

# Internal Controls

## Internal Controls for Friends Organizations

By Willem Stoeller & Keith Palevsky



# Your presenter

❖ My name is Willem Stoeller

- I have been involved in volunteering for about thirty years
- I am the treasurer of the Friends of the Tualatin River National Wildlife Refuge Complex and I have held that position now for 6 years



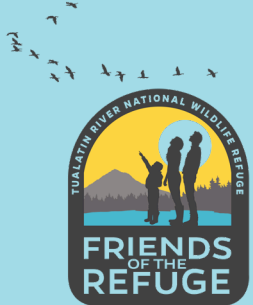
# Focus of my presentation

- ❖ Minimum set of required policies
- ❖ Minimum set of financial internal controls



# Why Internal controls?

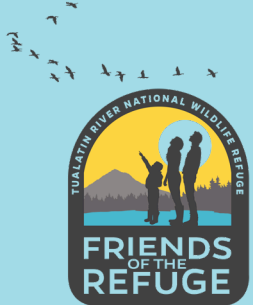
- ❖ A primary responsibility of directors and officers is to ensure that the Friends organization is accountable for its programs and finances to its donors/grantors, members, the public, USFWS and other government regulators.



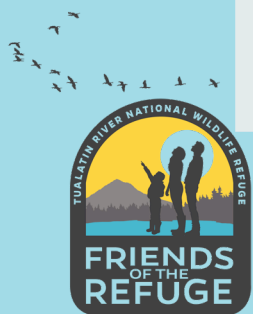
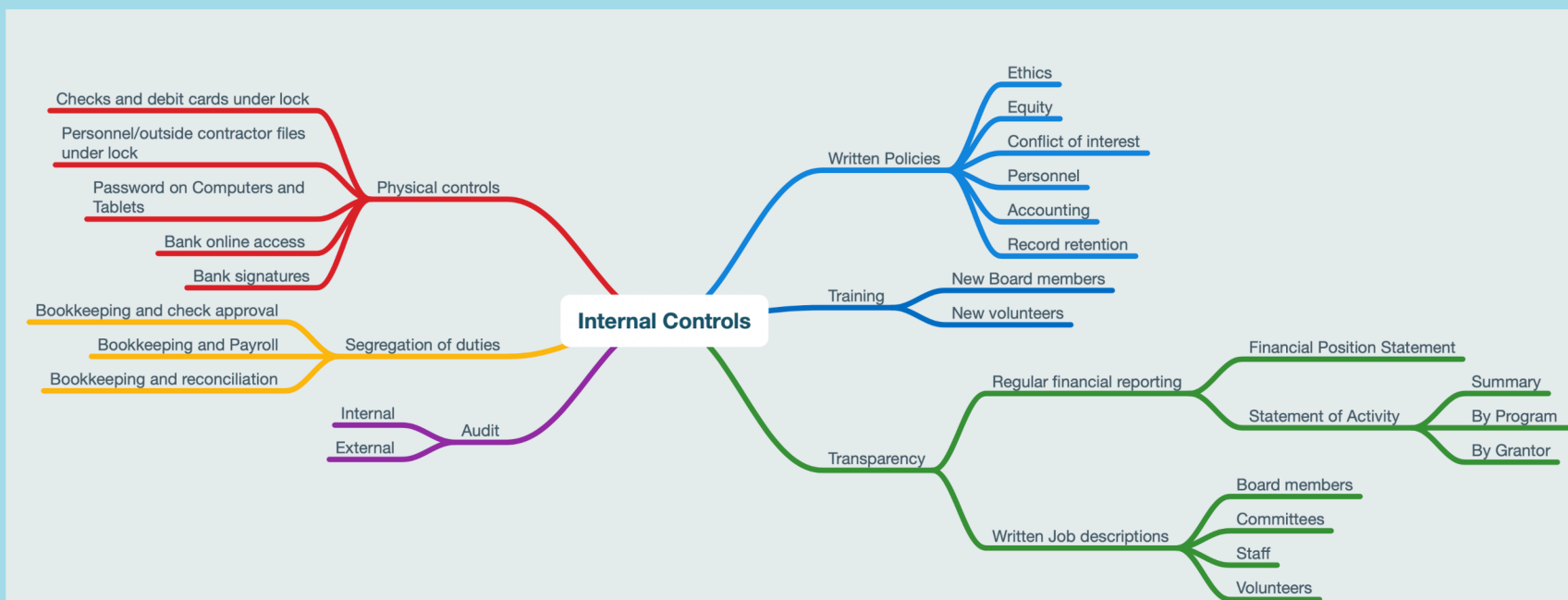


# What are Internal controls?

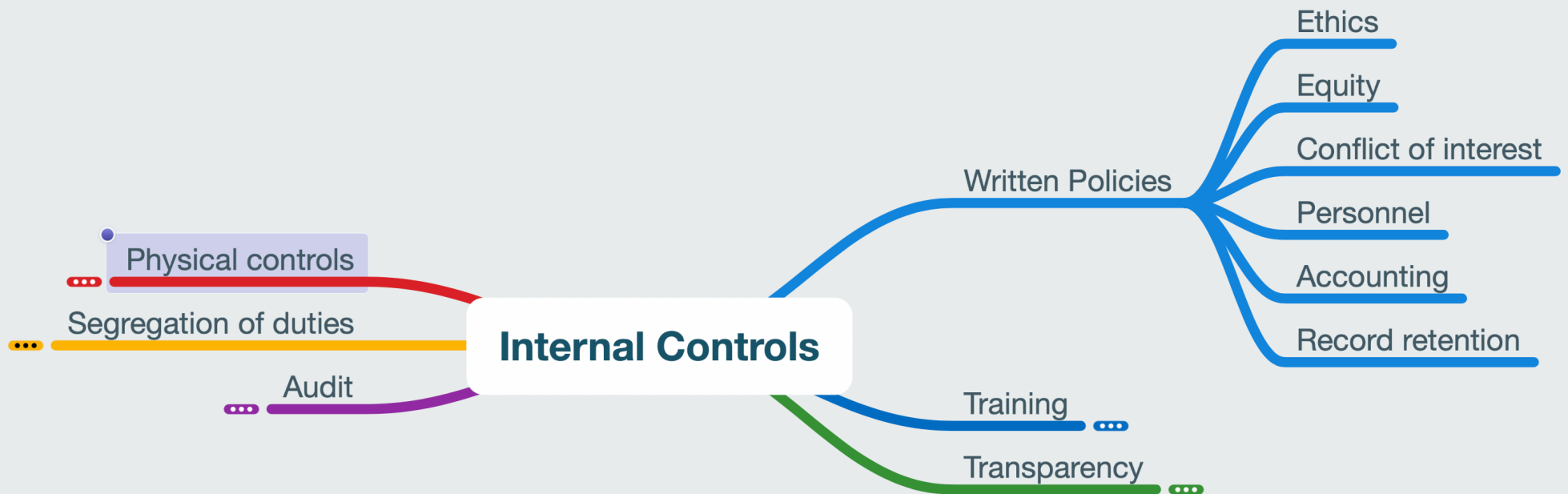
- ❖ Internal controls are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations.



# Different Internal Controls



# Written Policies



# Written Policies-Examples

- ◎Ethics: <https://www.mott.org/about/values/>
- ◎Equity: <https://www.boardeffect.com/blog/sample-board-diversity-policy/>
- ◎Conflict of interest: <https://www.mott.org/about/values/>
- ◎Personnel -> Regulatory requirements, hiring, firing, reviews, etc.
- ◎Accounting-> [GAAP](#)

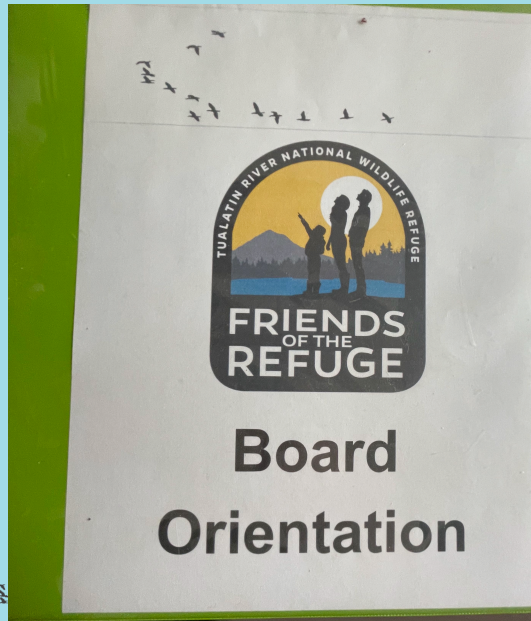


Record Retention:

<https://www.councilofnonprofits.org/>

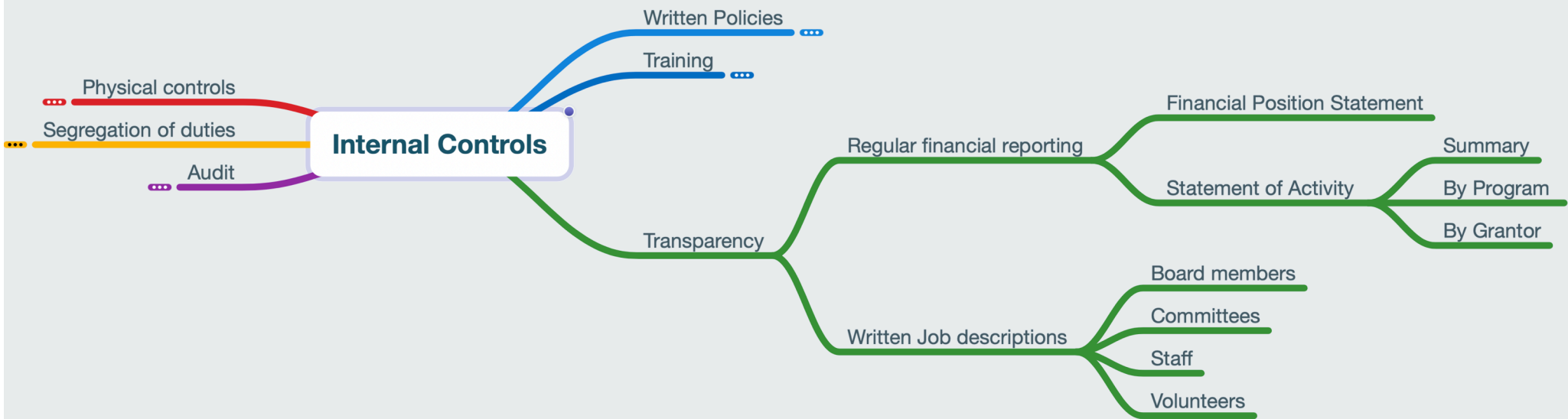
[tools-resources/document-retention-policies-nonprofits](#)

# Training



- ❖ Training manual
- ❖ Training sessions during board meetings
- ❖ Mentoring new board members

# Transparency



# Statement of Financial Position

Friends of TRNWR

STATEMENT OF FINANCIAL POSITION

As of December 31, 2020



	TOTAL		
	AS OF DEC 31, 2020	AS OF SEP 30, 2020 (PP)	% CHANGE
<b>ASSETS</b>			
Current Assets			
Bank Accounts			
10000 FOR Checking Homestreet Acct	387,774.80	368,556.39	5.21 %
10100 FOR MoneyMkt Bus. Partnership	68,598.88	68,572.95	0.04 %
10200 Store Nature's Overlook Account	10,462.31	11,162.58	-6.27 %
10400 Digital Funds Transfer	6,152.92	8,114.68	-24.18 %
10600 Paypal Processing	0.00	0.00	
<b>Total Bank Accounts</b>	<b>\$472,988.91</b>	<b>\$456,406.60</b>	<b>3.63 %</b>
Accounts Receivable			
11200 Grants Receivable Without donor restrictions	0.00	0.00	
11400 Grants Receivable With donor restrictions	30,000.00	45,000.00	-33.33 %
<b>Total Accounts Receivable</b>	<b>\$30,000.00</b>	<b>\$45,000.00</b>	<b>-33.33 %</b>
Other Current Assets			
12000 Undeposited Funds	1,360.00	820.00	65.85 %
12800 Employee Advances	0.00	0.00	
13500 Supplies Inventory	85.21	85.21	0.00 %
14000 Store Inventory	35,858.79	35,585.13	0.77 %
<b>Total Other Current Assets</b>	<b>\$37,304.00</b>	<b>\$36,490.34</b>	<b>2.23 %</b>
<b>Total Current Assets</b>	<b>\$540,292.91</b>	<b>\$537,896.94</b>	<b>0.45 %</b>
Fixed Assets			
15000 Furniture and Equipment	1,096.28	1,096.28	0.00 %
<b>Total Fixed Assets</b>	<b>\$1,096.28</b>	<b>\$1,096.28</b>	<b>0.00 %</b>
<b>TOTAL ASSETS</b>	<b>\$541,389.19</b>	<b>\$538,993.22</b>	<b>0.44 %</b>
<b>LIABILITIES AND EQUITY</b>			
Liabilities			
Current Liabilities	\$781.91	\$11,003.62	-92.89 %
Long-Term Liabilities			
25900 SBA PPP	9,400.00	9,400.00	0.00 %
<b>Total Long-Term Liabilities</b>	<b>\$9,400.00</b>	<b>\$9,400.00</b>	<b>0.00 %</b>
<b>Total Liabilities</b>	<b>\$10,181.91</b>	<b>\$20,403.62</b>	<b>-50.10 %</b>
Equity	\$531,207.28	\$518,589.60	2.43 %
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$541,389.19</b>	<b>\$538,993.22</b>	<b>0.44 %</b>





# Summary Statement of Activity



## Friends of TRNWR

### STATEMENT OF ACTIVITY

December 2020

	TOTAL			
	DEC 2020	OCT 31 - NOV 30, 2020 (PP)	OCT - DEC, 2020 (YTD)	OCT - DEC, 2019 (PY YTD)
<b>Revenue</b>				
43500 Rollup Income without Donor restrictions				
43510 Donations - Individual without restrictions	7,035.31	-64.64	7,345.67	8,959.56
43650 Donations - Foundation Without restrictions	0.57	103.25	103.82	129.83
43670 Donations - Corporate Without donor restrictions		950.00	950.00	1,841.87
43680 Donations - Government Without donor restrictions		29,759.59	29,759.59	
<b>Total 43500 Rollup Income without Donor restrictions</b>	<b>7,035.88</b>	<b>30,748.20</b>	<b>38,159.08</b>	<b>10,931.26</b>
43850 Grant - Individual With donor restrictions	300.00	420.00	720.00	
45030 Interest Income	42.80	80.64	123.44	133.45
46410 Rollup Store Sales	<b>1,929.49</b>	<b>1,192.95</b>	<b>3,180.39</b>	<b>15,844.13</b>
46500 QBKs Internal Funds Txfr Income		0.00	0.00	
47230 Membership Dues	2,560.00	600.00	3,560.00	6,125.00
<b>Total Revenue</b>	<b>\$11,868.17</b>	<b>\$33,041.79</b>	<b>\$45,742.91</b>	<b>\$33,033.84</b>
Cost of Goods Sold	<b>\$266.72</b>	<b>\$455.33</b>	<b>\$753.23</b>	<b>\$10,507.27</b>
<b>GROSS PROFIT</b>	<b>\$11,601.45</b>	<b>\$32,586.46</b>	<b>\$44,989.68</b>	<b>\$22,526.57</b>
<b>Expenditures</b>				
60900 Business Expenses				
60970 Event Expense				135.00
60990 Staff Uniforms				696.71
<b>Total 60900 Business Expenses</b>				<b>831.71</b>
62100 Contract Services	<b>244.30</b>	<b>422.00</b>	<b>666.30</b>	<b>18,288.49</b>
65000 Operations	<b>811.72</b>	<b>90.10</b>	<b>925.81</b>	<b>1,398.44</b>
65004 Software Maint Agreements	71.96		71.96	
65080 NOTE-Remaining funds still in AcctReciev	0.00		0.00	0.00
65100 Other Types of Expenses	<b>9.30</b>		<b>-95.70</b>	<b>2,615.60</b>
66002 Payroll Program Salaries/Wages	3,680.00	11,848.00	15,528.00	24,725.00



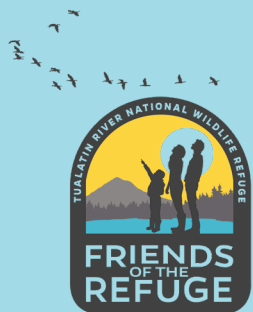
# Statement of Activity by Program

Friends of TRNWR

STATEMENT OF ACTIVITY BY CLASS

October - December, 2020

	FUNDRAISING	GENL & ADMIN COST	MEMBERSHIP DEVELOPMENT	PROGRAMS	BIRD FESTIVAL	RESTORATION	TOTAL PROGRAMS	STORE OPERATIONS	TOTAL
Revenue									
43500 Rollup Income without Donor restrictions									\$0.00
43510 Donations - Individual without restrictions		7,345.67							\$7,345.67
43650 Donations - Foundation Without restrictions		103.82							\$103.82
43670 Donations - Corporate Without donor restrictions		950.00							\$950.00
43680 Donations - Government Without donor restrictions		29,759.59							\$29,759.59
<b>Total 43500 Rollup Income without Donor restrictions</b>		<b>38,159.08</b>							<b>\$38,159.08</b>
43850 Grant - Individual With donor restrictions		720.00							\$720.00
45030 Interest Income		121.62						1.82	\$123.44
46410 Rollup Store Sales								<b>3,164.55</b>	<b>\$3,164.55</b>
46500 QBKs Internal Funds Txfr Income		0.00							\$0.00
47230 Membership Dues		3,560.00							\$3,560.00
<b>Total Revenue</b>	<b>\$0.00</b>	<b>\$42,560.70</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$3,166.37</b>	<b>\$45,727.07</b>
Cost of Goods Sold	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$620.81</b>	<b>\$620.81</b>
<b>GROSS PROFIT</b>	<b>\$0.00</b>	<b>\$42,560.70</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$2,545.56</b>	<b>\$45,106.26</b>
Expenditures									
62100 Contract Services		<b>345.53</b>				<b>320.77</b>	<b>320.77</b>		<b>\$666.30</b>
65000 Operations		<b>84.84</b>	<b>767.00</b>			<b>23.99</b>	<b>23.99</b>	<b>49.98</b>	<b>\$925.81</b>
65004 Software Maint Agreements		71.96							\$71.96
65080 NOTE-Remaining funds still in AcctReciev		0.00							\$0.00
65100 Other Types of Expenses		<b>-105.00</b>						<b>9.30</b>	<b>\$ -95.70</b>
66002 Payroll Program Salaries/Wages		0.00				15,528.00	15,528.00		\$15,528.00
66003 Payroll Employer Tax		973.77				1,303.77	1,303.77		\$2,277.54
66004 Payroll Friends Salary/Wages	1,296.00	5,636.25	1,350.00		1,431.00	1,404.00	2,835.00	1,431.00	\$12,548.25
66090 Payroll Workers Comp Insurance		566.42							\$566.42
<b>Total Expenditures</b>	<b>\$1,296.00</b>	<b>\$7,573.77</b>	<b>\$2,117.00</b>	<b>\$0.00</b>	<b>\$1,431.00</b>	<b>\$18,580.53</b>	<b>\$20,011.53</b>	<b>\$1,490.28</b>	<b>\$32,488.58</b>
<b>NET OPERATING REVENUE</b>	<b>\$ -1,296.00</b>	<b>\$34,986.93</b>	<b>\$ -2,117.00</b>	<b>\$0.00</b>	<b>\$ -1,431.00</b>	<b>\$ -18,580.53</b>	<b>\$ -20,011.53</b>	<b>\$1,055.28</b>	<b>\$12,617.68</b>
<b>NET REVENUE</b>	<b>\$ -1,296.00</b>	<b>\$34,986.93</b>	<b>\$ -2,117.00</b>	<b>\$0.00</b>	<b>\$ -1,431.00</b>	<b>\$ -18,580.53</b>	<b>\$ -20,011.53</b>	<b>\$1,055.28</b>	<b>\$12,617.68</b>



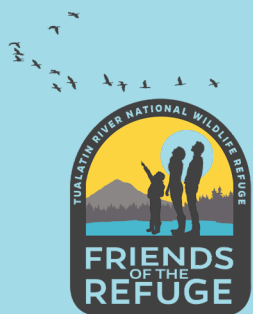
# Statement of Activity by Grantor/Donor

## Friends of TRNWR

### STATEMENT OF ACTIVITY FOR ALL RESTRICTED CUSTOMER FUNDS

All Dates

	CEPEEPAY	CEPRESTPAY	FESTIVAL RESTRICTED	FOR CONTRIBUTED FUNDS	FWS19RESTORHR	FWS19RESTORPAYROLL	INTELREST	PHOTOGRAPHIC SOCIETY	TVWD RESTOR PAYROLL	WASHINGTON COUNTY VISITORS ASSOCIATION	TOTAL
Revenue											
43500 Rollup Income without Donor restrictions				304.15						29,759.59	\$30,063.74
43600 Grants - Corporate With donor restrictions							291,000.00		20,000.00		\$311,000.00
43800 Grants - Government With donor restrictions	5,000.00	2,500.00	7,500.00		7,500.00	67,500.00					\$90,000.00
46500 QBKs Internal Funds Txfr Income			13,141.59	22,432.01				3,760.38			\$39,333.98
<b>Total Revenue</b>	<b>\$5,000.00</b>	<b>\$2,500.00</b>	<b>\$20,641.59</b>	<b>\$22,736.16</b>	<b>\$7,500.00</b>	<b>\$67,500.00</b>	<b>\$291,000.00</b>	<b>\$3,760.38</b>	<b>\$20,000.00</b>	<b>\$29,759.59</b>	<b>\$470,397.72</b>
GROSS PROFIT	<b>\$5,000.00</b>	<b>\$2,500.00</b>	<b>\$20,641.59</b>	<b>\$22,736.16</b>	<b>\$7,500.00</b>	<b>\$67,500.00</b>	<b>\$291,000.00</b>	<b>\$3,760.38</b>	<b>\$20,000.00</b>	<b>\$29,759.59</b>	<b>\$470,397.72</b>
Expenditures											
60900 Business Expenses				380.95		91.18					\$472.13
62100 Contract Services				135.00		413.97		100.00		24,740.59	\$25,389.56
62850 TRNWR Direct Assistance Expense (deleted)				90.05							\$90.05
65000 Operations				317.81				374.99		4,989.00	\$5,681.80
65015 Hardware				554.39							\$554.39
65070 QBKs Internal Funds Trans Expen				-1,518.71							\$ -1,518.71
65080 NOTE-Remaining funds still in AcctReciev					0.00	30,000.00			0.00		\$30,000.00
65100 Other Types of Expenses				-319.26		70.00		75.00			\$ -174.26
66002 Payroll Program Salaries/Wages				20,327.10		28,464.18			2,882.15		\$51,673.43
66004 Payroll Friends Salary/Wages			1,107.00	396.00	1,904.00						\$3,407.00
66090 Payroll Workers Comp Insurance						59.06					\$59.06
68300 Meetings, Travel				779.59							\$779.59
<b>Total Expenditures</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$1,107.00</b>	<b>\$21,142.92</b>	<b>\$1,904.00</b>	<b>\$59,096.39</b>	<b>\$0.00</b>	<b>\$549.99</b>	<b>\$2,882.15</b>	<b>\$29,729.59</b>	<b>\$116,414.04</b>
NET OPERATING REVENUE	<b>\$5,000.00</b>	<b>\$2,500.00</b>	<b>\$19,534.59</b>	<b>\$1,593.24</b>	<b>\$5,596.00</b>	<b>\$8,401.61</b>	<b>\$291,000.00</b>	<b>\$3,210.39</b>	<b>\$17,117.85</b>	<b>\$30.00</b>	<b>\$353,983.68</b>
NET REVENUE	<b>\$5,000.00</b>	<b>\$2,500.00</b>	<b>\$19,534.59</b>	<b>\$1,593.24</b>	<b>\$5,596.00</b>	<b>\$8,401.61</b>	<b>\$291,000.00</b>	<b>\$3,210.39</b>	<b>\$17,117.85</b>	<b>\$30.00</b>	<b>\$353,983.68</b>



# Example Job description

**Section 4.05. Duties of the President.** The President is the principal executive officer of the Corporation and, subject to the control of the Board of Directors, shall in general supervise and control all of the business and affairs of the Corporation. The President shall, when present, preside at all meetings of the Board of Directors, Executive Committee, and at the Annual Meeting as Chair. The President may sign contracts, or other instruments which the Directors have authorized to be executed, except in cases where the execution thereof is delegated to some other officer or agent of the Corporation by the Directors, these bylaws, or law. The President shall perform such other duties as may be prescribed by the Directors from time to time. The President shall have authority to bind the corporation for transactions up to \$1,000 without prior approval of the Board of Directors.

The President shall, in a timely manner provide to the Board the status of the Corporation, and obtain documentation as required by the Board which may include financial expenditures, performance data, and accomplishments, and arrange for written accountability of expenditures of corporate funds as necessary.

The President shall be the Registered Agent of the Corporation unless another officer is so designated in writing by a vote of the board, and notwithstanding Section 4.02, the office of President will serve at the will of the Board, be a voting member of the Board and of the Executive Committee, and will be an ex officio and non-voting member of all committees not appointed to. The President is assumed to be in the line of succession to become the Past President of the Corporation at the time the President's term ends.



# Example Committee Description

## Governance Committee Charter

### Mission of the Governance Committee

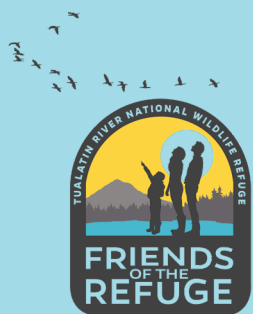
The mission of the Governance Committee is to assure that the Friends of the Tualatin River National Wildlife Refuge Complex (FOR) Board of Directors operates in compliance with federal and Oregon state regulations (Chapter 65 – Nonprofit Corporations), regulations applicable to its status as a 501(c)(3) Public Benefit Corporation, as described in our Articles of Incorporation, as well as the bylaws, policies, and procedures of the Friends of the Refuge.

### Specific Responsibilities

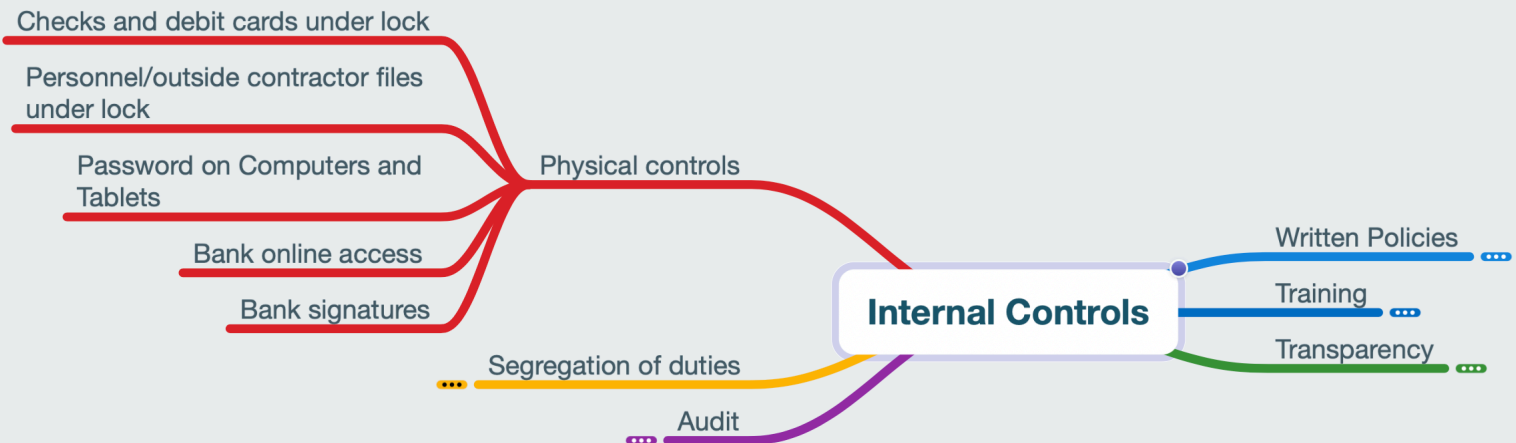
1. Maintain corporate records to include:
  - a. IRS approval of 501 (c)(3) status,
  - b. Articles of Incorporation,
  - c. Friends' bylaws, vision, mission, policies and operating procedures.
2. Ensure that committees operate to their charters, provide a report to the Board of their functions, and that their reports are distributed per their charter.
3. Advise the Board and make recommendations on agreements external to the Friends, including the Friends Partnership Agreement.
4. Assure that corporate records, policies, and practices are updated as necessary to remain compliant with Federal and State regulations, current Friends agreement, and with the evolving status of FOR. This includes human resources, finance, and insurance (how to reduce liability of both individuals and the organization as a whole).
5. Archive all corporate records, digitally where possible, in accordance with our document retention policy.
6. Maintain and update training materials for FOR Board members, including the Board handbook. Assure that all Board members have access to these materials.
7. Recruit new Board members and present them to the FOR membership for approval according to bylaws.
8. Ensure that new Board members receive training and have access to mentorship.
9. Manage the election process for directors and officers in accordance with our bylaws and the State of Oregon regulations.
10. Maintain a process for resolution of conflicts and issues between Board members.
11. Ability to form *ad hoc* or sub-committees as needed.
12. Submit a yearly work plan to the Board and provide updates at least quarterly.

### Meeting Frequency and Status

This Committee will meet at a minimum quarterly during each year and provide updates and recommendations to the Executive Committee and the Board. A report on the Committee's activities will be provided to the FOR members at each annual meeting of the Friends membership.



# Physical Controls



# Physical Controls



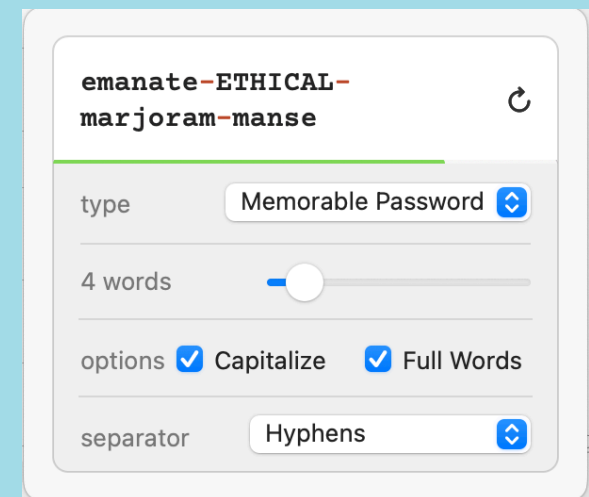
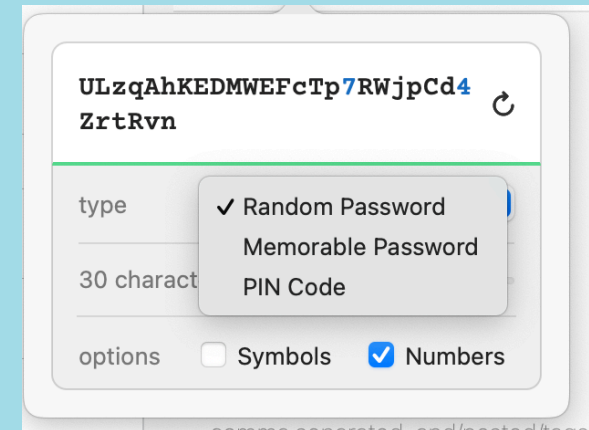
- ❖ Bookkeeper/accountant should be responsible for storing sensitive information in locked cabinets together with blank checks and debit/credit cards
- ❖ Treasurer or president/Executive Director should be responsible for who can access bank accounts online and who has signature authority





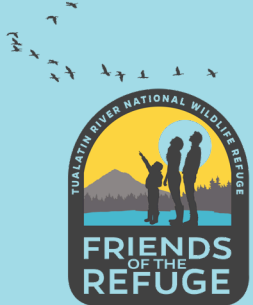
# Physical Controls

- ❖ Use good passwords on all laptops/desktops/tablets and all sensitive applications and files (use tools such as 1Password or Norton to generate and store passwords)

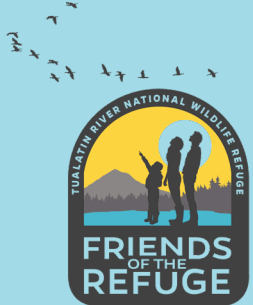
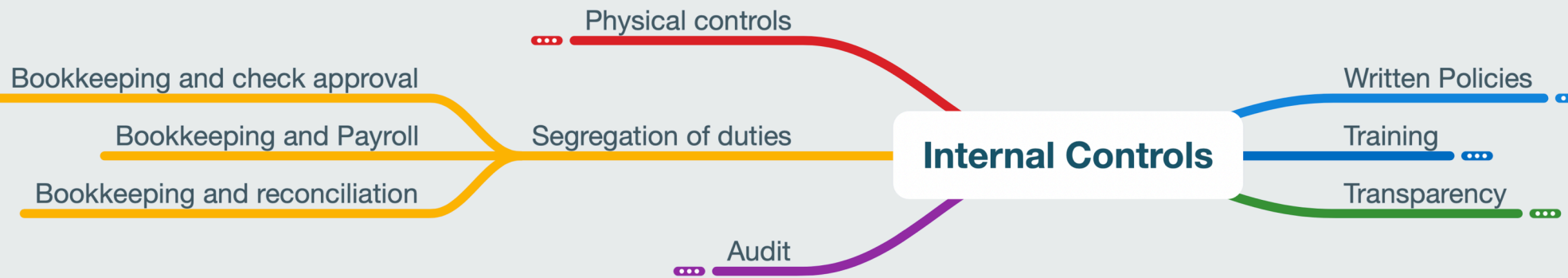


# Physical Controls

- ❖ Make sure you have virus/malware protection on all devices and backup all data preferably using cloud-based solutions such as Backblaze




# Segregation of Duties

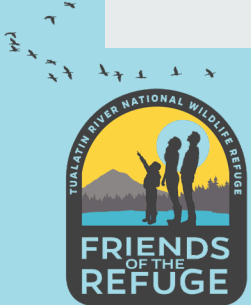
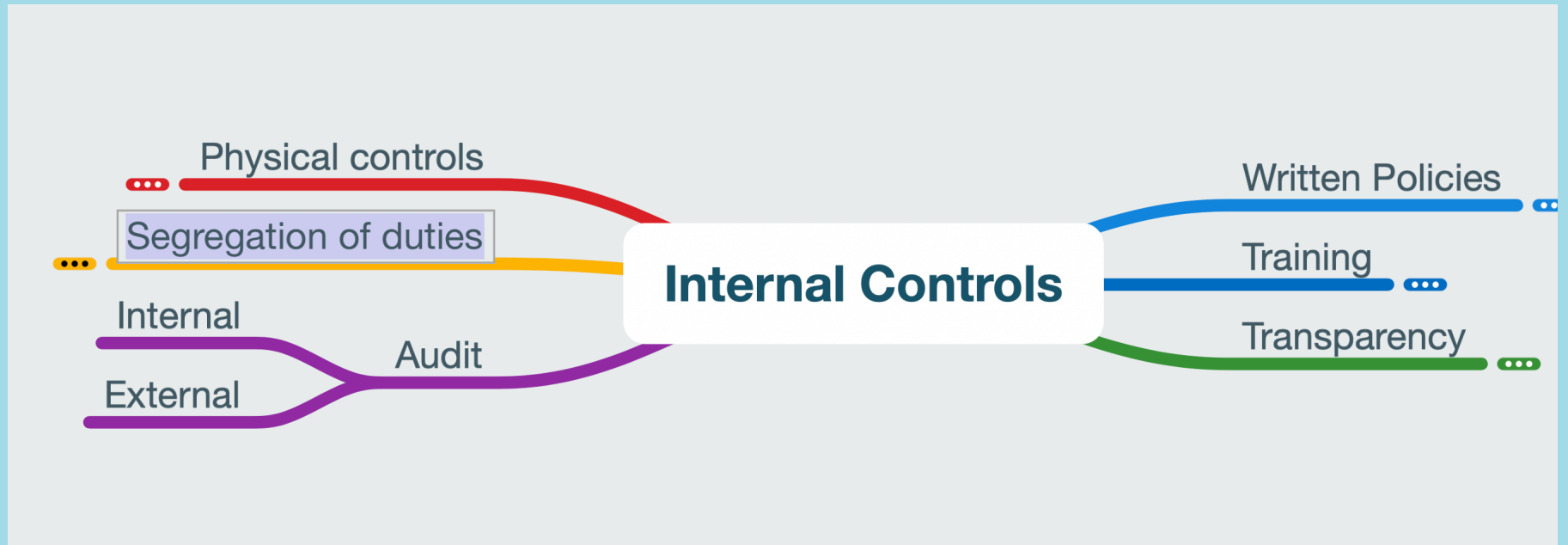


# Segregation of Duties

From GRF CPAs & Advisors

Accountant/Bookkeeper	Executive Director/Chief Executive Officer	Board Treasurer/ Finance-Audit Chair
Write disbursement checks	Sign and mail checks	Receive unopened bank statements directly and review recorded transactions in detail
Reconcile bank statements	Make bank deposits	Review bank reconciliations
Record receipts and disbursements into accounting system	Approve and submit payroll	Review adjustments and detailed general ledger
Process payroll	Approve vendor invoices for payment	
Process vendor invoices		
Record adjustments in books		

# Audits



# Internal Audits



- ❖ Verify correctness of financial reports (review financial reports for at least one random period)
- ❖ Check for correct amount, account, date, program, fund source for transactions based on experience and expenditure requests, bills, and receipts
- ❖ Distribution list should include all board members and project leader
- ❖ Frequency should be at least quarterly, preferably monthly



# Internal Audits

- ❖ Verify correct management of donor restricted funds
- ❖ For each grantor and FWS cooperative agreement check that all pledges and expenditures are tracked by grantor
- ❖ Verify that donor restrictions are documented and respected
- ❖ Verify that grantor/FWS reporting requirements are met
- ❖ Internal distribution list should include all board members and project leader





# Internal Audits

- ❖ Verify operating reserves are available and tracked in financial reports
- ❖ Verify existence of operating reserves policy
- ❖ Operating reserves should be board designated
- ❖ Operating reserves should cover all operation expenditures for at least three months
- ❖ Review operating reserves policy on an annual basis



# Internal Audits

- ❖ Verify budget to actual performance
- ❖ Verify existence of annual budget and budget creation process
- ❖ Verify existence of B/A reports
- ❖ Flag any substantial B/A differences and document reasons



# Internal Audits

## ❖ Fraud prevention



- ❖ Check new vendor lists
- ❖ Verify that expenditure request policy is followed
- ❖ Check financial reports against bank statements and verify reconciliation reports



# External Audits

- ❖ Can be required by Grantors, State law or Federal regulations
- ❖ Expensive: \$10,000-\$20,000
- ❖ Executed by independent audit organization
- ❖ There are cheaper alternatives



# External Audits

## ❖ Full audit (\$10K-20K)

- ❖ Financial audit by a certified public accountant who examines financial records and business transactions and expresses an opinion about the truthfulness and accuracy of financial statements.
- ❖ An audit examines a group's internal controls and looks at independent confirmation of financial information



# External Audits

- ❖ Financial Review 40-60% of full audit cost
- ❖ An independent auditor reviews your financial statements to determine if they're consistent with generally accepted accounting principals (GAAP)
- ❖ A review merely looks for obvious deviations from GAAP and provides limited assurance that no substantial modification should be made to financial statements.



# External Audits

## ❖ Financial Compilation <\$5K

- ❖ An accountant (CPA) literally compiles financial records in an accounting-acceptable format, something that may help small nonprofits more easily explain their financial health.
- ❖ During a compilation, a CPA makes no assurance that the records are accurate or that risk controls against embezzlement and fraud are in place.





