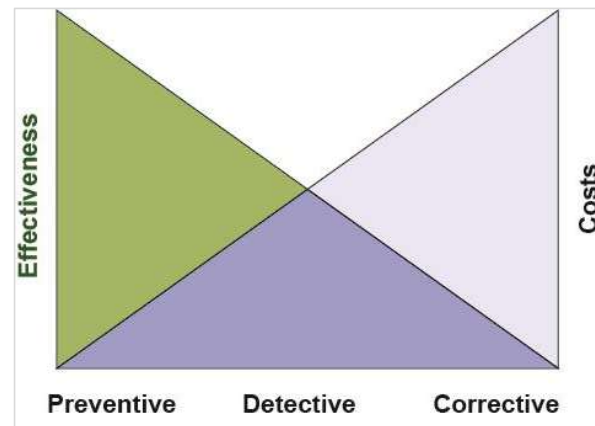
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Preventive Control

Prevents the occurrence of a negative event in a proactive manner

Examples:

- Approval for purchase > \$5,000
- Passwords for access to Banner
- Petty cash held in lockbox
- Security and surveillance systems
- Pre-numbered checks



Detective Control

Detect the occurrence of a negative event after the fact in a reactive manner

Examples:

- Supervisor review & approval
- Report run showing user activity
- Reconcile petty cash
- Physical inventory count
- Review missing/voided checks

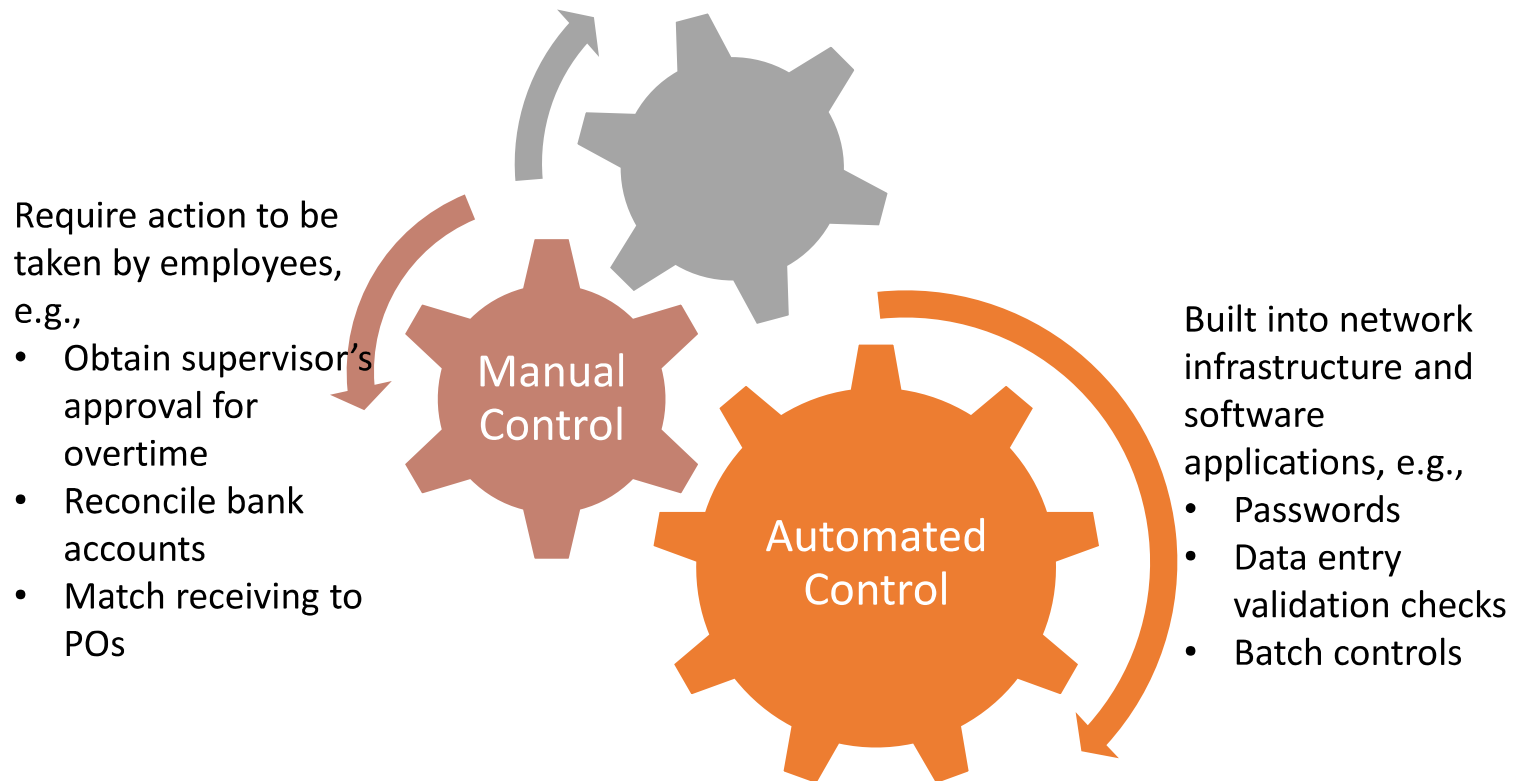
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Control Activities

- If a weakness or limitation exists within the control environment, a **compensating control** may be relied upon to mitigate the risk
- Can be preventive *or* detective
- Example: A unit does not have the staff resources to establish an adequate segregation of duties. Potential compensating controls could include:
 - Automation of certain transaction data that cannot be altered by the staff
 - Manager review of detailed summary reports of the transactions initiated by the staff
 - Peer staff and/or manager selects a sample of transactions and vouches back to supporting documentation

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Control Activities



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4. Information and Communication

- Information is necessary to carry out internal control responsibilities to support achievement of objectives
- Communication: the continual, iterative process of providing, sharing, and obtaining necessary information
- Internal and external
- Information should be timely, accessible, and allow for successful control actions



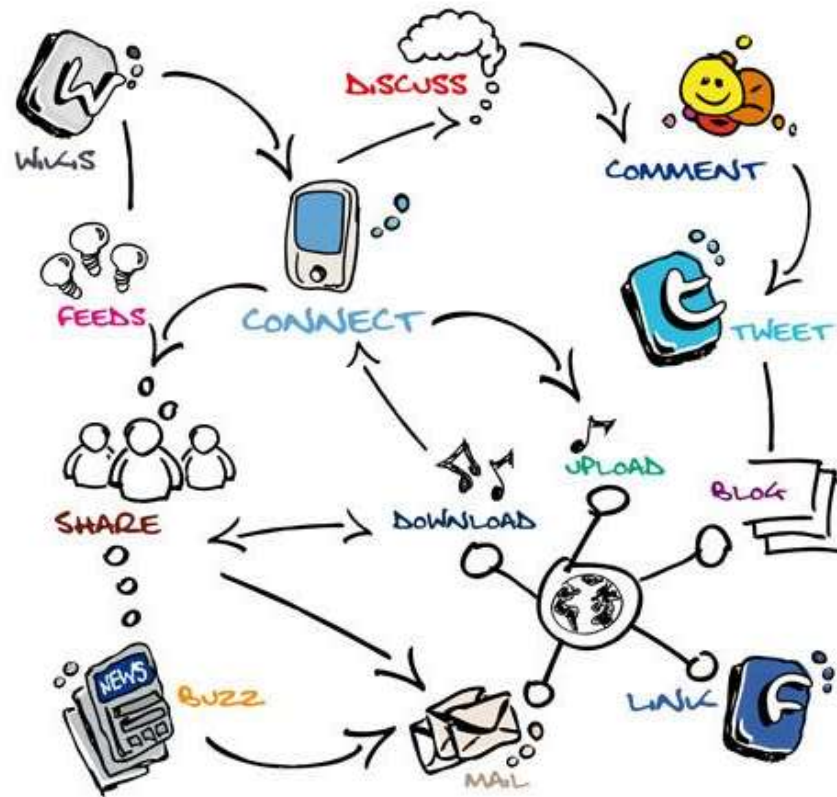
Key: To **communicate** the **right information** to the **right people** at the **right time**

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Information & Communication

Things to communicate:

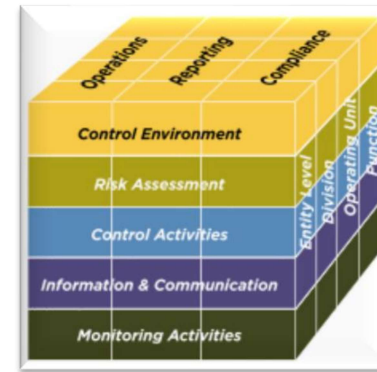
- Initiatives
- Goals
- Changes
- Opportunities
- Feedback
- Questions
- Answers
- Policies
- Procedures
- Standards
- Expectations



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5. Monitoring Activities

- Evaluations used to ascertain whether components of internal control are **present** and **functioning**
- *Ongoing* evaluations:
 - Built into business processes
 - Provide timely information
- *Separate* evaluations:
 - Conducted periodically
 - Vary in scope and frequency
 - Dependent on assessment of risks, effectiveness of ongoing evaluations, other management considerations



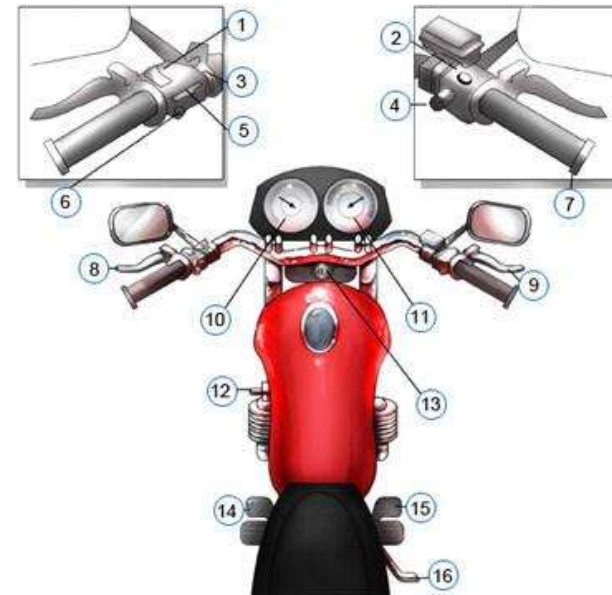
Findings are evaluated against relevant criteria

Deficiencies are communicated to the Board and Sr. Management

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Testing Control Processes

- **Identify**
 - transactions to be tested
 - key controls
 - applicable standards to test the transaction (i.e., criteria to judge compliance effectiveness)
- **Determine**
 - appropriate type of testing
 - extent of testing
- **Create** test plan
- **Conduct** tests for effectiveness
- **Document** testing and results
- **Assess** test results
- **Communicate** findings, recommendations



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Monitoring/Validating Controls

Deficiency in Design – A critical control is not properly designed, i.e., even if the control operates as designed, the control objective is not always met.



When validating control design (determining effectiveness):

- Consider various factors (**how** control is performed, **who** performs the control, **what** data/reports used in performing control, what physical evidence is produced from the control)
- Work off of process narratives, flowcharts, and any other relevant material obtained and/or completed in the **documentation** stage
- Be aware that application controls are either programmed control procedures (e.g., edits, matching, reconciliation routines) or computer processes (e.g., calculations, on-line entries, automatic system interfaces).

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Monitoring/Validating Controls

Deficiency in Operation – A properly designed control does not operate as intended, or the person performing the control does not possess the necessary authority or qualification to perform the control effectively.



- Testing operating effectiveness includes, in part:
 - Reviewing supporting documentation for proper authorization,
 - Reviewing the results of periodic reconciliations, and
 - Reviewing policies and procedures to determine if they are being followed.
- Use appropriate sampling techniques as necessary.

COSO cube – 5 Integrated Components

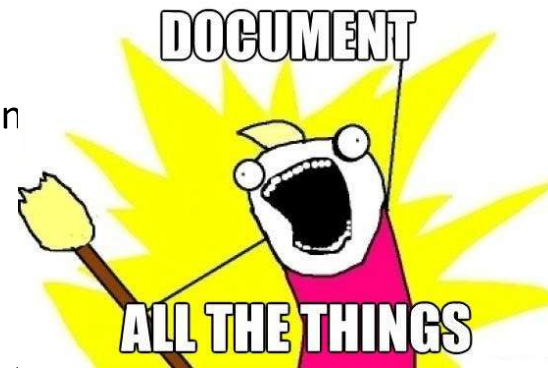
Monitoring/Validating Controls

Documentation should be maintained for:

- The evaluation of internal control at the entity and process levels
- What testing has been performed
- Identified deficiencies

Documentation must contain sufficient information to:

- Identify who performed the work and when
- Enable understanding of the nature, timing, extent, and results of the procedures performed
- Enable understanding of the evidence obtained
- Support the conclusions reached



Limitations of Internal Control

Even an effective system of internal control can experience a failure.

Limitations may result from:

- Suitability of established objectives
- Reality that human judgment in decision making can be faulty and subject to bias
- Breakdowns that can occur because of human failures such as simple errors
- Ability of management to override internal control
- Ability of management, other personnel, and/or third parties to circumvent controls through collusion
- External events beyond the University's control

Again, internal control provides *reasonable*, not absolute, assurance of achieving objectives.

Practical Implications

How can you incorporate internal controls within your current processes?



Connect



Identifying Key Controls

Determining Where Controls are Needed

First, must ...

Document the process!

1. Pick a method that suits the process: Flowchart or Narrative
2. Identify process owner and activity owners
3. Identify the key inputs, activities, outputs, and risk points
4. Identify policies that impact the process
5. Identify standards that may specify mandatory controls

Identifying Key Controls

Identifying Key Control Activities

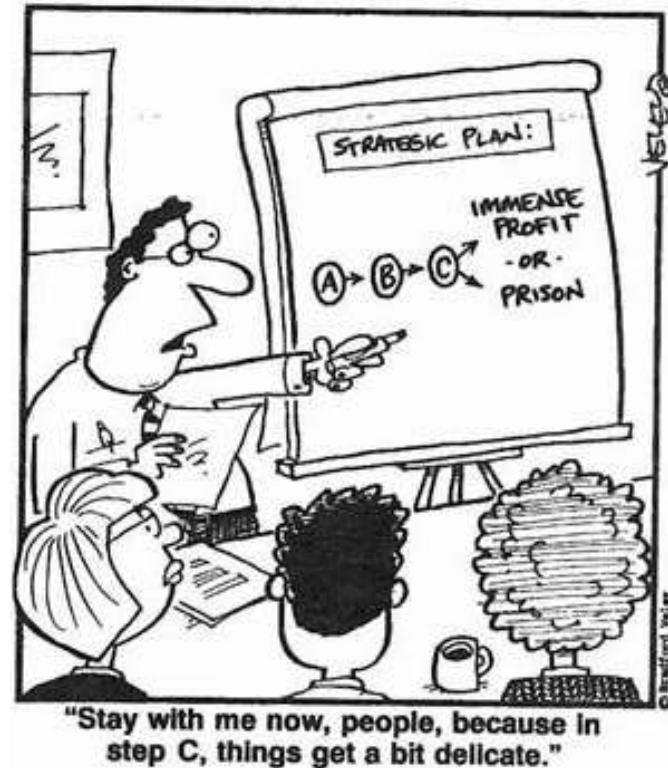
- Identify and document all controls associated with key processes
- Identify the characteristics of controls that, when functioning as intended, would provide the evaluator with a 'level of comfort' to conclude that the control is effective with respect to a given risk
- Consider control effectiveness by focusing on:
 - Directness and clarity of the control technique
 - Frequency with which the control technique is applied
 - Experience of personnel performing the control
 - Procedures followed when a control identifies an exception condition

Identifying Key Controls

Understanding Control Design

For internal controls over **financial reporting**, consider the following questions:

1. Will the control techniques help achieve the control objectives?
2. Will the controls mitigate risk to an acceptable level?
3. How do the related control objectives prevent or detect a potential misstatement?
4. How do potential misstatements affect the related financial report line item?



Identifying Key Controls

Common Basic Internal Control Principles



Establish Responsibility

- Assign each task to only one person



Segregate Duties

- Don't make one employee responsible for all parts of a process



Restrict Access

- Don't provide access to systems, information, assets, etc. unless needed to complete assigned responsibilities



Document Procedures and Transactions

- Prepare documents to show that activities have occurred



Independently verify

- Check others' work

Identifying Key Controls

Understanding Control Design

Good Controls are:

- Focused
- Integrated
- Accurate
- Simple
- Accepted
- Cost Effective



Key Points

- Need to connect **Objectives, Risks, and Controls**
- **Five interrelated components** of Internal Control
 1. Control Environment
 2. Risk Assessment
 3. Control Activities
 4. Information and Communication
 5. Monitoring
- Along **3 main objectives**
 - Operations
 - Reporting
 - Compliance
- Across the **organization, down to the process** functions
- No silver bullet
- Should accompany process **documentation** efforts



NC woman accused of embezzling from nonprofit

PENDER COUNTY, N.C. — A former American Cancer Society employee was arrested after authorities allege she embezzled more than \$68,000 from the non-profit organization.

[WECT-TV reported](#) that Wendy Perdue of Hampstead opened a personal account last November under the American Cancer Society's Relay for Life name, which was never authorized.

The suspect is accused of depositing donations to the organization into the account and withdrawing money for personal use.

Perdue was arrested Thursday and charged with 10 counts of embezzlement. Authorities said she was placed in the Pender County Jail in lieu of a \$60,000 secured bond.

[StarNewsOnline.com](#) reported that the suspect is a former employee for the organization, but it remains uncertain when she started and ended.

Officials with the nonprofit said they are saddened by the incident.

"I think our donors know that this was the action of one individual who chose to act unethically," said Kari Dahlstrom, a spokesperson for the American Cancer Society in North Carolina, according to the paper. "In no way does it reflect our organization or the hard work our volunteers are doing in the community."

What would stop this from happening again?

- Mail opening should be done by 2 people?
- Person recording contributions should be different from person depositing
- Person recording should be sending contribution statements
- Other ideas

Former Financial Officer of Non-Profit Charged with Embezzling over \$1.3 Million

BOSTON – The former financial officer of a Boston-based non-profit was arrested today and charged in connection with a fraud and embezzlement scheme that netted over \$1.3 million dollars.

Nicole Lescarbeau, 51, of Canton, was charged in an indictment unsealed today with three counts of wire fraud, five counts of bank fraud, and one count of aggravated identity theft. Lescarbeau was arrested this morning and will appear before U.S. Magistrate Judge Judith Dein this afternoon.

As alleged in the indictment, Lescarbeau served as the financial officer of a small, Boston-based non-profit organization. Her duties included managing incoming invoices, paying bills by check and wire transfer, using and paying credit cards, financial account maintenance, and bookkeeping. As a result, Lescarbeau had access to the non-profit's checkbook, bookkeeping and accounting software, and online bank accounts.

From August 2013 until her termination in January 2018, Lescarbeau stole funds from the non-profit for her personal use. Specifically, Lescarbeau wrote unauthorized checks to herself using the non-profit's accounting software and affixed the signatures of the authorized signers on the account. It is also alleged that Lescarbeau repeatedly logged on to the non-profit's online bank accounts and directed unauthorized payments and transfers for her personal benefit, and that she made unauthorized personal charges using the non-profit's business credit cards. In total, Lescarbeau embezzled approximately \$1,389,317 from the non-profit organization.

What would stop this from happening again?

Former Warner Robins medical employee indicted in \$1.2 million embezzlement case

- The former office manager of a Warner Robins surgical practice was indicted Wednesday on charges that she embezzled more than \$1.2 million from her former employer.
- Maria Elizabeth Trenam is accused of embezzling the money from Surgical Associates of Warner Robins from March 31, 2011 to Aug. 11, 2015, according to the federal indictment.
- As the officer manager, Trenam had access to banking and financial records of the business, could write checks on business accounts and had access to signature stamps of the doctors, according to the indictment. She also had a business credit card and handled the payroll for employees.
- "The doctors trusted (Trenam) to the extent that there was little oversight of her activities as the officer manager," the indictment said.
- Trenam is accused of using her position to make unauthorized cash withdrawals at ATMs using the business credit card assigned to her, of writing unauthorized checks to herself on business accounts using the signature stamps of the doctors and of increasing her salary without authorization.
- Trenam also is accused of using the business credit card to make unauthorized purchases and for travel and entertainment.
- The alleged unauthorized purchases with the business credit card ranged from the Apple online store and hotel rentals, including from one in Las Vegas, to purchases at a Kroger in Warner Robins. A \$600 cash withdrawal with the business card also was among the alleged transactions outlined in the indictment.

What would stop this from happening again?