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

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This Session Uses Polling

To participate in polling
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Disclaimer
- 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 forethought.
- We have not and will not receive any monetary incentives for promoting the use of the COSO Internal Control - Integrated Framework.
Agenda

- What we do
- COSO Internal Control - Integrated Framework
- Experiences
- Transition Plan
- Q&A
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.
Our Journey

1. Met separately with every program.
2. Sent out previous results and solicited 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.

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 ever-changing industry
- Assists in developing a culture of compliance
- Increases efficiencies
- Incorporates Accountability
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."

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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

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
COSO Internal Control Principles

**Control Environment**
- 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

**Risk Assessment**
- Organization sets clear objectives to facilitate the identification of risk
- Identifies and assesses risk to determine how it is managed
- Considers the potential for fraud
- Identifies and assesses change that could impact the internal control system

**Control Activities**
- Control activities are chosen that mitigate risk
- Control activities include technology
- Policies are adopted and procedures put into action

**Information & Communication**
- Obtain, generate, and use relevant information
- Internally communicates information, objectives, and responsibilities
- Externally communicates matters affecting the functioning of internal control

**Monitoring Activities**
- Selects, develops, and performs ongoing evaluations to determine whether internal controls are present and functioning
- Communicates deficiencies in a timely manner to all levels of the organization

Continual Process of Internal Control

Organizational Responsibilities

<table>
<thead>
<tr>
<th>Board</th>
<th>Senior Management</th>
<th>Other Management/Personnel</th>
<th>Internal &amp; Independent Auditors</th>
<th>Other Professional Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discusses the state of the internal control system</td>
<td>Discusses and assigns who will act on identified opportunities listed in the framework</td>
<td>Use COSO framework to assist in reviewing and assessing the internal control system</td>
<td>Consider standards and guidance in relation with the framework</td>
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<tr>
<td>Establishes policies and expectations</td>
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<td>Revise internal audit plans and assess any changes that may have been made to the framework</td>
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</table>
Support employees in doing the right thing

Talking about importance of integrity & ethics

Setting a good example

Don’t blame others when things go wrong

Provide positive feedback for acting with integrity

**Ethical Leadership**

Everyone is held accountable to the Code of Conduct

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**Employee Time & Attendance**

<table>
<thead>
<tr>
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<th>Risk Assessment</th>
<th>Control Activities</th>
<th>Information &amp; Communication</th>
<th>Monitoring Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reviewed Policies &amp; Principles to determine if everything was implemented in an integrated manner.</td>
<td>Determine how each program was enforcing Policy &amp; Procedures.</td>
<td>Policies are implemented and procedures put policies into action.</td>
<td>Developed and performed ongoing monitoring activities and delegated responsibilities.</td>
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<tr>
<td>Committed to integrity &amp; ethics.</td>
<td>Identifies areas where there are grey areas or lines of ambiguity.</td>
<td>Policies of the new revised to determine where issues could occur.</td>
<td>Determined if deficiencies and/or areas of improvement were made if necessary.</td>
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</tr>
<tr>
<td>Developed consistent structures &amp; responsibilities.</td>
<td>Identified areas where organization was being taken advantage of.</td>
<td>Communicated new Policies &amp; Procedures to all employees.</td>
<td>Ensured accountability was occurring.</td>
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<tr>
<td>Accountability</td>
<td></td>
<td>Training on the new policies was provided to all employees.</td>
<td>Annual Payroll Audit “ghost employees.”</td>
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<td>Right people in right positions</td>
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**Vehicle Fleet**

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<tr>
<td>Review of P&amp;Ps to ensure control structure was aligned.</td>
<td>Identify inventory or vehicles needed from unexpected situations.</td>
<td>Vehicle inventory/ accountability.</td>
<td>Prepared inspections on vehicles.</td>
<td></td>
</tr>
<tr>
<td>Ensure control structure was operational.</td>
<td>Without vehicles data of company assets.</td>
<td>Assign who is responsible for control.</td>
<td>Historic and training on proper use are very important.</td>
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<td></td>
<td></td>
<td></td>
<td>Periodic reviews of all aspects.</td>
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**Fundraising**

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- Review of existing P&P
- Goals/Objectives
- Raise money toward mission

- Increased chance of misappropriation of money
- Event disorganization
- Unhappy customers/participants
- Low participation in future fundraising events
- Poor reflection of brand/organization

- Event Committees
- Each event has a P&P
- All volunteers involved acknowledge they have read/reviewed Policies & Procedures
- Sign offs for transfer of cash
- Inventory controls for events with products sold (Auctions)
- Post event receipt

- Planning meeting
- Marketing materials
- Fundraising data base
- Use of Social Media

- Compliance review
- Acceptance of P&P prior to event
- Compliance & Quality used to verify money prior to deposit (dual sign off)
- Reconciliation post event

**COSO Internal Control Example**

<table>
<thead>
<tr>
<th>Finance</th>
<th>Support</th>
<th>Industrial</th>
<th>Transportation</th>
<th>Maintenance</th>
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- Payroll
- Accounts Receivable
- Accounting
- Purchasing
- Budgets

- Schedules
- Services
- Billing
- Staff Training
- Customer Records

- Customer Records
- Shipping/Receiving
- Proprietary Documents
- Worker Records
- Training Records

- Vehicle Inspection Records
- Trip Logs
- Repair Logs
- Training/Employee Records

- Work Orders
- Inspection Records
- Preventative Maintenance Records
- Training/Employee Records

**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 by-passing the internal control system
- Inadequate training
- External events beyond the organization’s control
- Technological advancements
Next Steps

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

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