Internal Controls For SDA Organizations

INTERNAL CONTROLS
FOR SDA CONFERENCES, UNIONS, AND CHURCHES

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The purpose of Internal Control:

- Reduce the Risk of:
  - Misstatement due to error
  - Misstatement due to fraud
    - Fraudulent financial reporting (“cooking the books”)
    - Misappropriation of assets (theft)
Charisma Factors

- Principles to practice for avoiding falling prey to these individuals:
  - Maintain an attitude of professional skepticism
  - Investigate what does not make sense
  - Beware of trust over reason
  - Avoid placing faith in other people’s faith
  - Be wary of limited time offers or exclusive status (i.e. affinity fraud)

Allen and Romney (1998)
The Control Environment

Control Pressure Points:

- Pressures on the individual
- Rationalization
- Perceived Opportunity
Six Elements of Internal Control

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

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

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

3. Segregation of Duties:

- Establish responsibility for each task to one person
- Separate the record keeping for the assets 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
- Deposit the cash in the bank as quickly as possible—preferably daily
Specifics for Segregation of Duties

Cash Disbursements:

Make all disbursements by check
Use pre-numbered checks; use them in order
Store blank checks in a secure location
No checks should be made out to “Cash” or “Bearer”
Only authorized individuals should sign the checks
Petty Cash:

Use as infrequently as possible
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
“Basically my job is to receive the buck, make copies of it, classify it, crossreference it, record it, and then pass it on.”

Six Elements of Internal Control

Two-Person Segregation: Accountant and CFO

Accountant: CFO:
Post accounts receivable Sign checks
Mail checks Sign employee contracts
Write checks Custody of securities
Post general ledger Complete deposit slips
Reconcile bank statements Perform interfund transfers
Post credits/debits Distribute payroll
Give credits and discounts Reconcile petty cash
Approve payroll Record initial charges/pledges
Open mail/receive cash Approve employee time sheets
Disburse petty cash Prepare invoices
Authorize purchase orders Complete check log
Authorize check requests
Authorize invoices for payment
Six 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
Six 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
Case Examples:

Writing and signing checks

Approving payroll
4. Record Keeping:

Common examples of good practices:
Pre-printed sales invoices, cash receipts, checks
Use of an imprest petty cash system
Use of check protectors
Use of passwords for computer records
Use of a cash register cash sales
5. Budgets:

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

Management should require regular monthly reports on the financial status of the organization.
Regular reports to management include:

- Statement of Financial Position
- Revenue and Expense Statements
- Aged Accounts Receivable
- Cash Flow Projections
- Utilization Reports (such as payroll and related employee benefit cost reports or similar usage reports)
Internal Control Pressure Point Signals

- Ineffective Controls
- Dominant Leadership
- Overemphasis on Enterprise Goals
- Lack of Accounting Orientation or Education
Internal Control Pressure Point Signals

- Failure to Operate in a Business-like Fashion
- Negative Viewpoints Regarding the Accounting Function
- Over-Reliance on One Individual
- Volunteer Boards
Provisions established by Sarbanes/Oxley (2002):

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

- Establishment of an audit committee, composed of independent members and members with financial expertise
Lessening the Chance of Fraud

Provisions established by Sarbanes/Oxley (2002) continued:

- Requires a code of ethics for senior financial officers
- Requires that management attest to the effectiveness of the organization’s internal controls
Lessening the Chance of Fraud

Lambert/Main/Lambert Recommendations:

1. Don’t depend on trust alone
2. Remove the opportunity
3. Reconcile the accounts
4. Be sure the Board fulfills its duties
5. Keep good records
6. Get help
7. Require an audit
Case Example
Recommended control procedures for a small organization:

- Record all cash receipts immediately
- Deposit all cash receipts intact daily
• Make all payments by serially numbered checks; use an imprest petty cash system for small disbursements

• Reconcile bank accounts monthly; retain copies of the reconciliations

• Use serially numbered receipts
• Issue checks to vendors only in payment of approved invoices that have been matched to appropriate documents and are approved for payment.

• Balance any subsidiary ledgers with the control accounts on a monthly basis.

• Prepare comparative financial statements monthly for reporting to the Church Board.
Questions?