

Cash and Internal Controls For SDA Organizations

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Purpose of Internal Control

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Internal Controls:

Organizational procedures designed to ensure compliance with organizational policies.

Purpose of Internal Control

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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

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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)

Purpose of Internal Control

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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:

Pressures on the
individual

Rationalization

Perceived Opportunity



The Control Environment

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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.

Elements of Internal Control

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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

Elements of Internal Control

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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

Elements of Internal Control

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Policy Communication:

Written policies/procedure manuals

Communication via technological means

Elements of Internal Control

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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

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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

Elements of Internal Control

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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.

Elements of Internal Control

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Reporting:

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

Elements of Internal Control

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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)

Elements of Internal Control

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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

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

Keep the cash in a safe place

Specifics for Segregation of Duties

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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

Specifics for Segregation of Duties

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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

Specifics for Segregation of Duties

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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

Specifics for Segregation of Duties

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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

Specifics for Segregation of Duties

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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

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

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

Elements of Internal Control

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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

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

The Local Church: A Special Situation

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Example: The Local Church

The Local Church: A Special Situation

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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

The Local Church: A Special Situation

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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

The Local Church: A Special Situation

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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

The Local Church: A Special Situation

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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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