Cash and Internal Controls For SDA Organizations

PRESENTATION FOR TREASURERS
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Internal Controls:

Organizational procedures designed to ensure compliance with organizational policies.
Purpose of Internal Control

The purpose of financial internal control is to:

1. Protect the assets of the organization
2. Ensure the reliability of the accounting records
Purpose of Internal Control

For the reliability of the accounting records, internal control should reduce the risk of:

Misstatement due to error

Misstatement due to fraud
  • Fraudulent financial reporting ("cooking the books")
  • Misappropriation of assets (theft)
Trust violated in church-related organizations is more damaging than trust violated in perceived “strictly business” corporations

Example: Jim Bakker and the PTL organization
The Control Environment

Control Pressure Points:

Pressures on the individual

Perceived Opportunity

Rationalization
A “third-party” is needed to overcome the “perceived opportunity” because the organization cannot control “pressures on the individual” or the ability of the individual to “rationalize” any actions.

This “third party” can take many varied forms.
The most common forms of internal control are:

1. Control Cues
2. Policy Communication
3. Record Keeping
4. Budgets
5. Reporting
6. Segregation of Duties
Control Cues:

The signals that management and the Board send about the importance of safeguarding the assets and the accuracy of financial reporting.

Example: Keeping the cash in a secured vault
Elements of Internal Control

Policy Communication:

Written policies/procedure manuals
Communication via technological means
Elements of Internal Control

Record Keeping:

*Common examples of good practices:*

- Pre-printed, pre-numbered accountable forms for cash receipts and cash disbursements
- Log book for accountable forms
- Signing the “AKT”
Elements of Internal Control

Additional examples of good practices:
Use of imprest petty cash system for cash disbursements
Documentation of all transfers of funds
Use of passwords for computer records
Use of a cash register if the organization sells products
Budgets:

Constant monitoring of the budget and investigation of any significant variations from the plan are effective forms of financial control.
Reporting:

Management should require regular monthly reports on the financial status of the organization.
Elements of Internal Control

Regular reports to management include:

Statement of Financial Position
Revenue and Expense Statements
Cash Flow Projections
Utilization Reports (such as payroll reports or daily cash reports)
Segregation of Duties:

Establish responsibility for each task to one person

Separate the record keeping for the asset from the custody of the asset
Specifics for Segregation of Duties

Cash Receipts:

Use pre-numbered receipts
Be sure that no single person is responsible for all aspects of the transaction
Keep the cash in a safe place
Specifics for Segregation of Duties

Cash Disbursements:

Limit the number of people who disburse cash and have access to the cash disbursements records.

In many countries, the bank is the “third party” to provide controls over cash disbursements.
Cash Disbursement Procedures for ESD:

Use purchase requisitions for all purchases of inventories and services

Charge advances for purchases to the employee’s advance account
Specifics for Segregation of Duties

Purchase inventory and services from reputable business establishments where invoices and receipts are generated at the time of purchase

Centralize purchase of inventory or services for better control
Specifics for Segregation of Duties

Match reports of purchases with approved purchase requisitions

Encourage payment of purchases through the bank

Require a copy of the travel authorization for reimbursement of travel reports
Imprest Petty Cash:

- Keep the amount small
- Reimburse monthly
- No more than one or two custodians
- Custodians should have no access to the accounting records or cash receipts
Two-Person Segregation: Accountant and CFO

**Accountant:**
- Post accounts receivable
- Mail checks
- Write checks
- Post general ledger
- Reconcile bank statements
- Post credits/debits
- Give credits and discounts
- Approve payroll
- Open mail/receive cash
- Disburse petty cash
- Authorize purchase orders
- Authorize check requests
- Authorize invoices for payment

**CFO:**
- Sign checks
- Sign employee contracts
- Custody of securities
- Complete deposit slips
- Perform interfund transfers
- Distribute payroll
- Reconcile petty cash
- Record initial charges/pledges
- Approve employee time sheets
- Prepare invoices
- Complete check log
Elements of Internal Control

Three Person Segregation:  CFO, Accountant, Bookkeeper

**CFO**
- Sign checks
- Sign employee contracts
- Custody of securities
- Complete deposit slips
- Perform interfund transfers

**Accountant**
- Prepares invoices
- Records initial charges/pledges
- Opens mail/receives cash
- Mails checks
- Approves invoices for payment
- Distributes payroll
- Authorizes purchase orders
- Authorizes check requests
- Approves employee time sheets
Elements of Internal Control

Three Person Segregation: CFO, Accountant, Bookkeeper

**Bookkeeper:**
- Post accounts receivable
- Reconcile petty cash
- Write checks
- Post general ledger
- Reconcile bank statements
- Post credits/debits
- Give credits and discounts
Ineffective controls with primary reliance on the employees’ sense of moral duty. Don’t depend on trust alone.

Dominant leadership who does not wish to give authority to a control system.

Overemphasis on enterprise goals which may override good business judgment.
Pressure Point Signals

Lack of accounting orientation or education among staff.

Failure to operate in a business-like fashion; a temptation for largely humanitarian organizations.
Negative viewpoints regarding the accounting function. Overcome this attitude with good records and up-to-date reconciliation of the accounts.

Over-reliance on one individual in the accounting function. Remedy: Segregation of duties.

Volunteer boards; failure to require an audit.
Provisions established by Sarbanes/Oxley (2002) that non-profits are incorporating:

CEOs and CFOs personally certify that financial statements and disclosures are accurate and complete.

Audit committees, composed of independent members and members with financial expertise, are required.
Lessening the Chance of Fraud

**Establishment of a code of ethics for senior financial officers**

**Requirement that management attest to the effectiveness of the organization’s internal controls**
Example: The Local Church
Recommended internal control procedures for a local church:

- Have more than one person count the cash collected at the service
- Maintain more than one record of the amount of cash received at the service
The Local Church: A Special Situation

- Deposit the collected cash in a safe, locked location until it can be transported to the Conference office

- Deposit the weekly contributions intact

- Local church cash expenditures should be made through the use of an imprest petty cash fund
The Local Church: A Special Situation

- Members using tithe envelopes should receive periodic reports of total amounts donated to the church.

- Monthly reports of local church finances should be made to the local church board. These reports should be in sufficient detail to disclose major variations in income and expense.
The Local Church: A Special Situation

- Local church audits should be performed
Thank you! Are there any questions?

