

503:

Adopting an Internal Control -Integrated Framework, Benefits for Nonprofit Organizations

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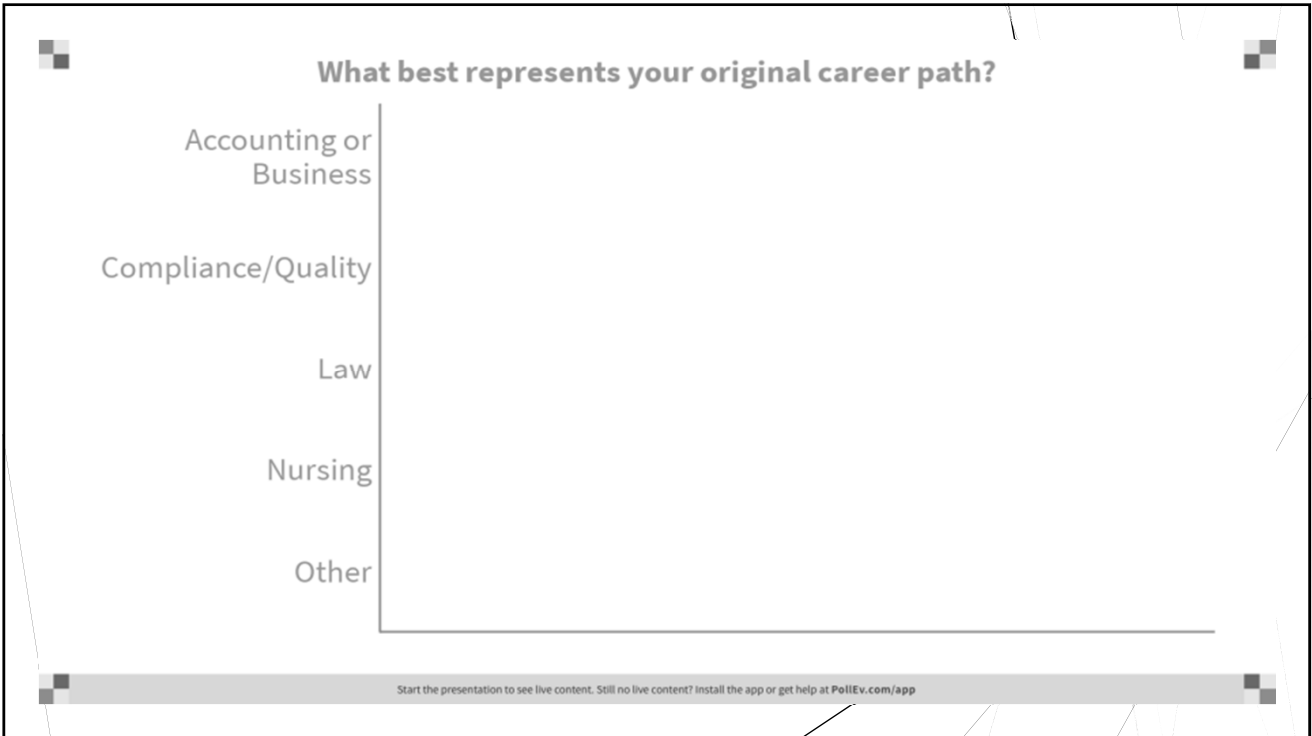
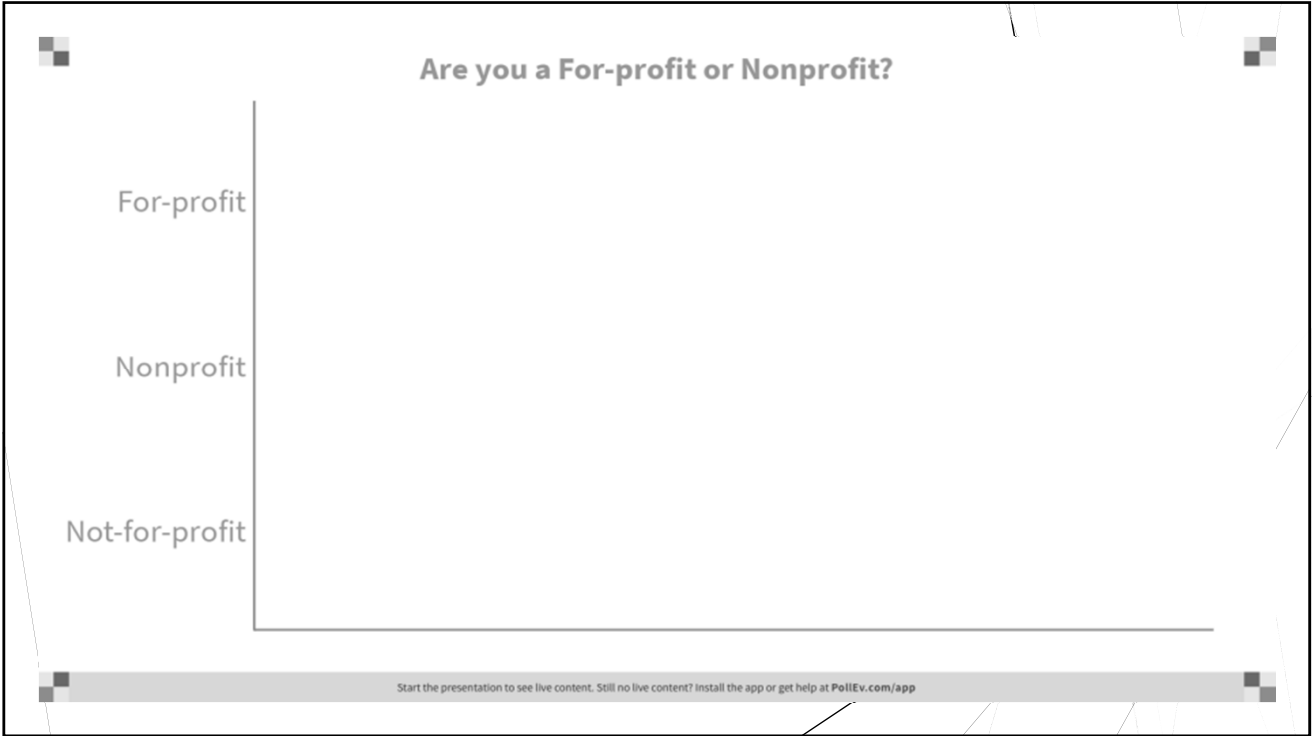
- ▶ While some of what we talk about is based on fact, most of what we will discuss is based on our personal experiences.
- ▶ We do not claim to be the first to use or to have created some of the concepts that we will discuss.
- ▶ The activities we describe and the results we attain may not be appropriate or duplicated in your organization without some fore thought.
- ▶ We have not and will not receive any monetary incentives for promoting the use of the COSO Internal Control – Integrated Framework.

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Agenda

- ▶ What we do
- ▶ COSO Internal Control - Integrated Framework
- ▶ Experiences
- ▶ Transition Plan
- ▶ Q&A

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What best represents your original career path?

- 1 - 3 years
- 5 - 10 years
- 15+ years
- I am not in the Compliance field.

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Who We are

- ▶ **Herkimer County:**
 - ▶ Population 64,000
 - ▶ Demographics - Rural

- ▶ **Arc Herkimer:**
 - ▶ Serve 660 people daily – (mostly ID/DD)
 - ▶ Approximately 400 staff
 - ▶ 2018 Annual Budget: \$26 Million
 - ▶ Operate 38 sites in County (22 Residential)
 - ▶ Second largest County employer



What we do:

Provide an array of services to people with disabilities from residential housing, day programming, employment opportunities and clinical services.



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How many professionals are in your Compliance Department?

Just Me
Two or Three
Four +

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Our Journey

- ▶ 1. Met separately with every program.
- ▶ 2. Send out previous results and solicit feedback on supplemental follow-up questionnaire.
- ▶ 3. Developed a Survey Monkey tool by program (collect information). One universal tool.

- ▶ Continually felt there has to be a better way.

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Risk & The Necessity for Internal Control

- ▶ Internal control is the method an organization puts in place to protect itself to ensure that it has control over its assets. The controls should minimally include daily business procedures, accounting, and inventory systems.

- ▶ **Important for Arc Herkimer:**
 - ▶ Internal Control System that encompassed all levels of the organization
 - ▶ Flexible to everchanging industry
 - ▶ Assists in developing a culture of compliance
 - ▶ Increases efficiencies
 - ▶ Incorporates Accountability

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How many professionals are in your Compliance Department?

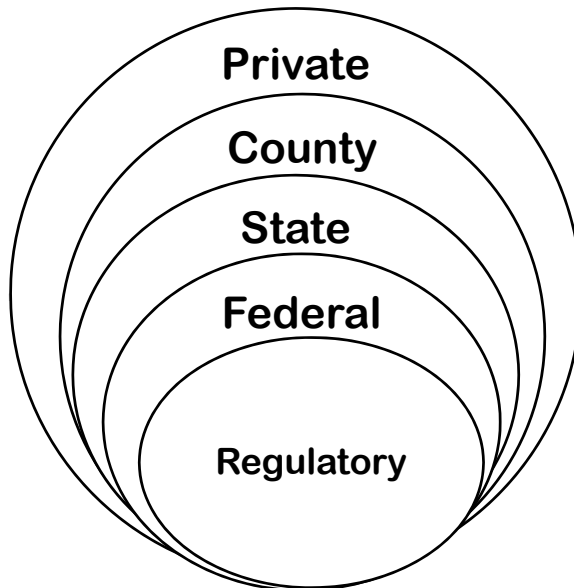
Yes completed
and done at
least one

No never
attempted

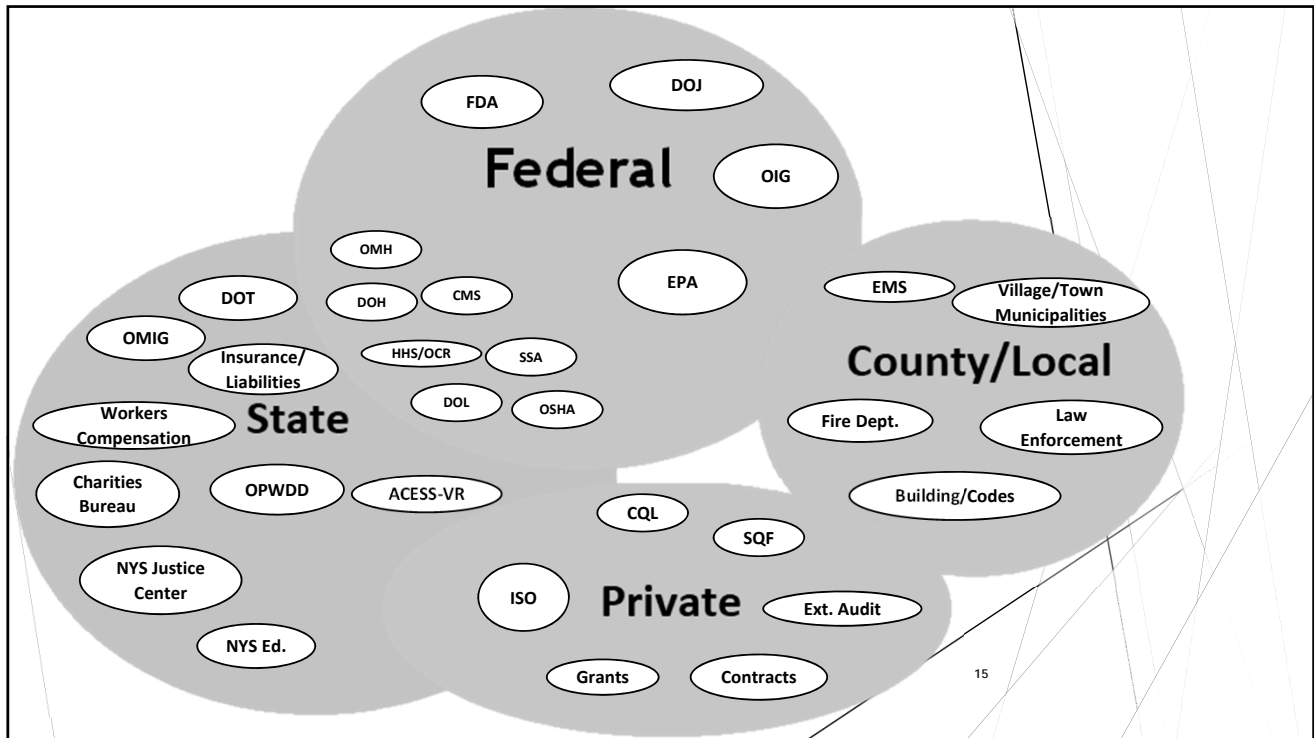
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Risk Mapping



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COSO Internal Control

- ▶ Attended Compliance Sessions, trainings, forums, and began learning about COSO.
- ▶ COSO Internal Control – Integrated Framework:
 - ▶ Developed by the Committee of Sponsoring Organizations of the Treadway Commission
 - ▶ A private sector initiative jointly sponsored and funded by:
 - ▶ American Accounting Association (AAA)
 - ▶ American Institute of Certified Public Accountants (AICPA)
 - ▶ Financial Executives Internal (FEI)
 - ▶ Institute of Management Accountants (IMA)
 - ▶ The Institute of Internal Auditors (IIA)
- ▶ Objective: *“Provide leadership through the development of comprehensive frameworks and guidance on internal control, enterprise risk management, and fraud deterrence designed to improve organizational performance and oversight and to reduce the extent of fraud in organizations.”*

www.aicpa.org

COSO Internal Control Objectives

- ▶ The Framework provides three categories of Objectives allowing organizations to focus on differing aspects of internal control:
 - ▶ 1. Operations Objectives
 - ▶ 2. Reporting Objectives
 - ▶ 3. Compliance Objectives



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COSO

- ▶ Rather than by program/department everyone is having conversations about risk together in the same room. Workgroups are developed with regular conversations occurring to work through the framework.
- ▶ The tool leads you through looking at yourself through an auditor perspective.
 - ▶ Tell me
 - ▶ Show me
 - ▶ Demonstrate it

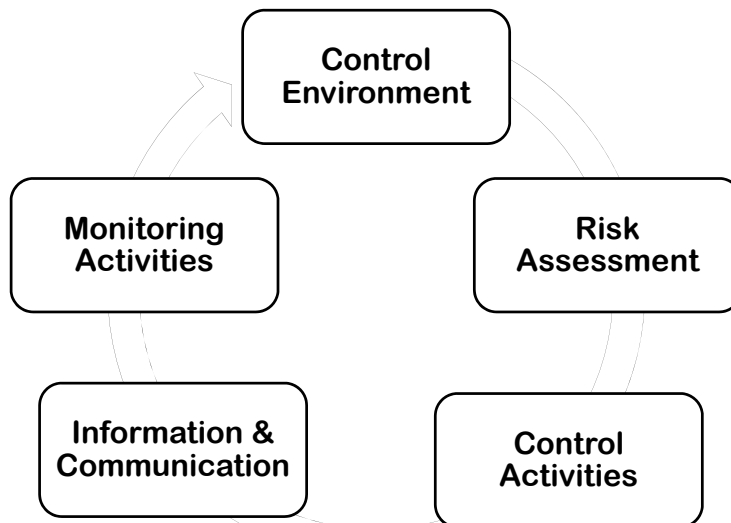
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COSO Internal Control Principles

Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring Activities
<ul style="list-style-type: none"> Committed to integrity & ethics Board of Directors demonstrate independence & oversight Develop structures & responsibilities Committed to retaining staff that are in alignment with objectives Everyone is accountable 	<ul style="list-style-type: none"> Organization sets clear objectives to facilitate the identification of assessing risk Identifies and analyzes risk to determine how it should be managed Considers the potential for fraud Identifies and assesses change that could impact the internal control system 	<ul style="list-style-type: none"> Control activities are chosen that mitigate risk Control activities include technology Policies are adopted and procedures put policies into action 	<ul style="list-style-type: none"> Obtains, generates, and uses relevant information Internally communicates information, objectives, and responsibilities Externally communicates matters affecting the functioning of internal control 	<ul style="list-style-type: none"> Selects, develops, and performs ongoing evaluations to determine whether internal control is present and functioning Communicates deficiencies in a timely manner to all levels of the organization

*A summarization of components & principles - COSO Internal Control - Integrated Framework Executive Summary May 2013

Continual Process of Internal Control

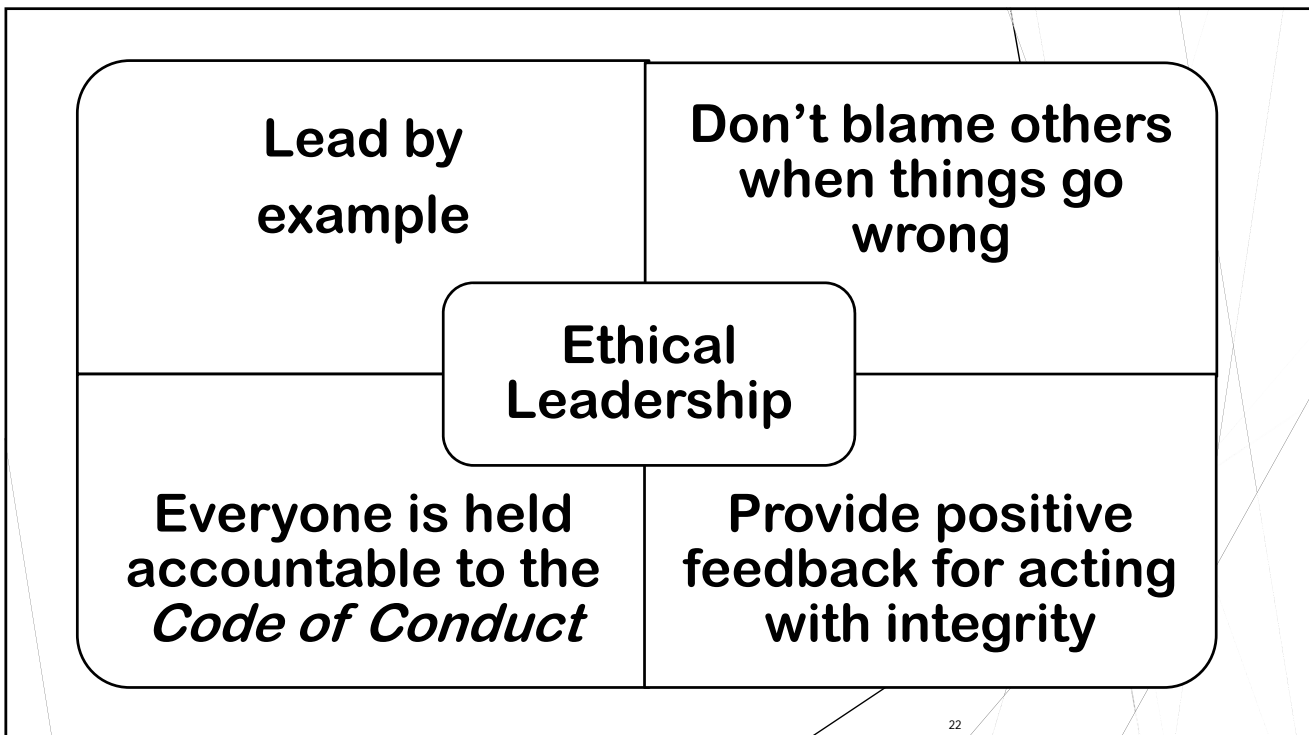


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Organizational Responsibilities

Board	Senior Management	Other Management/ Personnel	Internal & Independent Auditors	Other Professional Organizations
<ul style="list-style-type: none"> • Discusses the state of the internal control system • Establishes policies and expectations • Provides oversight 	<ul style="list-style-type: none"> • Assesses the internal control system utilizing the COSO framework 	<ul style="list-style-type: none"> • Discusses and assign who will act on identified opportunities listed in the framework 	<ul style="list-style-type: none"> • Use COSO framework Illustrative Tools to assist in reviewing/ assessing the internal control system • Review internal audit plans and assess any changes that may have been made to the framework 	<ul style="list-style-type: none"> • Consider standards and guidance in comparison with the framework

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Employee Time & Attendance

Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring Activities
<ul style="list-style-type: none"> Reviewed Policies & Procedures in place to determine if everything was working together in an integrated manner Committed to integrity & ethics Develop consistent structures & responsibilities Accountability Right people in right positions 	<ul style="list-style-type: none"> Determine how each program was enforcing Policy & Procedures Identifies areas where there are grey areas or lines of ambiguity Identified areas where organization was being taken advantage of 	<ul style="list-style-type: none"> Control activities including technology implemented Policies are adopted and procedures put policies into action 	<ul style="list-style-type: none"> Pilots of the new software to determine where issues could occur Communicated new Policies & Procedures to all employees Training on the new software provided to all employees including responsibilities and timeframes 	<ul style="list-style-type: none"> Developed and performed ongoing monitoring activities and delegated responsibilities Determine if deficiencies and/or areas of improvement were discussed and changes were made if/when necessary Ensured accountability was occurring Annual Payroll Audit "ghost employees"

Vehicle Fleet

Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring Activities
<ul style="list-style-type: none"> Review of P&P Goals/objectives Ensuring control over vehicle inventory, use and 	<ul style="list-style-type: none"> Higher insurance premiums resulting from accidents/ infractions Without vehicles loss of revenue and directly affects 	<ul style="list-style-type: none"> Vehicle inventory/ numbering Assign who is responsible /location 	<ul style="list-style-type: none"> Reminders and trainings on proper vehicle use and completing of paperwork. ALL STAFF publications on 	<ul style="list-style-type: none"> Periodic inspections on vehicle maintenance Periodic reviews of trip logs, gas usage, mileage, GPS

Fundraising

Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring Activities
<ul style="list-style-type: none"> •Review of existing P&P •Goals/Objectives •Raise money toward mission 	<ul style="list-style-type: none"> •Increased chance of misappropriation of money •Event disorganization •Unhappy customers/ participants •Low participation in future fundraising events •Poor reflection of brand/organization •Allocating 	<ul style="list-style-type: none"> •Event Committees •Each event has a P&P •All volunteers involved acknowledge they have read/reviewed Policies & Procedures • Sign offs for transfer of cash between parties •Inventory controls for events with products sold (Auctions) •Post event review 	<ul style="list-style-type: none"> •Planning meeting •Marketing materials •Fundraising data base •Use of Social Media 	<ul style="list-style-type: none"> •Compliance review and acceptance of P&P prior to event •Compliance & Quality used to verify money prior to deposit (dual sign off) •Raffle/drawing member of Compliance & QA present •Reconciliation post event

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COSO Internal Control Example

Finance	Supports	Industrial	Transportation	Maintenance
<ul style="list-style-type: none"> • Payroll • Accounts Payable/ Receivable • Accounting • Purchasing • Budgets 	<ul style="list-style-type: none"> • Schedules • Services Billing • Staff Training • Customer Records 	<ul style="list-style-type: none"> • Customer Records • Shipping/ Receiving • Proprietary Documents • Worker Records • Training Records 	<ul style="list-style-type: none"> • Vehicle Inspection Records • Trip Logs • Repair Logs • Training/ Employee Records 	<ul style="list-style-type: none"> • Work Orders • Inspection Records • Preventative Maintenance Records • Training/ Employee Records

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Limitations

- ▶ Framework provides reasonable assurance of achieving objectives but limitations can exist.
 - ▶ Human judgment in decision-making can be flawed and/or subject to bias
 - ▶ Human failures – simple errors can cause system breakdown
 - ▶ Management overriding the internal control system/staff bypassing the internal control system
 - ▶ Inadequate training
 - ▶ External events beyond the organization's control
 - ▶ Technological advancements

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As a result of today's presentation what area came to your mind to look at within your organization upon your return?

Time & Attendance
Vehicles
Fundraising
Records
Other

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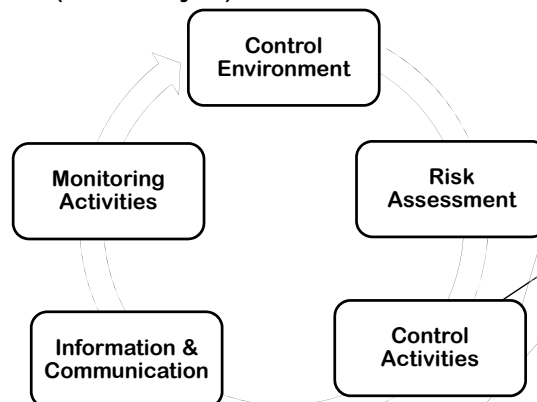
Next Steps

- ▶ After hearing today's presentation what do you think your next steps will be at your organization?

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Transition

- ▶ Look at Processes
- ▶ Discuss with leadership the need for a new tool or process
- ▶ Solicit champions for choosing a tool (create buy-in)
- ▶ Select/Pilot tool
- ▶ Re-evaluate



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