



**School's Out™
Washington**

Internal Controls & Procedures Toolkit

Date: May 20, 2023
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WHAT ARE INTERNAL CONTROLS?

The primary purpose of internal controls is to help safeguard your organization and further your mission and objectives. Internal controls are checks and balances of policies and procedures that are key in your organization that are implemented ensuring operations are efficient, and activities that enable you to stay compliant with applicable with your laws and regulations. Internal controls are best practices, policies and procedures, standards and ethical guidelines that are put into place to ensure compliance. Internal controls are designed to protect the organization and prevent fraud.

THREE TYPES OF INTERNAL CONTROLS

1. Detective – designed to detect errors that may have occurred
2. Preventative –designed to keep errors from occurring in the first place and are proactive in nature.
3. Corrective –designed to correct errors that have been detected

Why Do Nonprofits Need Financial Controls and Policies?

Nonprofits need financial controls and policies to prevent fraud and theft, and to provide public accountability for the management of funds. These controls provide a separation of duties across multiple individuals, ensuring the proper handling of assets, and providing for financial transparency.

In some instances, fraud, theft, and misuse of funds occur. Most financial losses like these can be quickly and easily avoided through basic internal financial controls.

PURPOSE OF INTERNAL CONTROLS

Consistency, Efficiency and Effectiveness

Internal controls that your risks are minimized, and they promote operational efficiency, consistent operations, and effective management. These systems help your organization adhere to policies, rules, regulations, and laws. Internal control provides a way for the organization to have rules and procedures for all their staff ensuring operational consistency across all fields.

Separation of Duties

Internal controls ensure that staff/department delegated duties are separated, providing oversight by department or by individuals within a department. This review catches errors thus preventing issues such as errors, fraud, or theft.

Training

Implementing internal controls ensures that the organization has the training and education for understanding and operational procedures to prevent errors and in carrying out the correct operational objectives.

Review/Approval

Internal controls ensure that there is division of responsibilities in performance of assigned tasks and duties. Review and approval, flow of work procedures and processing allow to provide checks and balance, and a serve to check the organizations tasks and actions.

Protecting Assets

Internal control ensures that policies and procedures, and measures are within the organization to prevent misuse, abuse, and fraud of the organization's resources and assets.

INTERNAL CONTROL FOCUS AND FUNCTIONS

An Internal Control Process should support the follow Organizational Functions:

Effectiveness and Efficiency of Operations

Internal controls provide an effective and efficient operational structure with policies and procedures ensuring the organization meets its objectives and responsibilities. Maintaining and utilizing the internal controls ensures that procedures and policies are not duplicated or redundant and that the organization's operations are executed with assurance of compliance.

Reliability of Reporting for Internal and External Use

Internal control policies and procedures help an organization provide reliable financial statements for internal and external use to its stakeholders. The right control systems ensure confidence in the reporting, and forecasting of budgets, and other organizational tools, for taxation and financial reporting purposes.

Compliance with applicable Laws and Regulations

The right internal control system helps an organization maintain compliance with the laws and regulations, thus minimizing risk. The right procedures and policies ensure help departments and staff accountable and responsible in carrying out the organization set goals and objectives.

Internal Controls and Grant Management

Grant funding, whether it is federal, state, or private, can come with complex requirements and compliance issues. It is key to have the right systems in place, thus using best practices and internal controls enable you to be viable to receive grants from and avoid fraud, abuse, and waste. Having an internal control process supports the overall grant management process:

- Provides assurance that an award is managed in compliance with the award terms and conditions, regulations, and statutes.
- Ongoing monitoring maintains compliance.
- Addressing issues of noncompliance in a timely manner is a proactive approach
- Reduces the opportunity for fraud to occur.

Know the Regulations

To get guidance on creating, maintaining, and updating your internal control system, it is best to review and know the regulations and requirements.

- Federal Regulations
- State Laws
- City/County Ordinances
- Agency/Sponsor Guidelines/Policies
- Organizational /Administrative Policies
- Award/Contract Terms and Conditions

Best Practices for Implementing Internal Controls

Success of the organization's implementation of the internal controls can be seen in the following:

- The system is encouraged and from the leadership to everyone, top to bottom.
- Encourage and create a "risk-aware" culture
- Encourage a collaborative approach creating your internal controls and goal.
- Develop reporting and monitoring tools
- Develop the "right" control instead of "more" controls
- Reassess on a continual basis as laws and regulations change.

POLICY VS PROCEDURE VS GUIDELINE

It is key to understand the difference between a policies, procedures, and guidelines

Policy – a course or principle of action adopted or proposed by a government, party, business, or individual.

Procedure – an established or official way of doing something

Guideline - a general rule, principle, or piece of advice

Example:

Policy – you must wash your hands

Procedure – turn on water, put soap in hands, scrub for 20 seconds, rinse

Guideline – handwashing is a good idea

How To – buy the soap from Costco, it's cheaper, unscented and we can use the company credit card

WHY DO THINGS GO WRONG?

- Cost (over or under-resourced)
- Short-staffed
- Lack of Communication
- Human Error
- Management

Examples of Fraud

- Stealing cash
- Falsifying timesheets or submitting timesheet for someone else
- Falsifying a report to cover up a mistake
- Taking leave without supervisor approval
- Falsifying reimbursement request
- Falsifying travel expense report
- Using institutional funds for personal use
- Over-purchasing to get a bonus item/kick back

Grant Fraud Awareness

As a recipient of a grant (federal, state, or private) you have a crucial responsibility in being aware of fraud, waste, and abuse. As these funds are related to taxpayer funded programs, the Offices of Inspectors General exist to help prevent and investigate fraud, waste, abuse, and misconduct related to these funds. Since the community, a foundation and the federal and state funds are awarded for work with clients and the community, a

nonprofit is required to meet all granting guidelines in implementing a grant awards. Most issues of fraud, including grant fraud, can be attributed to “lying, cheating, and stealing.”

Resources:

[OFFICE OF THE INSPECTOR GENERAL](#)

OIG's mission is to provide objective oversight to promote the economy, efficiency, effectiveness, and integrity of programs supported by the Department of Health and Human Services as well as the health and welfare of the people they serve.

[13 FINANCIAL CONTROL RECOMMENDATIONS FOR NONPROFIT ORGANIZATIONS](#)

This article provides recommendations and resources in 13 areas of internal controls including: separation of duties, reconciling bank statements, cash handling procedures, credit card use, record and review all income, the disbursement process, expense reimbursements, financial reporting and review, payroll and timesheet controls, budgets, conflict of interest, whistleblower policy, and banking account authority.

[CLARK NUBER'S INTERNAL CONTROL GUIDE](#)

Clark Nuber is a certified public accounting firm in Bellevue, WA that provides training and resources to nonprofit organizations. The Internal Control Guide is informative and included as part of this toolkit.