Cash and Internal Controls For SDA Organizations

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Internal Controls:

Organizational procedures designed to ensure compliance with organizational policies.

The purpose of *financial internal control* is to:

- 1. Protect the assets of the organization
- 2. Ensure the reliability of the accounting records

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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)

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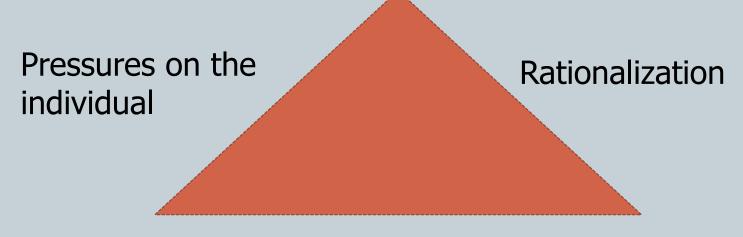
Trust violated in church-related organizations is more damaging than trust violated in perceived "strictly business" corporations

Example: Jim Bakker and the PTL organization

The Control Environment

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Control Pressure Points:



Perceived Opportunity

The Control Environment

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.

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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

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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



Policy Communication:

Written policies/procedure manuals Communication via technological means



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"

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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

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Budgets:

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

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Reporting:

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

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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)

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Segregation of Duties:

Establish responsibility for each task to one person

Separate the record keeping for the asset from the custody of the asset



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

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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

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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

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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

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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



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



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

Pressure Point Signals

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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

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Lack of accounting orientation or education among staff.

Failure to operate in a business-like fashion; a temptation for largely humanitarian organizations.

Pressure Point Signals

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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.

Lessening the Chance of Fraud

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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

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Establishment of a code of ethics for senior financial officers

Requirement that management attest to the effectiveness of the organization's internal controls

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Example: The Local Church

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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

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- 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

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 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

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Local church audits should be performed

Thank you!

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Thank you! Are there any questions?

References

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