

# Effective Management for Smaller Business Office

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor



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*Create Opportunities*

# About CLA - Firm Statistics

- More than 60 years of quality, service, and experience
- Among the nation's leading professional services firms
- Seamless and integrated approach to serving clients
- \$950 million in revenue
- More than 6,000 people, including 700+ principals
- More than 110 locations across the United States



# CLA's Commitment to Thought Leadership



- Tax Reform
- Article

[Tax Reform Implications for Exempt Organization Employers and Employees](#)



- Regulations
- Tool

[CLA Resources Can Help Nonprofits Implement FASB 2016-14 Financial Reporting](#)

## CLA Outsourced Services - Interim and Project Roles

- Nonprofits can't or don't need to hire permanent role right away
- Will take a while to hire the permanent employee
- Can be for full-time on-site for several months or years



### Personnel change

Maternity leave or other medical leave  
Terminated or sudden exit of employee  
Succession planning

### Peak Workload

Monthly or quarterly financial close  
Year-end assistance  
Audit and/or budget preparation



### Other major changes

New capital projects  
System implementation



# How Many People Are Needed For Good Internal Controls?

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# Objectives of Today's Session

- Identify areas where you can strengthen internal controls to better business procedures and help prevent fraud risks
- Understand that you can have good internal controls in a smaller business environment
- Tips on preparing for your audit



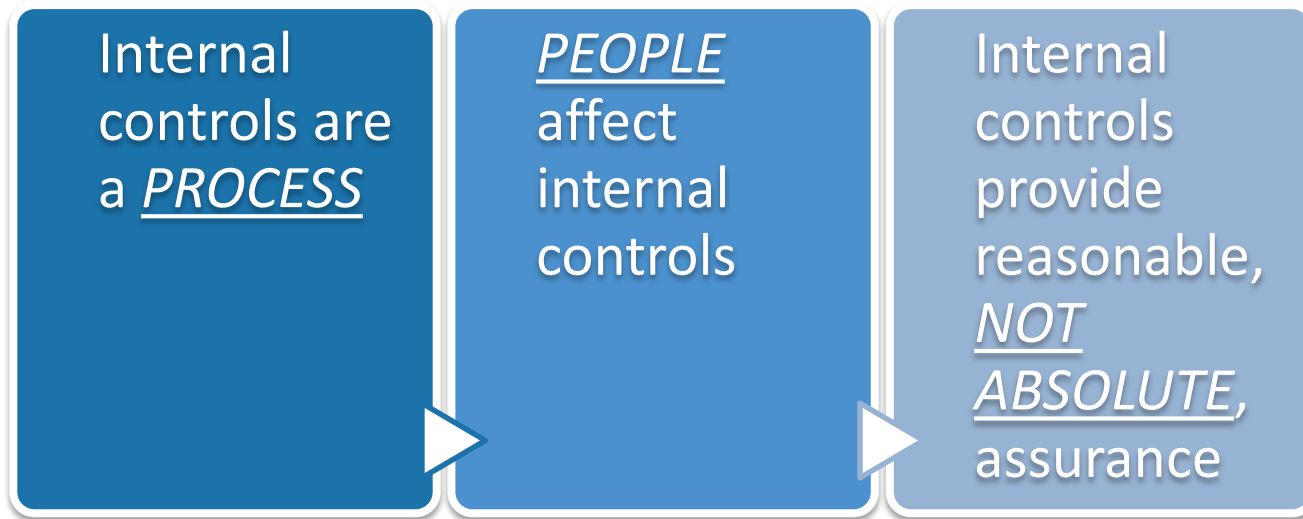
# Purpose of Internal Controls

- To safeguard assets
- To produce accurate accounting data
- To contribute to efficient operations
- To promote compliance with board policy and donor restrictions
  - **BONUS:** *An employee working under a good system of internal controls is more easily protected from suspicion should any shortages or discrepancies occur.*

Internal controls help to limit the **opportunity** to commit fraud.

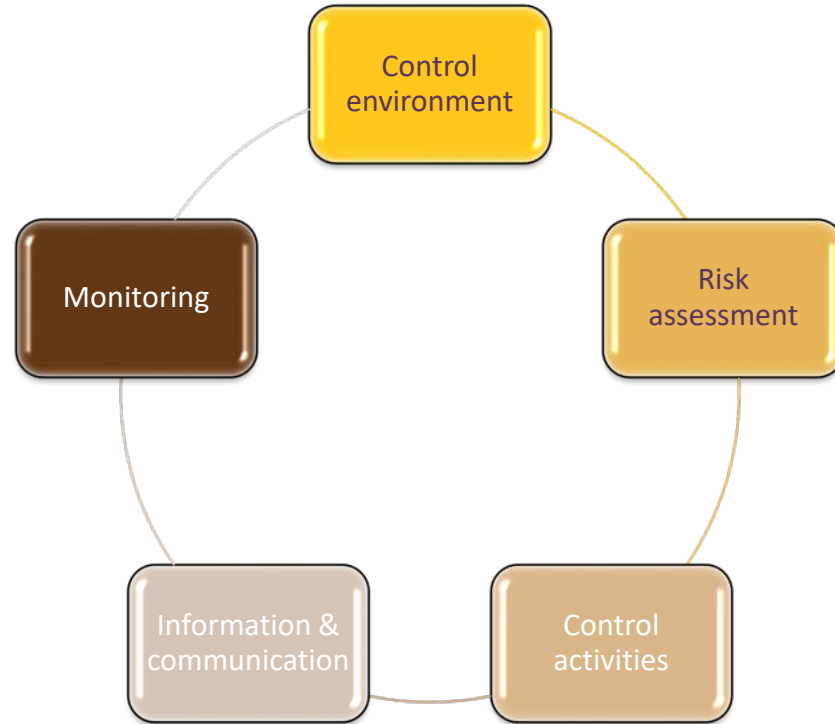


# Back to the Basics



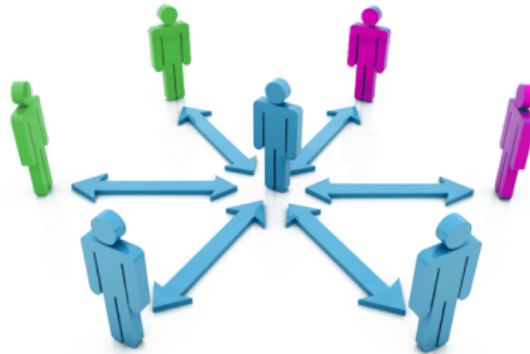


# Elements of Internal Controls



# Control Environment

- Clear lines of authority with importance placed on internal controls
- Publicized code of conduct
- Formal budget process and regular review of variances
- Goal to attract and retain competent staff
- Effective board committees and internal audit functions

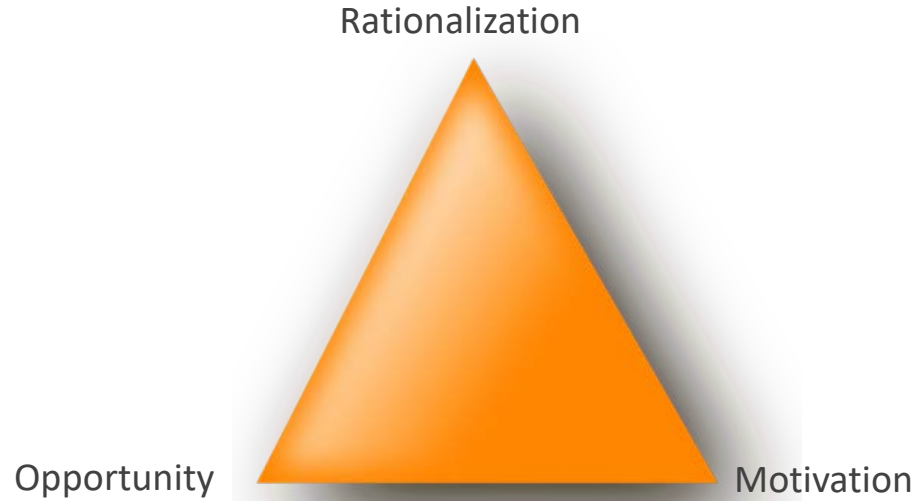


# Risk Assessment

- Clear objectives about operating, financial reporting, and legal compliance functions
- Entity-wide review to assess and evaluate risk



# Back to the Basics Again!



# Control Activities

- Segregation of duties
- Independent counting or confirmation of assets
- Controlled access to electronic data
- Adequate backup and data recovery procedures



# Information and Communication

- Support for developing and maintaining effective financial management information systems
- Publicized channels for employees or interested parties to report suspected fraud
- Documented procedures for handling reports of suspected fraud
- Communicating to all employees as well as volunteers



# Monitoring

- Prompt follow-up on budget versus actual variances
- Comparison of actual assets against accounting records
- Are the controls in place still being used?



# Keys of Good Internal Controls

- No one person can control a transaction from beginning to end
- Involvement of multiple individuals (there is such a thing as too many!)
- Ability to override controls is extremely limited
- Controls can be preventative and detective



## Preventative Controls

- Bonding employees
- Background checks
- Dual signature requirement
- Passwords to access accounts
- Locks/security cameras
- Segregation of duties



# Detective Controls

- Account reconciliation
- Control counts
- Inventory counts
- Surprise cash counts



## 2 Person Office

### Bookkeeper

Record all general ledger activity

Reconcile bank statements

Receive cash

Authorize invoices

Write & mail checks

Approve payroll

### President/Treasurer

Read only general ledger access

Review bank reconciliations

Complete deposit slips

Sign checks

Perform bank transfers

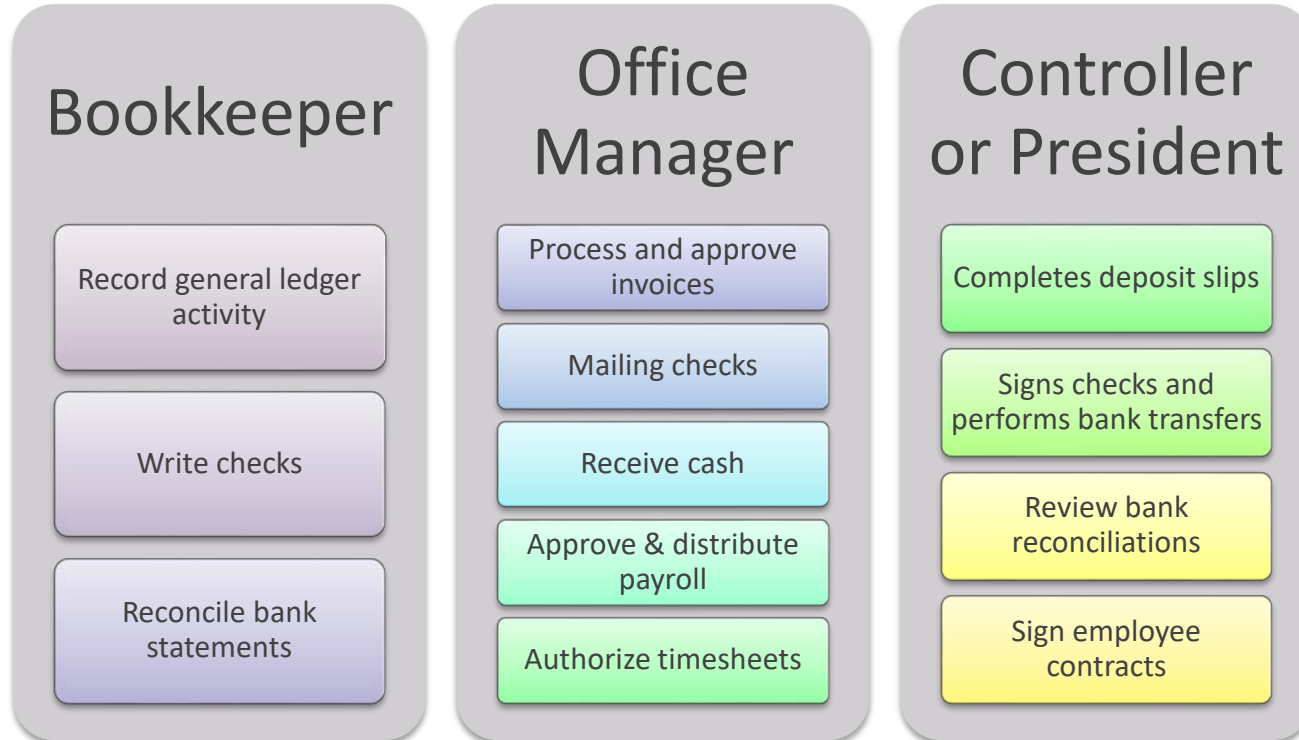
Approve timesheets

Distribute payroll

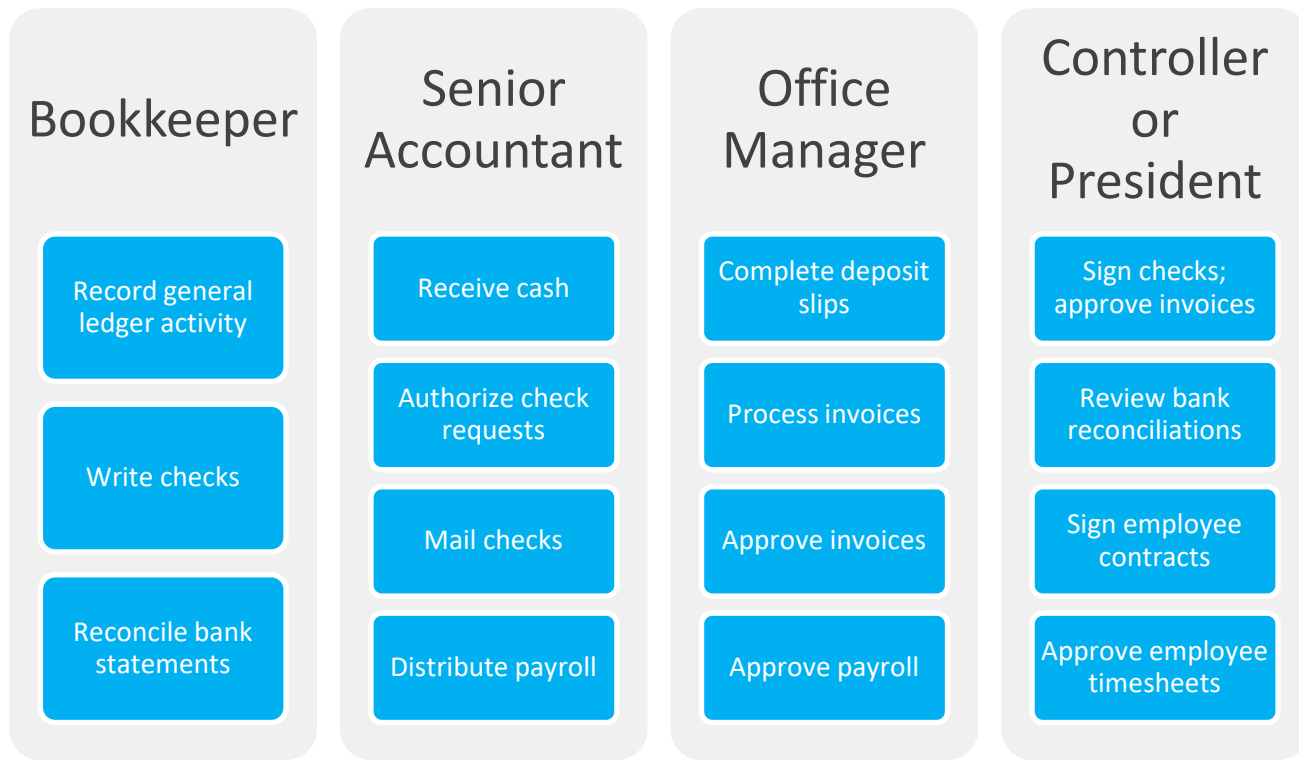
Sign employee contracts



# 3 Person Office



# 4 Person Office





**We promise**  
to *know you and help you.*

**Case Studies**

# Case Study #1

The Little Free School has a President and bookkeeper. They both have full access to the general ledger and to check stock. The bookkeeper reconciles the bank account but it is currently not reviewed. The President signs checks. The bookkeeper keeps the signature stamp locked in her desk. The Treasurer of the Board requests to review the bank statements on a quarterly basis.

- What changes should be made in the internal control structure of this school?



# Steps to Segregate

- General ledger access
- Review of bank reconciliation
- Sign checks
- Bank transfers
- Reconciliations
- Access to checks/stamp

## Case Study #2

The Angel School has a headmaster, controller, and bookkeeper. The headmaster is the authorized check signer. The bookkeeper reconciles the bank statements and the controller reviews them. The bookkeeper receives cash/checks and the controller enters them into the general ledger. The bookkeeper makes the deposit and verifies it against the general ledger.

- What changes should be made in the internal control structure of this school?

# Steps to Segregate

- Makes deposits
- Review of bank reconciliation
- Sign checks
- Cash receipts
- Reconciliations
- Deposit slips

## Case Study #3

**The We Want Your Student Academy has a principal, controller, senior accountant and office manager. The principal signs all employee contracts. The senior accountant enters and edits payroll information and submits payroll. The controller reviews the payroll report after processing. The processed payroll information is sent to the senior accountant. The office manager is collecting timesheets for all employees each pay period.**

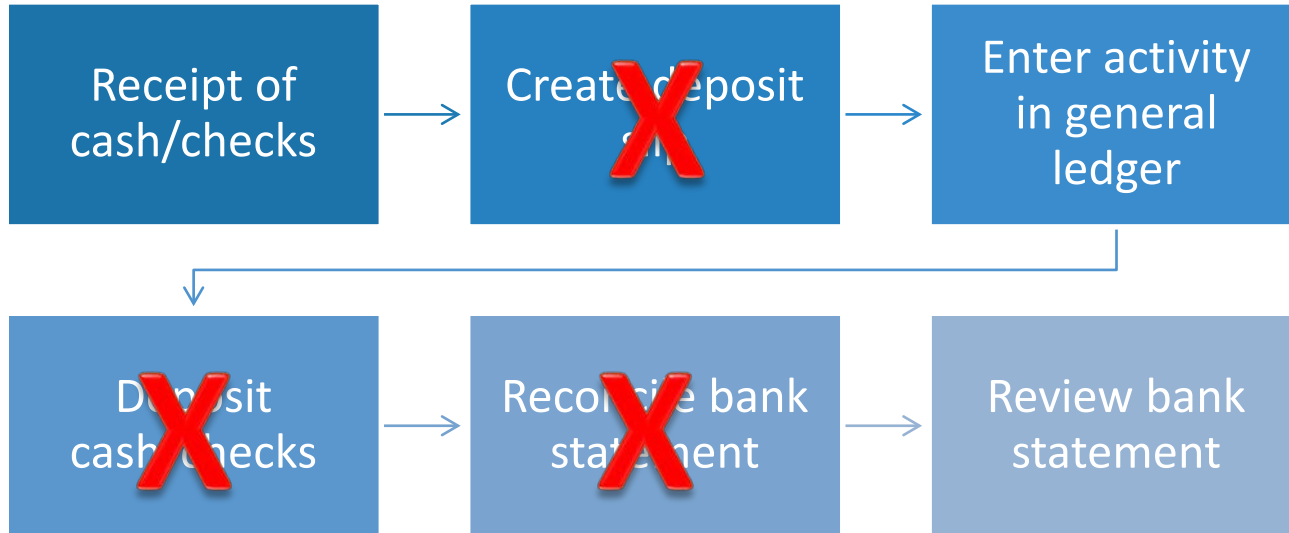
- What changes should be made in the internal control structure of this school?



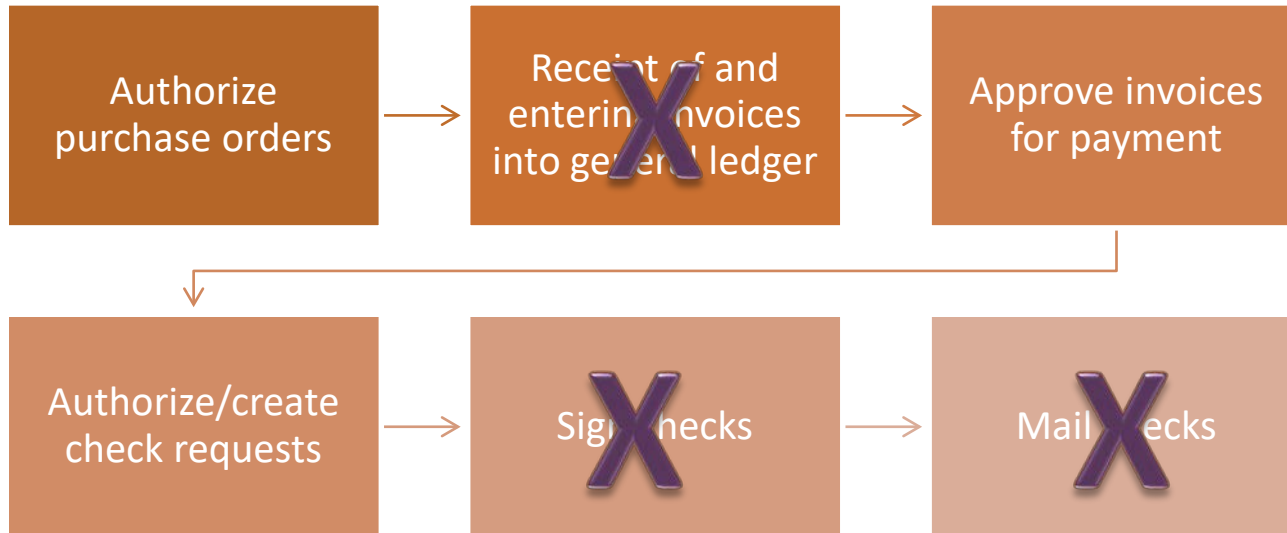
# Steps to Segregate

- Sign employee contracts
- Enters payroll
- Review of payroll
- Approve timesheets
- Bank Reconciliations

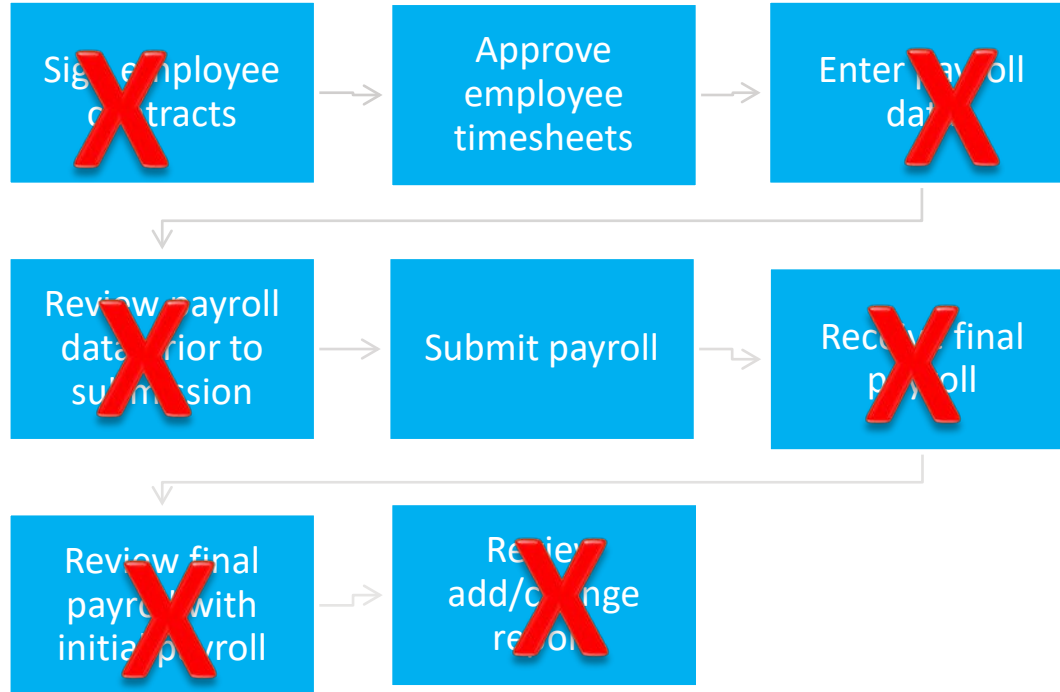
# Cash Receipts



# Cash Disbursements



# Payroll





# Preparation of Financial Statements

- Separate Preparation and Review
- Provide Meaningful Data - Easier for Others to be Involved
- Provide Monthly Reports to Board or Oversight Committee
- Provide Details or Explanation on High Risk Accounts
- Provide Comparisons - Budget, Prior Year, Analytics, Benchmarking
- Have a Process for Asking Questions - How are Issues Resolved



# Do You Still Think You Are Too Small?

- Involve the Board – Make sure they know their role
- Involve Senior Management and Executive Director
- Use Outside Service Providers
- Develop Internal Audit Function
- Use Your Outside Auditors



# How to Prepare for you Audit?

- What is the best part of the audit process?
- What is the worst part of the audit process?
- Steps for improving, if any?

## Tips on A Smooth Audit Process

- Ask for clearly defined timeline
- Utilize some type of process/portal to collect information/requests
- Ask questions throughout the year on accounting issues

# Tips For A Smooth Audit Request

- Be on site during the audit and available for questions
- Request copies of schedules from prior year to use in the current year
- Make sure all the adjusting entries from the prior year are posted



## Tips For A Smooth Audit Request

- Reconcile key accounts monthly, so year end is just another month
- Verify all accounts reconciliations tie to TB
- Ask questions!
- If you have information ready, go ahead and get it to the auditors
- Review drafts, etc. timely



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