

Internal Controls For SDA Organizations



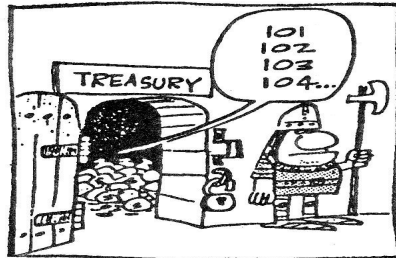
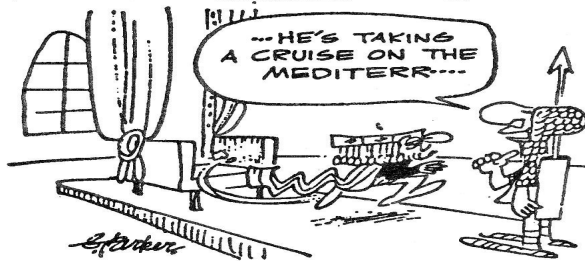
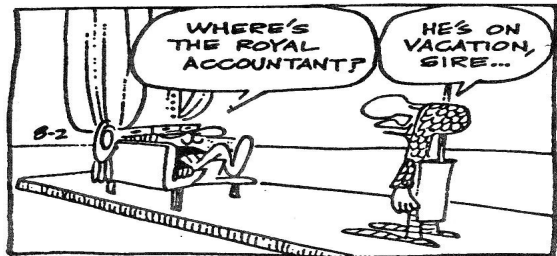
**INTERNAL CONTROLS
FOR SDA CONFERENCES, UNIONS, AND CHURCHES**

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Purpose of Internal Control

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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

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- 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

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Control Pressure Points:

Pressures on the individual

Rationalization

Perceived Opportunity



Six Elements of Internal Control

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

Six Elements of Internal Control

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1. Control Cues:

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

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2. Policy Communication:

Written policies/procedure manuals

Communication via technological means

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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

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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

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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

Specifics on Segregation of Duties

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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.”

Cartoon by Ed Arno; © 1991, *Harvard Business Review*. Reprinted by permission of Ed Arno.

Six Elements of Internal Control

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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

Six Elements of Internal Control

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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

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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

Six Elements of Internal Control

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Case Examples:

Writing and signing checks

Approving payroll

Six Elements of Internal Control

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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

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5. 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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6. 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
- 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

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- Ineffective Controls
- Dominant Leadership
- Overemphasis on Enterprise Goals
- Lack of Accounting Orientation or Education

Internal Control Pressure Point Signals

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- Failure to Operate in a Business-like Fashion
- Negative Viewpoints Regarding the Accounting Function
- Over-Reliance on One Individual
- Volunteer Boards

Lessening the Chance of Fraud

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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

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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

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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

The Local Church: A Special Situation

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- Case Example

The Local Church: A Special Situation

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Recommended control procedures for a small organization:

- Record all cash receipts immediately
- Deposit all cash receipts intact daily

The Local Church: A Special Situation

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- 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

The Local Church: A Special Situation

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- 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?