



# Designing Internal Controls Without Hurting the Bottom Line

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# When Designing Controls – Keep in Mind Common Types of Frauds

Internal	External
Kickbacks	Stolen checks
Phony vendors	Fraudulent checks
Theft of physical assets	Theft of physical assets
Stealing of petty cash	Phishing scams
Collusion / override of controls	Hacking of database – identity theft
Travel/entertainment abuse by senior management	



# Examples of control activities

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- Authorization
  - Review by appropriate individuals
- Retention of records
  - Substantiation of transactions
- Supervision
  - Review or observation of processes
- Monitoring
  - Ongoing evaluation to ensure controls are operating as intended
- Physical security of assets
  - Protecting property, equipment and inventory
- Segregation of duties
  - Different individuals perform authorization, custody and recordkeeping



# Who's responsible for internal controls?

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- Governing body (Vestry)
  - Provides governance, guidance and oversight
- Management
  - Accountable to the Vestry
- Staff
  - Are involved in producing information/taking actions within the environment
  - Responsible for communicating problems in operations



# Key Concerns for Smaller NFPs

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- Controls over cash disbursements to prevent unauthorized disbursements
- Controls over travel and expense reimbursement
- Controls over cash receipts to prevent skimming
- Controls over periodic (monthly) financial reports to ensure accurate financial reporting



# Steps to Take to Avoid External Check Fraud:

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- Make sure you are using sequenced checks and try to get check stock with a watermark, making it more difficult to replicate
- An organization's check signers should be real signatures, not stamps or electronic images of signatures, those are much easier to copy or steal.
- Timely reconciliation of bank statements – the faster you notice a check clearing out of sequence, the better off you will be!!



# Controls over Cash Receipts – Contributions

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- This can be the most difficult since, depending on the type of fundraising appeal, contributions from any one donor may not be expected.
- Typical case scenario:
  - One person receives and deposits the cash, makes copies and distributes to others.
  - Bookkeeper records the cash receipts.
  - Development manager updates donor database.



# Additional Controls – Cost Effective!

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- Proactive data monitoring/reconciliation
- Surprise audits – Vestry or upper management can pick one area and do a surprise test. Payroll is a good area to do a spot check, Example: take the personnel file and compare the approved annual salary to a particular payroll register. Also pull the termination schedule and check if person was removed from payroll timely.
- Job rotation – a fresh pair of eyes avoids dominance by one person and also this is a great way to help with succession planning by cross-training.
- Mandatory vacation – many frauds have been caught when someone else stepped in to do a function. If an employee refuses to let any ever touch their financial process, could be a reason for concern.





# Questions?



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