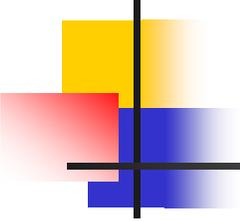


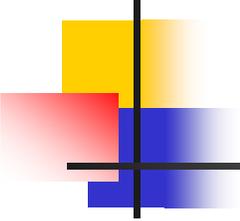
INTERNAL CONTROLS



Session Objectives

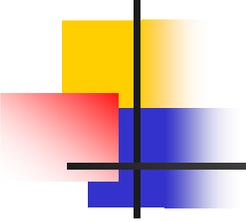
The objectives are:

- To demonstrate the need for internal controls
- To explain the components of internal controls
- To review examples of good internal control procedures



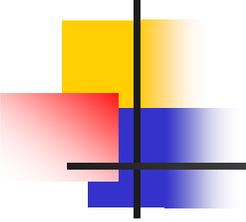
Topics of Discussion

- Need for Internal Controls
- Types of Internal Controls
- Risk Versus Cost Benefit Analysis
- Key Elements or Components of Internal Control
- Examples of Internal Controls



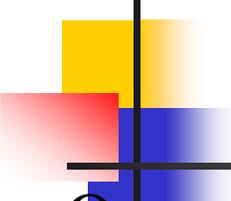
Internal Control Objectives

- Completeness of information and documentation
- Accuracy in accounting and information
- Proper authorization of transactions
- Adequacy of audit trail
- Segregation of duties
- Physical safeguard of assets
- Adequacy of records



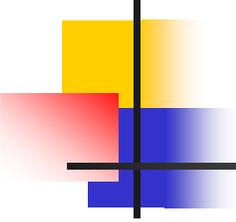
Why have Internal Controls

- Improve accountability to customers (*State, Commissions, Trustees, CNCS, etc.*)
- Help organization achieve performance and budget targets
- Improve reliability of financial reporting
- Establish clear processes and procedures for completion of tasks
- Improve compliance with laws and regulations
- Prevent loss of resources and public assets
- Prevent loss of public trust



Types of Internal Controls

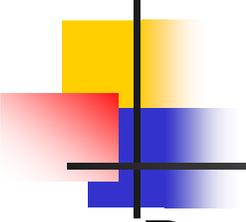
- Operating controls
 - Provide management with the assurance regarding efficiency and effectiveness of procedures
 - Encompass charts of account and procedural manuals for functional activities
- Accounting controls
 - Ensure reliability of recorded financial data
 - Appropriate level of review and authorization
- Compliance controls
 - Ensure that restricted funds are utilized for intended purposes



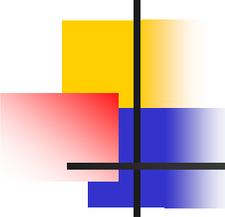
Risk Versus Cost Benefit Analysis

- In setting up Controls, be aware of the level of effort required to safeguard or monitor a specific area
- Review the benefits to be derived from the Controls implemented
- Consider funding and target areas where the concentration of costs are greatest. For example; controls to ensure that staff costs are documented appropriately

High Risk Areas



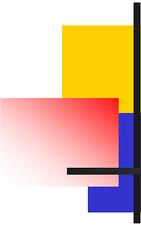
- Payroll Processing Including Time and Attendance Reports
- Cash Collection and Disbursement Transactions
- Fixed Assets Acquisition/ Disposition/ Physical Control
- Matching Requirements
- Sub-grants
- Multi-site programs/projects
- Member/participant eligibility



Other Control Considerations

Level of expenditure for volunteer expenses vs. volunteer support

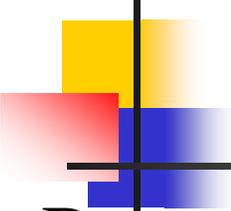
- Segregating Federal and non-Federal expenditures in accounting system
- Differentiating between federal grants expenditures
- Identifying equipment or property purchased with federal funds
- Preparation of financial reports
 - Accuracy
 - Timeliness



Key Elements of Internal Control

- Documented policies and procedures:
 - Establish standards for the organizational operations
 - Maintain critical operations information (Not in employees' heads)
- Review process for financial reports and budgets
 - Adequate
 - Accuracy
 - Completeness
 - Overall reasonableness

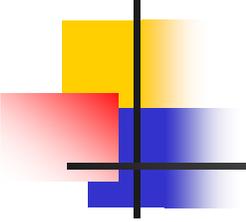
Key Components of Internal Control



Payroll

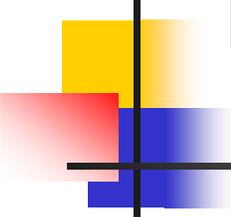
- System to track employees activities
 - Time and attendance records
 - Activity logs
- Pay checks should be
 - Supported by timesheets
 - Approved by supervisors
- Imprest account ideal for managing payroll transactions

Key Elements of Internal Control



Payroll - continued

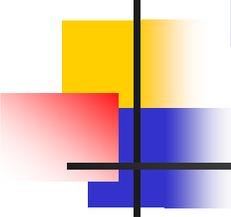
- Reconciliation of the payroll records with accounting system and filed returns (ensures correct amounts are recorded in General Ledger)
- Periodic review of employee records (ensures that personnel files updated and contain information that reflect the amount paid to employees)
- Timely filing of all required Federal and State payroll related tax returns (example-Form 941)



Key Elements of Internal Controls

Cash Collection and Disbursement

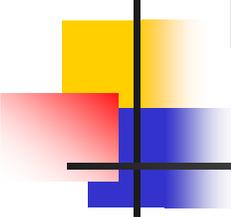
- Adequate cash management procedures
 - Monthly cash flow forecast to manage timeliness of payments and availability of cash to make payments
 - Monthly bank reconciliations
- Controls over receipts
 - Pre-numbered receipt slips for cash collected
 - Use of at least two individuals for segregation of duties



Key Elements of Internal Controls

Cash Collection and Disbursement - continued

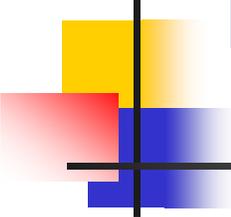
- Controls over receipts
 - Person opening mail should be different from person making deposits
 - Deposit only to a bank account of the organization (no personal accounts)
 - All expenses should be paid by check and only if supporting documentation and proper approval are present (avoid a petty cash fund)



Key Elements of Internal Controls

Safeguarding Fixed Assets

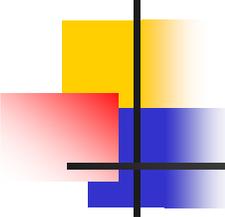
- Ensure that all newly acquired assets are tagged
- Policy to review and update equipment inventory annually
- Reconcile equipment inventory with accounting records
- Ensure that equipment purchased is capitalized according to Organizational policies



Key Elements of Internal Controls

Matching Requirements

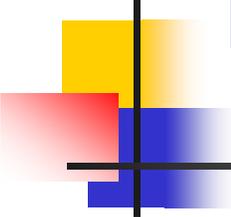
- Institute a policy requiring that match will be periodically calculated - minimum quarterly
- Ensure staff are familiar with various grant matching requirements
- Ensure all matching funds are properly documented and entered into the General Ledger



Key Elements of Internal Controls

Sub-grantee Monitoring/Multi-site Program Warning

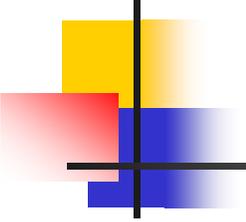
- Grantees are responsible for all funds that are passed on to or awarded to sub grantees
- Responsibilities include ensuring that:
 - All sub-grantees are aware of provisions and requirements
 - Expenditures are properly documented
 - Financial reports correlate to source documentation
 - Any Finding and/or Question costs are resolved properly and timely



Key Elements of Internal Controls

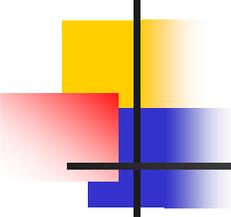
Member/Participants/Volunteer Eligibility Warning

- Grantees Staff understand the eligibility requirements
- Responsibilities include ensuring that:
 - Policies and Procedures exist
 - Eligibility is properly documented
 - Any Finding and/or Question costs are resolved properly and timely



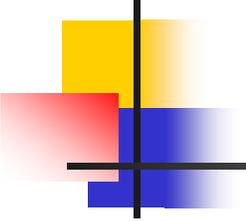
Policies & Procedures

- Policies and Procedures are important because:
 - They are the standards for the organization's operations
 - They help in maintaining information crucial to operations that would otherwise remain in employees "heads"
 - They help orient new employees and substitutes if the appropriate personnel are absent



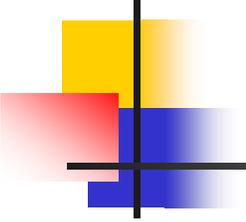
Policies & Procedures

- Documented Policies and Procedures may include such items as:
 - Chart of Accounts
 - Identification and description of the principal accounting records (i.e., general ledger, budgets, FSRs etc.)
 - Assignment of responsibilities, delegation of authority (etc.)
 - Procurement Policies



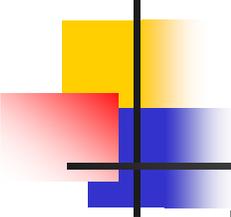
Written Policies & Procedures

- Documented Policies and Procedures may include such items as (Continued):
 - Instructions for recurring tasks such as:
 - Preparing monthly reports
 - Completion of Bank reconciliations
 - Completing FSRs
 - Reviewing budgets and match requirements
 - Timely Reporting
 - Monitoring of Sub-Grantees
 - Completing PSC-272
 - Explanations of documentation and approval requirements for expenditures



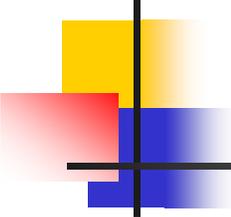
Supporting Documentation

- Supporting Documentation
 - Critical for strong internal controls
 - Proper supporting documentation:
 - Should be required for all transactions entered into accounting system
 - Should have proper authorization
 - Should be self-explanatory



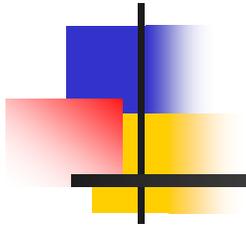
Supporting Documentation

- Examples of supporting documentation include:
 - Purchase orders
 - Contracts and budgets
 - Time and attendance records
 - Member's Stipends Roll/ Payroll Register
 - Vendor invoices
 - Check requests
 - Bank Statements
 - Member's File



Segregation of Duties

- An essential element of Internal Controls
- Purpose is to :
 - Provide checks and balances
 - Ensure integrity of financial information
 - Help prevent loss and theft



Exercise

