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Internal Controls for
Centers for Independent Living

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Goals and Format of Today's Webinar

- Explain the foundation of good controls

- Review the elements of an internal control system

- Review sample procedures that may be appropriate for your organization

- Review the process for monitoring to be sure controls are working and are appropriate

Guidance for Internal Controls

- **The Committee of Sponsoring Organizations** (COSO), which is composed of internal and external accounting leadership organizations

- **The Green Book** — Standards for Internal Control in the Federal Government

- Both of these have been recently updated to take into account how changes in technology have affected all businesses

Elements that are Necessary for Proper Internal Controls

- Control Environment –
  - ✓ Your board and senior management competence
  - ✓ Your commitment to proper controls
  - ✓ Clear roles and responsibilities of the various partners in the oversight of funds

Elements that are Necessary for Proper Internal Controls, cont'd.

- Risk Assessment –
  - ✓ A careful look at your organization's operations consideration of what could "go wrong"
  - ✓ What might prevent you from accomplishing your objectives
  - ✓ What might expose you to risk with funders or regulators
  - ✓ What could cause financial loss and/or embarrassment

Elements that are Necessary for Proper Internal Controls, cont'd. 2

- Control Activities –
  - ✓ There are complete, written policies and procedures
  - ✓ Policies are fully implemented, such as segregation of responsibilities, reviews, and reconciliations

Elements that are Necessary for Proper Internal Controls, cont'd. 3

- Information and Communication –
  - ✓ Clear communication from management to staff about the policies, procedures, and controls that are in place, including training for staff

Elements that are Necessary for Proper Internal Controls, cont'd. 4

- Monitoring Activities –
  - ✓ Periodic follow-up to reassess potential risks, to make sure that controls are still appropriate based on current operations and that they are still being followed
  - ✓ In large organizations, this can be done with an internal audit function
  - ✓ In smaller organizations it will more likely be done by an audit or finance committee

Controls are a System and Ongoing Process

As you review the procedures below to determine whether they are appropriate for your organization, keep these principles in mind and remember that controls are a system, and an ongoing process, not an event.

Questions & Answers

Uniform Grant Guidance

- The Uniform Guidance (guidelines for organizations receiving federal awards) states that you <u>must</u> establish and maintain internal controls over federal awards that provide reasonable assurance that you are managing them in compliance with general federal requirements and the specific rules for the funding you receive. Internal controls <u>should</u> be in compliance with the Green Book and/or with COSO.

Internal Control Procedures that may be Appropriate for Your Agency

- Management needs to demonstrate an attitude of integrity and commitment to competence—proper hiring and training practices, attention to compliance requirements such as maintaining complete and up-to-date personnel files, appropriate background checks, etc.

- Board members and management should review and sign a conflict-of-interest policy annually.

- Management and board should have a written code of conduct that describes proper business practices and be sure that everyone is familiar with that code.

- Show no tolerance for improper practices. Even minor improprieties should be addressed.

Internal Control Procedures that may be Appropriate for Your Agency, cont'd.

- Question unusual activities.

- This doesn't have to sound accusatory but will demonstrate your commitment to avoid improprieties.

Internal Control Procedures that may be Appropriate for Your Agency, cont'd. 2

- Develop a good budget & look at variances from that budget.

- Update the budget throughout the year as appropriate for changes in funding or programs.

- When you do this, variances are red flags that deserve your attention. Typically the board and management review a financial statement that compares budget to actual expense and provides notes from the management to the board with the reason for variance if it exceeds an agreed upon percent or amount
  - Ex. 15% above or below would require an explanation

Internal Control Procedures that may be Appropriate for Your Agency, cont'd. 3

- Communicate your whistleblower protection policy regularly.

- Some organizations post it prominently in the workplace.

- Employees uncover most wrongdoing.

Internal Control Procedures that may be Appropriate for Your Agency, cont'd. 4

- Separation of Duties, Verifications and Reconciliations
  - Generally, responsibilities for recordkeeping for assets and custody of those assets should be separated.
- Vouchering and Billing
  - Vouchers should be prepared from your accounting system.
  - An independent person should review vouchers and other billings before they are submitted or uploaded

Internal Control Procedures that may be Appropriate for Your Agency, cont'd. 5

- Receipts
  - Someone not involved with billing or accounting should initially receive customer payments and list them on a deposit ticket or separate place.
  - Checks should be stamped "for deposit only" as soon as they are received.

Internal Control Procedures that may be Appropriate for Your Agency, cont'd. 6

- Reconciliations
  - All bank accounts should be reconciled on a timely basis, typically at least monthly.
  - The monthly bank statement should initially be received and checks, electronic payments, and transfers should be reviewed by someone who isn't involved with preparing checks.
  - We used to get cancelled checks for this review. While the review is now electronic, it is useful to actually view the copies of checks that are included on line.

Internal Control Procedures that may be Appropriate for Your Agency, cont'd. 7

- Disbursements
  - After checks are prepared, they should be submitted to the check signer with original invoices.
  - Invoices should be canceled by marking them paid.
  - Checks should be sent out without being returned to the check preparer after signing.
  - Documentation for all credit card charges and for all employee expense reimbursements should be reviewed by an independent person
  - Access to blank checks should be limited to authorized signers.

Internal Control Procedures that may be Appropriate for Your Agency, cont'd. 8

- Payroll:
  - There should be documentation for time worked and for what was worked on.
  - Someone other than the person entering payroll information should review completed payrolls to verify that rates and hours are proper.

Internal Control Procedures that may be Appropriate for Your Agency, cont'd. 9

- Retirement Plans:
  - IRS requires periodic updates of all retirement plans and imposes harsh penalties for noncompliance.
  - Someone should be assigned responsibility to make sure that your retirement plan is up-to-date.
  - Verify that a summary plan description is distributed to all employees each year.
  - Be sure there is an investment policy for pooled accounts and that employees have access to guidance about their retirement plan investments for their individual accounts.

Questions & Answers

Securing Your Electronic Data

- There are constant threats to your confidential electronic information and to bank and investment accounts that can be accessed electronically. You should consider contracting with an outside IT organization that will assist you with backups, software upgrades, review of error logs, and security.

- Regular backups should be made and stored off-site periodically. (Verify that backups are working.)

- Shut down or log off computers at night

- Anti-virus software should be continuously updated.

- You should have an ISCA certified firewall and anti-spam software.

Securing Your Electronic Data, cont'd.

- Passwords should be used wherever appropriate. They should be strong and should be changed periodically—usually every 90 days.

- Mobile devices that have access to your server (email, calendars etc.) should be password-protected and set so that confidential information can be deleted remotely.

- Hard drives on computers and copiers should be destroyed or reformatted when they are disposed of.

- Your organization should have a policy for computer, Internet, and email use. Policies should cover what happens with access when someone leaves or is terminated.

Other Procedures

- Make sure that your personnel manual is up to date, and that everyone knows how to access it.

- Consider developing an accounting procedures manual to confirm accounting procedures and internal controls.

- Consider Fidelity bond coverage for employee dishonesty. Use a carrier other than your general liability carrier to reduce the likelihood of counter-suits.

- Talk to your banker about controls your bank can provide including verification of checks that you send, and restrictions on electronic transfers.

Monitoring

- Your written policies set standards for performance. Monitoring should include a review of your policies to be sure they are current and appropriate.

- It should also determine whether staff is familiar with and fully implementing your policies.

- Is training of new and current staff appropriate? Be sure to review personnel, conflict-of-interest, and whistleblower protection policies.

Monitoring, cont'd.

- Determine what security measures are in place over confidential information such as employee, donor, and credit card information.

- Your risk assessment and monitoring should also consider the safety of your staff, consumers, and others who have a relationship with your organization.

- Review your Organization's hiring procedures; determine whether references are checked and criminal background checks are used.

Monitoring, cont'd. 2

- Look at whether images of checks are provided with your checking account bank statement and verify whether an independent person reviews checks, electronic payments, and transfers to be sure they are proper.

- Check how up-to-date bank reconciliations are.

- Look at some invoices for purchases to determine whether they are properly marked to document approval, nonpayment of sales tax (if applicable), and to note payment.

Monitoring, cont'd. 3

- Check whether unused checks, undeposited checks, and cash received are kept in a locked/secure area.

- Review charge card statements to see if there is an independent review and documentation for all purchases. Require vendor receipts from the user for full documentation of detailed expenses.

- Review expense reimbursements, especially for senior personnel to verify that there is proper documentation and an independent review.

Monitoring, cont'd. 4

- The great majority of frauds are uncovered by employees. Interview to be sure that employees know that they are encouraged to communicate any wrongdoing, and that they are familiar with the process for doing so.

- Look at how time worked is documented and whether there was an independent review of time worked.

- Each of these control procedures adds some burden and reduces some risk. You have to weigh these and other possible procedures to determine the right balance for your organization.

Questions & Answers

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