

**McDONALD JACOBS**

ACCOUNTANTS & CONSULTANTS

# FISCAL POLICIES & PROCEDURES

## AN ACTIONABLE ROAD MAP TO SUCCESS

October 24, 2019

## Credit card fraud at local Beaverton church

<https://katu.com/news/local/man-sentenced-to-4-years-in-prison-for-stealing-nearly-50000-from-beaverton-church>

## Private school & church embezzlement

[https://www.kptv.com/news/business-manager-indicted-on-embezzling-from-portland-private-school/article\\_d408693c-e2fa-59b9-a929-2379258d3997.html](https://www.kptv.com/news/business-manager-indicted-on-embezzling-from-portland-private-school/article_d408693c-e2fa-59b9-a929-2379258d3997.html)



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# Objectives

- Framework for evaluating fiscal procedures
- Actionable steps to becoming better stewards
- Helpful resources for improving financial systems and fiscal oversight

- What do we mean by fiscal policies and procedures?
  - ▣ **Fiscal responsibility** – oversight of financial resources
  
  - ▣ **Financial policies** - the documentation supporting those procedures
  
  - ▣ **Financial procedures** – the internal control activities

- Importance of fiscal and financial policies and procedures
  - Limiting risk of error or fraud
    - When there are laps in internal controls, it opens the organization up to risks.
  - Timely and accurate financial reporting to Finance Committee, Vestry and Management to make decisions



## ▣ Fraud statistics

- 5% of worldwide revenues are lost to fraud
- Median loss of \$75,000
- Tenure:
  - 44% 1-5 years \$100,000
  - 24% 10+ years: \$142,000
- Gender
  - Men 69%
  - Women 31%





# Fraud Concerns

**Internal control weakness are responsible for almost half of the cases.**

**Oftentimes, the schemes are of low sophistication**

Billing and cash receipts - 40%

Corruption -34%

Expense reimbursements - 29%

Payroll - 22%

Cash on Hand - 22%

Check tampering -19%



# Board's Responsibility

- Questions that the Board and Management should be asking
  - Are resources for financial oversight adequate?
  - Does one person have excessive control over any one operational aspect?
  - Do volunteers have access to confidential information?
  - Who has access to the bank/investment accounts?
  - Are bank reconciliations performed timely?
  - Are deposits made timely?
  - What is the level of segregation of duties?
  - Are invoices paid timely?





# Challenges

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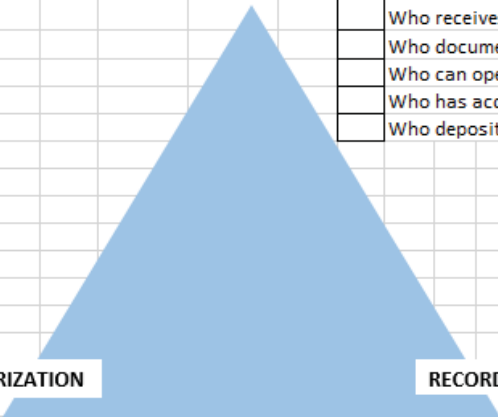
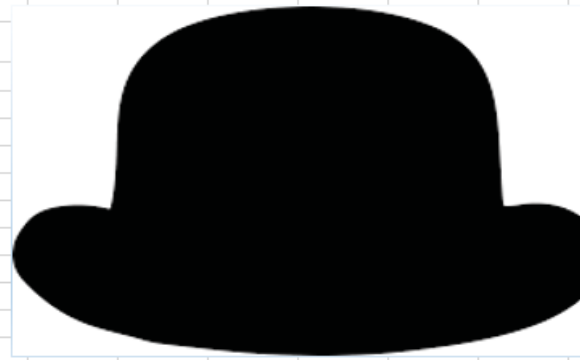


- ▣ Limited resources and often volunteers in financial positions
- ▣ Internal controls are often built-in inefficiencies
- ▣ Internal control changes often require difficult conversations
- ▣ Internal controls are not generally what everyone gets excited about!
- ▣ Tracking donor restrictions and internal designations

# Walking through worksheets

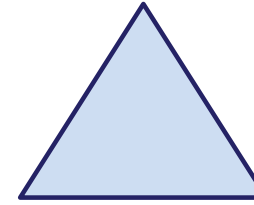
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- Cash Disbursements, Cash Receipts, Payroll, and Financial Close
- Segregation of Duties – triangle
- Auditor's Hat
- Key Controls

# Walking through worksheets

<p>SEGREGATION OF DUTIES</p> 		<p><b>CASH RECEIPTS</b></p>		<p><b>AUDITORS' HAT</b></p>	
<p><b>CUSTODY</b></p> 		<p>Who receives mail?</p> <p>Who documents and counts the receipt of cash?</p> <p>Who can open a bank account?</p> <p>Who has access to bank accounts?</p> <p>Who deposits the cash receipts</p>			
<p><b>AUTHORIZATION</b></p>		<p><b>RECORD KEEPING</b></p>			
<p>Who has authority to open bank accounts?</p> <p>Who's reviewing bank reconciliation?</p> <p>Who's approving voids or credit memos?</p> <p>Who is reconciling actual deposit to receipts log?</p>		<p>Who records the cash receipts in accounting?</p> <p>Who records the cash receipts in donor database?</p>		<p>??? Can the same person receive cash, enter cash, and then reconcile bank?</p> <p>??? If someone pocketed cash, how would this be detected?</p> <p>??? If someone signed over a significant donation to themselves, how would t</p> <p>??? Are there cash accounts that are used infrequently?</p> <p>??? What would detect significant 'plugs' or journal entries to cash accounts</p>	
 <p><b>KEY CONTROLS - BEST PRACTICES</b></p> <p><b>KEY CONTROLS</b></p> <p>Two people count cash receipts</p> <p>Checks are restrictively endorsed and tallied on a cash log</p> <p>Accounting staff records cash receipts, independent of entry to cash log</p> <p>Credit memos and/or voids are authorized by someone without access to cash custody</p> <p>Original statements with check images are received/reviewed by check signer</p>		 <p><b>NOTES</b></p>			

# Segregation of Duties



- Main controls used are segregation of duties
  - ▣ Authorization
  - ▣ Access
  - ▣ Recording

These duties as they relate to financial processes should not be combined

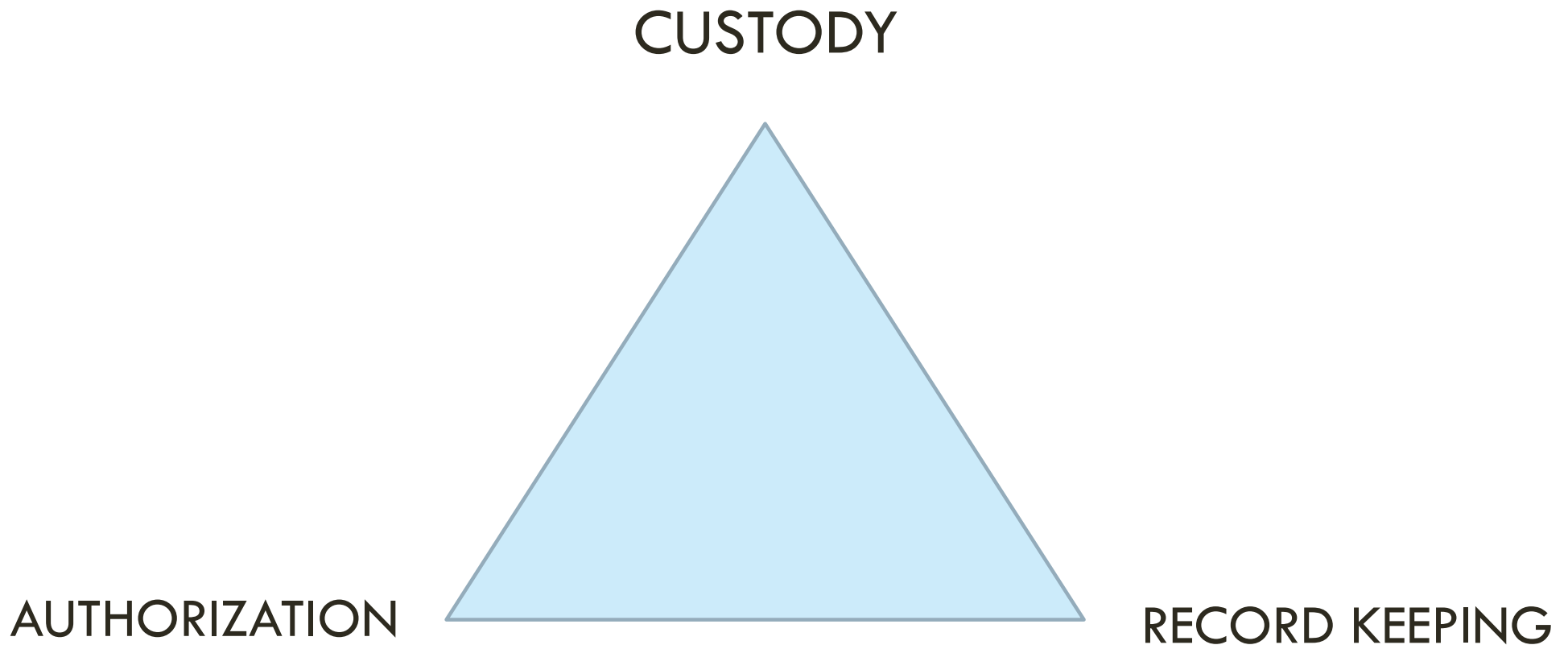
*What are some examples?*



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# Segregation of Duties

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# Auditor's Hat

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It's valuable to ask how control systems could fail.

i.e. How would we detect if someone wrote themselves a \$1,000 check? How would we detect credit card abuse?

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# Auditor's Hat



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- Why are these auditors so focused on fraud?!
- Designing and Operating Internal Controls to efficiently prevent fraud is the starting point
- The size and complexity of the client has a strong effect on internal control, particularly related to segregation of duties.

# Effective Segregation of Duties for Small Organizations

- Controls at smaller organizations
  - ▣ Board may take on some controls
  - ▣ Some controls may be outsourced to accountant/bookkeeper
  
- Board members role quarterly/monthly/etc
  - ▣ Monitoring through financial reports
  - ▣ Risk assessment
  - ▣ Tone at the top





# Effective Segregation of Duties for Small Organizations

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- Accounting and Executive Director
- Board Treasurer becomes part of controls (bank statement review/read-only access to banking and accounting system)
- Non-accounting staff can be trained to perform less technical functions
- Consider mitigating controls such as a periodic review of bank reconciliations by the treasurer

# Key Controls

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A **Key Control** has the following characteristics:

- If it fails, it is highly improbable that another control could detect an issue
- **They should be documented!** (i.e. sign off, email, etc.)



# Key Controls – Examples

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- Pre-Numbering documents (eg: checks)
- Authorization of transactions
- Timely and appropriate review
- Physical controls for safeguarding assets  
(passwords, securing un-deposited cash, check stock)
- Segregation of duties



# Roles of Management

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**Management:** Responsible for design and implementation internal controls

- Executive Director/Head Pastor
- Finance Director
- Board/Vestry/Finance Committee
- Others with authority to authorize transactions

*Auditors cannot be a part of the entity's internal control system*

# Exercise

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## Identifying Key Accounting Cycles

Typically:

1. Cash Receipts (transaction level)
2. Cash Disbursements (transaction level)
3. Payroll (transaction level)
4. Financial Close (entity level)
5. Others, depending on organization

# Cash Receipts

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- Assessing Risk
  - ▣ What source of income? Contributions? Program income, etc?
  - ▣ How much cash/checks? Lots of smaller transactions or minimal number of larger transactions?
  - ▣ How many staff are involved in the process?
  - ▣ Any collections issues?
  - ▣ Voids or credit memos; including returned payments from vendors

# 3 minute exercise – Cash receipts

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- Fill out the worksheets
- Using this information, document your own cash receipts process and cycle.
  - ▣ Who opens mail? Who counts the cash? Who logs the cash?
  - ▣ Who deposits the cash? Who records the cash in the accounting system?
  - ▣ Who prepares the bank reconciliation?

# Key Controls – Cash Receipts

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- Dual opening of mail (for organizations with contributions) or use a lockbox
- Church collections – counted and logged, locked by two people
- Checks restrictively endorsed and tallied on cash log
  - Log should be initialed (or electronically approved) by both individuals and compared to and included with the deposit record



# Key Controls – Cash Receipts

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- Accounting staff records cash receipts; independent check of entry to daily cash log and deposit by reviewer of bank reconciliation
- Credit memos should be authorized by someone who does not have access to custody of cash
- Capturing donor restrictions

# Roles for Cash Receipts – IDEAL!

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- Management should be receiving the bank statement independent of accounting function (ie online or directly via mail)
- Two people open mail together and maintain cash log (accountant, bookkeeper, receptionist, administrative personnel, board member, volunteer)
- Recording of cash receipts into a donor database if applicable and accounting software (accountant, bookkeeper)
- Bank reconciliations are prepared on timely basis (accountant, bookkeeper)
- Bank reconciliations are reviewed and approved on timely basis (Pastor, board treasurer)

# Cash disbursements

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- Assessing Risk
  - ▣ How many transactions monthly/weekly?
  - ▣ How are payments made? (checks, debit cards, credit cards, EFT, ACH, Wires, etc.)
  - ▣ Is there a documented procedures for approving vendor invoices?
  - ▣ Who are the check signers and what are they usually given for approval?

# 3 minute exercise – Cash disbursements

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- Filling out work sheet
- Using this information, design your own cash disbursements
  - ▣ Who approves invoices? How are invoices paid?
  - ▣ Who signs the checks? Who records the disbursements in the accounting system?
  - ▣ Are ACH/EFT used? Debit cards used? Credit cards used?
  - ▣ Where are blank checks kept?

# Key Controls – Cash Disbursements

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- Budget approved (by the Board).
- Pre-approved purchase by a manager/supervisor
- Recipient of goods verifies that appropriate materials were received and agreed to invoice/payment
- Appropriate vetting of independent contractors

# Key Controls – Cash Disbursements

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- Invoice approved for payment (with supporting documents) by appropriate personnel
  
- Check signer reviews all documentation in support of purchase when signing the check
  - ▣ Checks should go straight into the mail and not returned back to person who has access to accounting software
  
- Levels of check signing authority exist based on item and/or dollar threshold

# Key Controls – Cash Disbursements

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- EFT/ACH and wire transfers have documented approval process and system to notify executive management of transactions as they are being initiated

# Cash disbursements - IDEAL!

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- Invoices have documented approval to pay
- Accountant is not signing checks or authorizing payments beyond periodic vendors
- Check signer is reviewing supporting documents with the payments
- Pastor reviews original bank statement with canceled check images to verify signatures
- Limited credit card activity



# Payroll

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## Assessing Risk

- Unauthorized employees or rates
- Inaccurate number of hours worked
- Unhappy employees!

# Key Controls - Payroll

39

- Personnel records are maintained and secured, including rate of pay/hours and subsequent changes
- Timesheets are prepared by employees and approved by supervisors
- Payroll is reviewed and approved by an appropriate member of management prior to issuance, post issuance
- Payroll report should be reconciled to bank statement and general ledger

# Payroll - IDEAL!

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- The approval of the payroll register including all hours and employee detail is reviewed by someone outside of the payroll preparation process
- Supporting payroll report is maintained and reconciled monthly to the bank statement
- Quarterly and Annual reconciliation of payroll wages to the general ledger

# Financial Close

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- Assessing Risk
  - ▣ Timely and accurate financial reporting to the Board
  - ▣ How many bank accounts? Are they reconciled timely?
  - ▣ What is the normal time to 'close the books'?
  - ▣ Significant amount of journal entries required to close the books
  - ▣ What are the reporting deadlines? Are there pressures to report positive results?

# 3 minute exercise – Financial close

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- Who reconciles the bank accounts? Who has access to the bank accounts?
- Who reviews the bank reconciliation?
- How are financial statements communicated to the Board? Are budgets approved and tracked?
- Does the Board have established policies to govern financial procedures?
- Does the Board have adequate financial expertise to evaluate the financial statements?

# Key Controls – Financial Close

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- Bank reconciliations are prepared and reviewed by appropriate personnel
- Financial statements are prepared and reviewed by board/finance committee on monthly basis
- Manual Journal Entries are limited
- Internal designations – effectively tracking

# Financial Close – IDEAL!

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- Executive Director should be reviewing the bank reconciliation
- Executive Director should be receiving the bank statement independent of accounting function (ie online or directly via mail)
- Accountant should be preparing the bank reconciliation on a timely basis. (generally the following month)
- Organization has procedures to detect and evaluate unusual or infrequent transactions, including manual journal entries

# Financial Close – IDEAL!

- Suggested Reports:
  - Statement of Financial Position (Balance Sheet)
  - Statement of Activities (Income Statement)
    - Revenues and expenses by fund
  - Budget to Actual
  - Dashboard (financial and programmatic, key metrics)





# IT Considerations

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- Passwords
- Backups
- Permissions
- Website

# Compliance Considerations

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- Donors
- IRS
- Funders
- Diocesan Canons

# How Do Policies Fit Into Controls?

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- Policies support controls in place
- Policies help enforce controls
- Provides a roadmap when questions arise, when new staff are hired or when cross-training is appropriate
- Policies should be written in easy to understand terms to ensure non-accounting staff are empowered to understand and follow



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*Strength in Numbers*

- ▣ **Tone at the Top** – what does it mean?
- ▣ Policies are an indicator of effective **Tone at the Top**



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# Implement and Enforce Policies Throughout the Organization

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- Encourage compliance
- Tools for implementation
- Resources for sample policies and procedures

# Encouraging Compliance

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- Create compliance calendar
  - ▣ Due dates on performance reporting
  - ▣ Policy reviews/updates
  - ▣ External reporting
  
- Periodic check in meetings with key employees
  
- Finance Department = “The Enforcer”
  - ▣ Compliance is the responsibility of the entire team
  - ▣ Gather non-finance team members input to establish procedures that will work for them and help ensure policies are followed

# Financial Policies

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- Gift Acceptance
- Travel/Meals/Entertainment
- Contractors
- **Credit card use and employee reimbursements**
  - ▣ **Loss of privileges if policies not followed**
  - ▣ **Credit card benefits**
- **Monthly close:**
  - ▣ **Reconcile key accounts**
  - ▣ **Reconcile accounting and development records**
- Approval matrix

# Financial Policies

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- ❑ **Endowment or Appropriations policy**
- ❑ **Segregation of Duties**
- ❑ Budgeting
- ❑ **Cash Handling Procedures**
- ❑ Check Signing
- ❑ **Cash Disbursements, spending Authorizations**
- ❑ Financial Reporting



# General Policies

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- Equal pay act (currently Oregon, but this is a federal requirement being adopted by all states over time)
- **Whistle blower protection**
- Conflict of Interest
- Mandatory Vacation
- Document Retention
- Data Security and Backup

# Development Policies

55

- Acknowledgement letter
  - ▣ Organization's name listed
  - ▣ Description of donation
  - ▣ Statement "no goods and services provided in return"
  - ▣ Submitted in writing by 1/31 of the year following donation
  - ▣ Policy should specify that the organization should not determine value of in-kind gifts (donor responsibility)

# Discussion

56

- What barriers do you encounter when developing, implementing or enforcing internal controls?
- What are some controls that work well for your organization?

# Resources

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- Council of Nonprofits

<https://www.councilofnonprofits.org/tools-resources/good-governance-policies-nonprofits>

# Resources

58

- Sample Policies <http://cumfer.net/resources>
  - ▣ Record retention and document destruction(Oregon requirements in mind and ERISA employee file requirements)
  - ▣ Board operations –minutes documentation template/waiver of meeting/consent to action without a meeting
  - ▣ Releases for volunteers/adults
  - ▣ Transparency policy
  - ▣ Whistleblower policy
- Nonprofit Policies Your Organization Needs to Consider  
<https://www.gordonfischerlawfirm.com/nonprofit-policies/>

# Segregation of Duties – Two people

## Accountant or other professional staff\*

- Mail checks
- Write checks
- Reconcile bank statement
- Record credit/debits
- Approve payroll
- Disburse petty cash
- Authorize purchase orders
- Authorize check requests
- Authorize invoices for payment



## Executive Director

- Receive and open bank statements
- Sign checks
- Make deposits
- Perform interbank transfers
- Distribute pay checks
- Review petty cash
- Review bank reconciliations
- Approve vendor invoices
- Perform analytical procedures
- Sign important contracts
- Make compensation adjustments
- Discuss matters with board or audit committee
- Review wire/ACH transactions
- Review account activity

*\*Non-accounting personnel such as a receptionist, administrative personnel, etc. can be trained to perform some of the less technical duties.*

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# Segregation of Duties – Three people

## Accounting Staff

- Write checks
- Reconcile bank statement
- Record credit/debits
- Reconcile petty cash
- Distribute payroll



## Executive Director

- Sign important contracts
- Make compensation adjustments
- Sign checks
- Complete deposit slips
- Perform interbank transfers
- Perform analytical procedures
- Review bank reconciliation
- Review wire/ACH transaction
- Review account activity

## Accountant / other\*



- Approve payroll
- Process vendor invoices
- Mail checks
- Perform analytical procedures
- Approve invoices for payment
- Disburse petty cash
- Open mail and log cash
- Receive bank statements

*\*Non-accounting personnel such as a receptionist, administrative personnel, etc. can be trained to perform some of the less technical duties.*

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# Segregation of Duties – Four people

## Executive Director



- Sign important contracts
- Make compensation adjustments
- Sign checks
- Perform analytical procedures
- Review wire/ACH payments
- Review account activities



## Accounting Staff

- Write checks
- Reconcile bank statement
- Record credit/debits
- Reconcile petty cash

## Accountant / other\*

- Distribute payroll
- Open mail and log cash
- Disburse petty cash
- Mail checks
- Review bank reconciliation

## Accountant / other\*

- Approve vendor invoices
- Perform interbank transfers
- Approve payroll
- Complete deposit slips



*\*Non-accounting personnel such as a receptionist, administrative personnel, etc. can be trained to perform some of the less technical duties.*



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# QUESTIONS?

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SEGREGATION OF DUTIES



# PAYROLL

## CUSTODY

- Who has access to payroll bank accounts?
- Who distributes payroll checks?
- Who processes payroll?
- Who has access to personnel data?

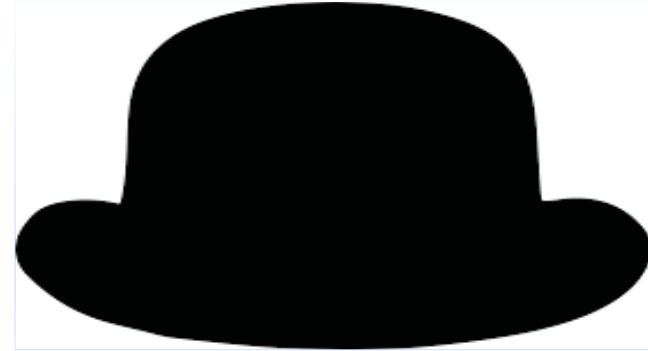
## AUTHORIZATION

- Who can 'create' an employee?
- Who approves wage rate changes?
- Who's approving time sheets?
- Who's approving time sheets?
- Who's reviewing payroll register?
- Who's monitoring PTO use?

## RECORD KEEPING

- Who is preparing bank reconciliations?
- Who records payroll to accounting system?
- Who generates/submits the payroll data?

## AUDITORS' HAT



- ??? If someone significantly increased their payrate for a pay period?
- ??? If someone created a fake employee to pay, how would it be detected?
- ??? How would unauthorized changes to hours or rates be detected?
- ??? **Same person can create an EE, process payroll, and reconcile the bank?**



### KEY CONTROLS - BEST PRACTICES

#### KEY CONTROLS

- Personnel records are maintained and secure
- Timesheets are prepared by EE and approved by supervisors
- Accountant is unable to process changes in personnel information
- Check signer reviews and approval payroll register each period
- Supervisors are approving timesheets prior to payroll being entered
- Documented method for approving changes to personnel data (wage, hours, etc.)
- Payroll reports should be reconciled to bank statement and accounting records
- Annual payroll reports (941s or W-2 summaries) should be reconciled to general ledger



### NOTES

SEGREGATION OF DUTIES



# CASH DISBURSEMENTS

**CUSTODY**

- Who has access to blank checks?
- Who has access to credit cards?
- Who can open a bank account?
- Who has access to bank accounts?
- Who is initiating wires/EFT/ACH?

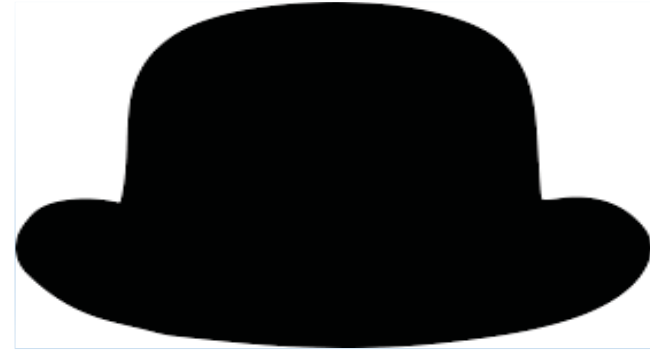
**AUTHORIZATION**

- Who approves which invoices to pay?
- Who are the check signers?
- Who's reviewing bank reconciliation?
- Who is approving EFT, Wires and ACHs?
- Are P.O.s utilized (if at all)?
- Who is approving EE reimbursements ?

**RECORD KEEPING**

- Who is preparing bank reconciliations?
- Who is doing the check runs?
- Who is making ACH/Eft payments?
- Who is entering the invoices?
- Who is inputting credit car detail?
- Who is creating vendors?

## AUDITORS' HAT



- ??? Anyone approving own reimbursements or subordinates approving their reimbursements?
- ??? How could a rarely used cash account be abused?
- ??? If someone were paying personal items on their credit card- how would this be detected?
- ??? If someone paid a check to themselves and signed over, then how would it be detected?
- ??? If someone paid over a check to a fake company, then how would it be detected?
- ??? If someone wired/ACH/EFT money to an external account, then how would it be detected?
- ??? **Same person can create vendor, enter an invoice, cut a check, and reconcile the bank?**



KEY CONTROLS - BEST PRACTICES

**KEY CONTROLS**

- Invoice approved for payment by appropriate personnel
- Check signer reviews documentation when signing
- Bank statements are first reviewed with check images by check signer for approval
- Bank reconciliations are THEN reviewed with approved bank statement by check signer
- EFT/ACH and Wire transfers have approval requirements and mitigating intiation req.s
- Board or executive managmeent ONLY can approve significant contracts for Organization
- Same person cannot create vendor, enter an invoice, cut a check, and reconcile bank!
- Credit cards receipts are required prior to EE reimbursements - approved by supervisors
- Purchase orders are required for significant expenditures



NOTES

SEGREGATION OF DUTIES



# FINANCIAL CLOSE

CUSTODY


- Who has access to bank accounts?
- Who has access to accounting system?
- Who can record journal entries?

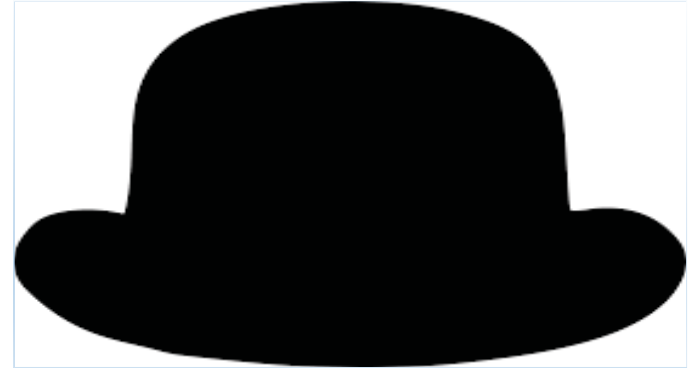
AUTHORIZATION

RECORD KEEPING

- Who authorizes monthly financials?
- Who has authority to open bank accounts?
- Who's reviewing bank reconciliation?
- Who is approving journal entries?
- Who approves changes to financial processes?

- Who is preparing bank reconciliations?
- Who is reconciling other records?
- Who is preparing the financial statements?

## AUDITORS' HAT



- ??? Does the Board feel like reported #'s are changing often?
- ??? How could a rarely used cash account be abused?
- ??? Are there infrequent transactions that only go through accounting and could be abused?  
For instance, Endowment transfers? Refund on vendor overpayments? Etc.
- ??? What is preventing the Organization from timely reporting/reconciling?
- ??? Is there any risk these could be not be recorded and transferred to an external account?
- ??? How often are you receiving financial statements?
- ??? Do financials look software generated or manually created spreadsheet?
- ??? What would detect significant 'plugs' or journal entries to cash accounts?



### KEY CONTROLS - BEST PRACTICES

#### KEY CONTROLS

- Reviewing and approving the bank reconciliation
- Documented financial close checklist
- Executive Director or Head Pastor authorizes original statement and reviews
- Board financials are accessible in advance by Board members
- Board has professionals with appropriate skills knowledge and experience
- Documented policies and procedures in place
- Manual or unusual journal entries are reviewed and approved
- Someone outside accounting utilizes read-only access to bank statements



### NOTES

# CASH RECEIPTS

SEGREGATION OF DUTIES



**CUSTODY**

- Who receives mail?
- Who documents and counts the receipt of cash?
- Who can open a bank account?
- Who has access to bank accounts?
- Who deposits the cash receipts?

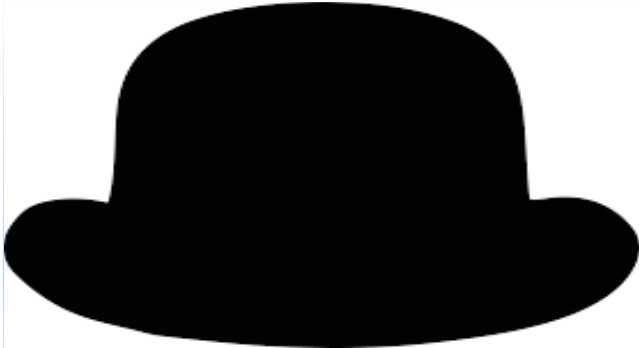
**AUTHORIZATION**

**RECORD KEEPING**

- Who has authority to open bank accounts?
- Who's reviewing bank reconciliation?
- Who's approving voids or credit memos?
- Who is reconciling actual deposit to receipts log?

- Who records the cash receipts in accounting?
- Who records the cash receipts in donor database?
- Who reconciles auto deposit data?

## AUDITORS' HAT



- ??? Can the same person receive cash, enter cash, and then reconcile bank?
- ??? If someone pocketed cash, how would this be detected?
- ??? If someone signed over a donation to themselves, how would this be detected?
- ??? Are there cash accounts that are used infrequently?
- ??? What would detect significant 'plugs' or journal entries to cash accounts?



KEY CONTROLS - BEST PRACTICES

**KEY CONTROLS**

- Two people count cash receipts
- Cash/checks are locked up with limited access until time of deposit
- Checks are restrictively endorsed and tallied on a cash log
- Accounting staff records cash receipts, independent of entry to cash log
- Credit memos and/or voids are authorized by someone without access to cash custody
- Original statements with check images are received/reviewed by check signer



NOTES