

# Financial Controls for Nonprofit Organizations

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## Getting to Know You



## What are “Internal Controls”?

“a process, effected by an entity's board of directors, management and other personnel, designed to provide ‘reasonable assurance’ regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets”

-COSO

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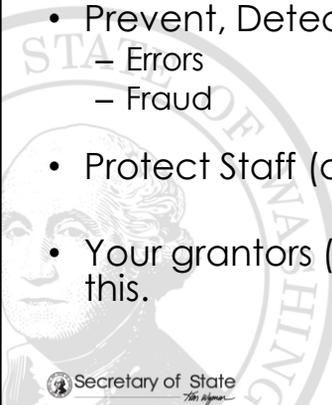
## The 2013 COSO Framework



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## Why Have Controls?

- Safeguard the Organization's Assets and Ability to Carry Out its Mission
- Prevent, Detect & Correct
  - Errors
  - Fraud
- Protect Staff (and Board!)
- Your grantors (and others) will ask you about this.

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## Do we have enough controls?

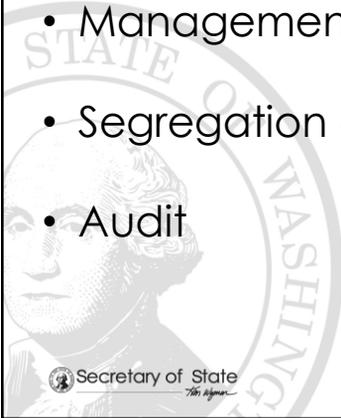
Or – Are the chain & padlock overdoing it a bit?



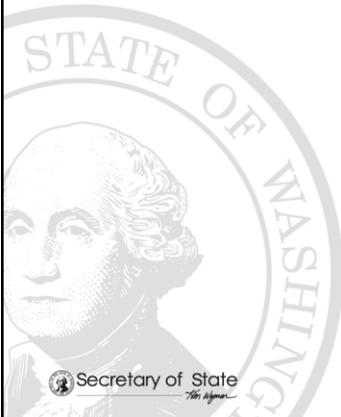
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## Key types of financial controls

- Organizational / Management Integrity
- Management Direction & Review
- Segregation of Duties
- Audit



## Eight things to remember



## Eight Things – part 1

### 1. Conflict of interest / ethics policy

<http://www.councilofnonprofits.org/resources/resources-topic/ethics-accountability>

2. Get someone on the board who's comfortable with financial issues
3. Segregate duties to the extent you can (board members can help!)
4. Reconcile bank and credit card statements timely

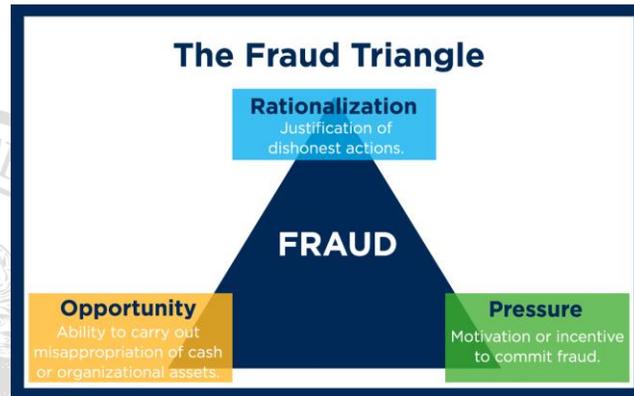
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## Eight Things – part 2

- 5) Consider dual signatures on checks, but...
- 6) If something looks unusual, ask about it!
- 7) Be attentive to your transactions with the organization
- 8) Don't forget insurance, including Directors' E&O

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## Preventing & Detecting Fraud



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## Types of fraud

- Cash receipts / skimming
- Credit/Debit card misuse
- Fictitious vendors
- Payroll fraud / ghost employees
- Conflicts of interest – self dealing
- Vendor /subrecipient overcharges

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## Other things to remember



## More stuff to remember

- No pre-signed checks!
- Do you need to file with the Secretary of State twice?
- Even though the organization is "tax exempt", you likely still have to pay state and local taxes.
- Good controls help protect your organization and employees.



## What!? There's still more???

- Beware of collusion!
- Consider a whistleblower policy?
- Be **very** careful how you respond if you detect fraud
- Use a gel pen when hand writing checks
- Consider high security check stock (for example, see [http://info.relyco.com/hs-fs/hub/447987/file-2238575627-pdf/Relyco.com\\_Resources/Business\\_Checks/Relyco\\_Check\\_Security\\_Features.pdf](http://info.relyco.com/hs-fs/hub/447987/file-2238575627-pdf/Relyco.com_Resources/Business_Checks/Relyco_Check_Security_Features.pdf))

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## Won't this guy ever shut up?

- Check references before you hire
- Check-stock and cash and cards, Oh my!
- Safeguard computer data, passwords, donor credit card numbers
- Positive Pay / Reverse Positive Pay
- Trend analysis
- Bank reconciliation

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## For more information...

Check out the Secretary of State website:

<http://sos.wa.gov/corps/>

For general questions call (360) 725-0377

For additional charities information visit:

<http://sos.wa.gov/charities/>

or call: (800) 332-GIVE (4483)

Thanks!

The seal of the Secretary of State of Washington, featuring a portrait of George Washington and the text "SECRETARY OF STATE" and "WASHINGTON".  
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