



**Attorney General  
Eric T. Schneiderman  
Charities Symposium –  
*Doing Well While Doing Good***



# Accounting From the Inside Out – Internal Controls and External Accountability

*Presented by:*

## New York Council of Nonprofits, Inc.

New York City-Albany-Poughkeepsie-Oneonta-Rochester

[www.nycon.org](http://www.nycon.org)

**Kelly S. Mathews**

COO, Sr. V. P Financial Management Group

[kmathews@nycon.org](mailto:kmathews@nycon.org)

Community Focus ♦ Statewide Impact ♦ National Network

# What Is Internal Control?

- A process, effected by an entity's board, management & other personnel, designed to provide reasonable assurance regarding the achievement of the following objectives
  - Accurate & reliable financial reporting
  - Operational effectiveness & efficiency
  - Compliance with laws & regulations
  - Safeguarding of assets

# Accurate & Reliable Financial Reporting

- Accounting information systems
  - Software adequacy
  - Access controlled by management/volunteer leadership with limited access for other leaders
- Adequacy of format
  - Comprehensive, concise, understandable
  - Orientation process for Staff/board members
- Timeliness of reporting
  - Internal to management & the board
  - External to funding sources & regulators

# Operational Effectiveness & Efficiency

- Programmatic efficiency & quality services
- Adequate staffing/Volunteers for service level
- Qualified fiscal staff or volunteer
- Minimal or no duplication of duties
- Well-articulated organizational structure
- Clearly written & legally compliant personnel policies, or Volunteer policy
- Clearly written job/activity descriptions

# Quick Questions:

- How many of you have clearly written, up to date job descriptions?
- Clearly written, up to date personnel policies that, for internal controls surrounding employment, include vacation personal and sick time policies and fringe items like health insurance contribution, retirement, etc. if applicable?
- Personnel folders that include all necessary information for each employee?
  - I-9, appointment letter that includes salary or hourly rate, letters to support any changes in original salary or hourly rate?

# Compliance With Laws & Regulations

- Federal, state & local reporting requirements
  - IRS 990, CHAR 500, Audit or Review
- Funding source requirements
  - Board Composition?
- Labor laws (if paid staff)
- Quality assurance
- Client/consumer protections
- Volunteer accountability

# Safeguarding of Assets

- Protect assets from misappropriation
  - Lock boxes
  - Controlled access to accounts
  - Inventory of collections
  - De-accessioning policies
- Protect assets from misuse
  - Designated signatory authority
  - Processes that promote cross checking by others
    - ✓ Initials on paid stamps
    - ✓ Restrictive endorsements on checks received

# Occupational Fraud

- SAS No. 99 states that three conditions are generally present when fraud occurs:
- Incentive or pressure ( I need the money.)
  - Opportunity (No one is reviewing my work.)
  - Ability to rationalize committing a fraudulent act (I get paid so little and/or work so hard, they owe me!)



## *Good Idea!*

Hold brainstorming sessions regarding mitigating fraud risk. If someone were to steal from us, how would they do it?



# The Control Environment in Nonprofit Organizations

- Organizational structure
  - Up-to-date job/volunteer position descriptions & organizational chart (no matter how small!)
  - Flowcharts or narratives to document the flow of transactions, controls & reporting responsibilities

# Monitoring Internal Control

- Have board committees & officers with clear charges & articulated authority (ideally in bylaws)
- Review & document segregation of duties
- Review financial reports regularly, including budget vs. actual & programmatic activity
- Where staffing is minimal or all volunteer, insert processes that ensure a separate review
- Interact with the external auditor & regularly review the status of management letter comments

# High Risk Area: Receipts

- Restrictive endorsements on checks received
- Lock boxes for cash
- Make all deposits regularly
- Timely reconciliation between accounting/  
development/program
- Timely reconciliation between general ledger &  
receivables ledger with supervisory review
- For collections of currency, have two people count cash

## Quick Questions:

- How many of you collect cash on site or via regular mail?
- Are there clear procedures for collection, counting and depositing, including transport to bank (if not electronic “remote capture”)?

# Disbursements – Payroll

- Our **LARGEST** expense category once staff are hired
  - Time sheets with supervisory approval
  - Maintain *accurate* vacation, personal and sick time records
  - Document salaries or hourly rates for each position
  - Document check preparation (or refer to Payroll service process)
  - Document check distribution process
  - Document recording in general ledger
  - Reconcile payroll service sheets to general ledger

# Disbursements - Vendors

- Document and to extent possible, separate:
  - Purchasing (or authorization for purchasing)
  - Preparation of checks
  - Approval for payment
  - Recording in general ledger
  - Signatures
  - Responses to vendor inquiries

# Disbursements - Vendors

- Control over checks
  - Numerical integrity
  - Physical security
- Appropriate signatures on checks
- No checks payable to “cash”
- Review cancelled checks
- Tighten controls over petty cash
  - Timely reconciliation-complete back-up

# Cash/Reconciliations

- Minimal cash accounts
- Bank statement should be opened by someone outside of the receipts/disbursements functions who should examine the contents
- Cash reconciliations should be reviewed by someone outside of the receipts/disbursements functions



# Other Control Policies

- Code of conduct
- Conflict of interest policy
- Whistle-blower policy
- Enforce mandatory vacations
- Bonding insurance for those who handle cash
- Fiscal procedures manual



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