Nonprofit Internal Controls—An Updated Management Refresher for 2024

**Amanda Nelson:** Hi, everyone, and welcome to today’s webinar on nonprofit internal controls. We’re thrilled to have you and almost 900 other nonprofit professionals registered for today’s webinar. So please take time to feel free to introduce yourselves to each other in the chat. And also during the webinar, you can use the chat to ask any questions that you have.

We will be drawing questions for our Q&A sections from the chat, so feel free to enter your questions there. And engagement is a big part of our webinars, so feel free to answer each other’s questions and interact with each other as you see fit.

And now I want to take time to thank our sponsor, Jitasa. Jitasa is a bookkeeping, accounting, and fractional CFO service provider that works exclusively with nonprofits. Their team serves over 1,500 organizations across the nation and has helped nonprofits organize their finances since 2008. Jitasa is committed to helping nonprofits that are dedicated to making the world a better place, and their team truly understands the unique financial challenges faced by those noble organizations. Whether you need help filing your annual 990, organizing your grant funding, ensuring your revenue and expenses are properly recorded, or other financial services, Jitasa can help. For more information, visit Jitasa.com. That’s J-I-T-A-S-A-dot-com. I would also like to add that NFC is a proud client of Jitasa and benefits from their expertise and dedication to nonprofit financial management.

I am excited to introduce you to our esteemed speakers for today. We have John Osterburg, the Chief Operating Officer of Jitasa, and Wade Rogers, who is an NFC moderator, and he also does financial training and consulting for nonprofits. We also have Dana Britto, an NFC moderator as well, and founder and principal of Cultivar Consulting LLC.

And now I will hand over to Ruth McCambridge to talk about what happens when there is a lack of internal controls.

**Ruth McCambridge:** Hi, everybody, and welcome. This is such... I was just saying to the other presenters before this webinar, we expected not such a great attendance today, because it is, after all, almost August, but that’s not what we found. This is one of the best attended webinars that we put on recently, so, welcome, all of you, and thank you for being here.

I’d like to start off today by — I am replacing one of our constituents, one of our participants who actually agreed to be a presenter on today’s webinar and then got very sick with COVID. So, she is in bed recovering, and we encourage her to do so, but she told me her story. So I’m going to repeat her story because we always like to lead off, or at least include, a story from a nonprofit who’s had direct experience with whatever it is that we’re talking about. And then I’m going to also tell you another story that’s ripped straight from the headlines.

I just want to give you a sense of why, in fact, when you stint on internal controls, you might be causing yourself untold amounts of work. So Kara, who I was talking to, was going to present today. She runs a very small organization in Washington state, and she said that — this is not anything that happened recently to them — but she told a story that sounded very, very familiar. And the story is essentially this: that there was an up-and-coming leader in the organization that really had people’s trust and was very charismatic. The organization, actually, was very based on a flexible type of trust, in that they worked with their very low-income constituents in ways that allowed them to provide money for whatever it was that those constituents actually needed. So, it was a relatively flexible system that they had in place. And what happened is fairly familiar, which is that at some point, people realized that there was money that was disappearing. And the person who was the up-and-coming leader actually took responsibility for it and ended up leaving the organization, but it wasn’t without a lot of angst and sorrow, but that happened.

So that’s a fairly familiar story, but I want you to understand that when I’m telling you a story like that, which can cause just great grief to the entire organization, that to some extent, because an organization is very small, you can kind of see how that could happen. There’s excuses for it happening. Kara told me it’s just the difference between having rational behavior and rationalizing your behavior. She said, it’s just better to have the rules in place for everybody, so that the rationalization never actually can occur, because the rules are clear to everybody and there’s an observation of how things are happening according to those rules.

Again, this does not just happen in small organizations. In fact, we just saw a huge meltdown of a major organization in Detroit, the Detroit Riverfront Conservancy, and what happened there was that the CFO actually ended up embezzling $40 million over a period of 12 years. So, as you can imagine, this is a very large organization funded by government, some of the major foundations in that area. There is no excuse, obviously, for them having a lack of systems. And in fact, they have, full-on, you know, an audit committee, a finance committee, a treasurer. They have all of the bells and whistles in place and no disciplines to go with them.

The disciplines are relatively simple in principle. As organizations get bigger and more complex, of course, you have more places to look to make sure that those principles are being applied. In this case, it had gotten so bad that, in fact, the CFO had sole [garbled] authority over the bank account and then would reconstruct financial reports. The fact that nobody in an organization this size was able to see a $40 million loss is awe-inspiring, really. But when you read more about the organization, it was such... it shows a network of interconnections between people. Like, they had connections between staff people and some of the contractors; there were staff people who went to some of the board people for loans. It was just a nest of bad behavior.

That is really a problem of ethics, and it’s something that, later on, Dana’s going to walk you through, because as much as you need systems, and we do badly need systems in all sizes of organization to help guide our actions, there’s also a need for the entire organization to agree to observe ethical guidelines and ethical principles.

That’s my presentation for today. It can happen in any size organization. I want to say the Detroit organization had a 44-person board. They all managed to ignore what it was that was going on internally, and even now, the CFO is gone, and the executive director resigned, but the board is still in place, and that to me really says a lot about — yes, absolutely, too big of a board, Dorothy — that absolutely says a lot about how serious the organization is about reforming itself, because in a case like that, there should be a commitment to really turn over nearly all positions of authority.

I’m handing it over to Wade, who’s going to talk about the basics of internal controls.

Thank you. Wade, take it  away.

**Wade Rogers:** Thank you. Thank you, Ruth, and hello to everyone. Usually, in these webinars, I’m kind of lurking back in the chat, so I’m excited to be speaking directly to you for the first time. I look forward to sharing this with you. Jon, you can advance to the next slide.

What we want to do is just a quick overview of what we mean when we’re talking about internal control. This is going to be a bit academic, but I think it’s going to be a good base for what John and Dana will ultimately cover. And what I’m going with, you can see the asterisks down there at the bottom of the page, is I’m using the language from the Committee of Sponsoring Organizations of the Treadway Commission, which is a body that’s actually a consortium of multiple accounting and finance-related organizations that has developed this internal control. It’s called an integrated framework. It was last updated in 2013, and it’s really become, for the industry, the go-to primer for developing your system of internal control, and so it’s super-helpful in laying this groundwork.

So the basic definition that the COSO gives to us is: a process effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives related to operations, reporting, and compliance. So I’ve broken this out into the four main ideas here, in the sense that internal control is a process, and I’m thinking about how it’s evolved since I first learned about this back in the late ‘80s, when we talked about systems of internal accounting control, and it was very specific, and it was related to addressing misappropriation — misappropriation of assets, misstatement of financial statements — but it was very focused in on the accounting processes, whereas this COSO’s framework has expanded it, talking about a process.

So process, not necessarily just policies and procedures, but ongoing tasks and activities, continuously improved, and considered a means to the end, not the end. So, it’s much more holistic.

“Effected by an entity’s board of directors, management, other personnel.” So it’s very people-related. Like I said, it’s not just a manual, but it’s people, and the actions that they take at every level of the organization. And then we’ll be... I know Dana is really going to highlight some of that as well.

The third is really important in so many situations. It’s “designed to provide reasonable assurance.” And this is what you read in audit opinions, for instance, in that nothing is going to give us absolute assurance that controls are not going to be circumvented. But we want a tightened-up environment of internal control to provide the most reasonable assurance possible.

And then finally, “regarding the achievement of three objectives: operations, reporting, and compliance.” So again, not just your set of fiscal procedures, but a much more broad control environment. Let’s talk a little in the next slide about these three broad objectives.

I’m sorry, I think it’s one back... there it is. It looks like it got out of order. We’ll just go back one on the next one.

So these are those three objectives I just talked about in the definition of internal control. So your objective is relating to operations, the first one. This is where we go beyond just simply the protecting of our assets against loss. “Effective and efficient operations within the organization,” that you have a smooth-running organization where folks know exactly what they’re supposed to be doing. “The achievement of operational and financial performance goals,” so it relates also to the goal setting of the organization and that achievement. And then also within this umbrella is that oldie but goodie, “safeguarding of assets against loss.” We actually want to make sure that folks aren’t stealing money from us.

So that’s the operational side of things. Within reporting, reliability, timeliness, transparency of not only our external financial reporting, which is what we often think about the most, but also our internal and non-financial reporting. So, maybe those budgets and those internal board reports, but also those outcome reports and dashboards that we put in place. So, this system of internal control will also help us to ensure that, that these are reliable and transparent. It’s not just an internal thing. It’s also thinking about what regulators and funders are requiring us to be reporting on.

And then finally, in the area of compliance, “adherence to applicable laws and regulations” — so, that’s the IRS, your state charities bureau, the Department of Revenue within your state if you have sales tax, for instance; your “funder requirements,” that you’re complying with grant reporting and contractual requirements, and then just “the standards of best practice in the sector.” We want to be good players in our often self-policed nonprofit sector.

So those are those three main areas — and, Jon if you could go back one slide? Right there. Thank you. — and then within the framework, we have these two kind of broad levels of internal controls. The entity-level controls. This is, to me, I think about the environment or the culture of ethical behavior. This is truly the foundation, and this comes really from the top, but I never like to think about that, because it’s got to be everyone involved. So, it’s actually supporting these more detailed processes below. It encourages transparency and ethical culture. The fact that everyone on the team is aware of the policy, they have the ability to report back and forth clearly, and they’re trained on it effectively. I think about this when we think about, within an organization, policies and procedures. This is that policy level where the procedures are carrying out the policies that are in place.

So this is the broader side of things. And then at the more granular level are these control activities, which we’ll see when we talk about separation of duties and other parts of the environment. These are the very specific procedures and processes. So they’re designed to reduce the risk surrounding the reporting objectives. So there’s, you’re making sure you’re properly stating... you have reliable financial information, as well as the stewardship of assets, back to that whole “safeguarding the assets that we have.” Examples of this are account reconciliations, dual approval on expenditures, review of credit card statements, and then the biggie, and the oldie but goodie in these control activities, would be the separation of duties.

Let me jump to that — that’s going to be two slides away. And this is often the biggest question that we get whenever we cover these areas. And, some of the biggest questions we got on this related to smaller organizations, because we know we have this concept of separation of duties where, in effect, any process — so, for instance, cash receipts, from receiving the cash all the way through to depositing it and reconciling the bank account --should have more than one set of hands on it. And that can be super-difficult in a small organization. So what we want to look at, especially at a smaller organization level, is first identifying, on the left here, are these processes or cycles within our finance function. On the right, in these rectangular shapes, are the steps within the processes. And what’s important is that we’re able to identify what do we do within our organization, and then what are the steps there, and who’s on board, who’s on deck to actually participate in this process. And so this is an example of separation of duties, where we want to make sure that each of these processes has at least two sets of hands on it, if not more.

And so we have, perhaps, this treasurer who, maybe... This is an all-volunteer organization. The treasurer is — you know, maybe you all have lived this — is that person that has the QuickBooks file, is doing all the record-keeping, all the financial reporting, and that is leading us towards risks relating to separation of duties. So we want to think, perhaps maybe the board chair can then come in and be that other set of hands in the process. For instance, with cash receipts, that the chair is actually taking the deposits to the bank or scanning them into the software. The treasurer is reporting the deposits, ultimately reconciling the bank account while the chair is reviewing the bank reconciliation. Similarly, with disbursements, the chair is approving and making the payment, the treasurer is receiving and recording.

That’s an example in a smaller organization, but separation of duties is one of our biggest areas of control that we can really enhance. And then it kind of busts out when you get to be a larger organization. We’re still talking about a small-staffed organization, or a small organization, but now we have staff. And you can see in this case, we have these processes down the left, the steps within the processes, and how we think, how we can identify who is in our pool of folks that can participate in this. Often it means bringing in somebody that’s not necessarily involved in finance, like the office manager, that can have different steps in this process.

The bottom line, right there under financial statements, is the biggie with me, which is, the biggest mitigating control we can have in a small organization is that not only are financial statements being prepared, in this case by the finance manager, but they’re being reviewed, and questions are being asked, and folks understand them. To me, that level of financial oversight is your biggest mitigating control over a small size, without segregation or separation of duties. And, next slide.

Finally, within what we just talked about with these different levels of controls, is policies and procedures. Even in the smallest organization, an all-volunteer organization in fact, we should write down what we do, who’s doing it, and actually stick to that, and then communicate these policies and procedures and train folks on them. One thing I recommend to organizations is that when we think of policies and procedures, we may have a really voluminous manual of all our finance policies and procedures. We may want to think about those upper-level policies as a board-approved document. For instance, “You will have separation of duties in cash receipts and cash disbursements.” “Bank accounts will be reconciled.” Consider those as policies to be board approved. The procedures by which you carry those out [could] be a more dynamic document that may be approved by the finance committee or at the staff level so that you ensure you’re always following board-approved policies.

Also, there’s a plethora out there. I always get writer’s block when I start to write policies. There’s a plethora of sample policy manuals out there online. That’s a simple Google search, but we will also put a few examples up in the materials after the course that maybe can help you get started.

And I think that takes me through to some Q&A with Ruth and the rest of the panel.

**Jon Osterburg:** You must have been incredibly thorough, Wade. I don’t see any questions coming through.

**Ruth McCambridge:** In some part, I think you already addressed this a little bit, Wade, but I think one of the questions that we’ve gotten is, to what extent does internal controls actually affect governance practices? What’s the connection between governance practices and internal controls?

**Wade Rogers:** Well, I think that there are actually elements of your internal controls that are going to involve your governing board, in terms of how they are reviewing financial information, how budgets are being approved. Are the audits actually going before the board so they’re able to ask questions? So much of this internal control framework needs to be at the board level, and part of the board policies as well, in terms of how they’re going through — like we talked about that, in fact, one of our greatest mitigating control, when we talk about a mitigating control, that’s actually something that’s addressing a risk that we haven’t been able to necessarily take care of it at the control process level, but a mitigating control that can help us to cover that is this level of oversight of the governance level, whether it be reviewing your monthly financial statements, your audit, or your 990 asking educated, informed questions as well.

**Ruth McCambridge:** Right. So, this is a question that’s actually come in a number of times. It came in before this session, and it came in during the session, which is, if you’re essentially running as a remote organization, how do you handle the processing of checks if only one person generally is collecting the checks each day?

**Wade Rogers:** Right. Yeah, and I also see in the chat. It’s interesting, because what I put up in the separation of duties, it’s all very old-school, paper based. And what’s great is I’m able to say, “Jon, in the next segment, will take us into the 21st century and the post-COVID pivot” to get there as well.

When you think about separation of duties, you think about the steps in the process. So, to the receipt of the checks, for instance: somebody going into the office, picking up the checks, and scanning them in, perhaps to a check scanning deposit. That’s the receipt and deposit. There are other steps involved in this process, which is recording in the accounting records, reconciling the bank account. So, it’s key that those be separated, so that that physical handling of the checks and the deposit, while we often like to see the initial receipt of that, those checks, and then the deposit at the bank being separate people even, I think that in a super-small organization like this, if somebody else, if you have perhaps a bookkeeper that’s actually recording these deposits and ultimately reconciling the bank account, that is separating the duty from the receipt of the money that’s going in the bank.

**Ruth McCambridge:** So, I know that to some extent you will answer, and Dana can answer this to some extent up front, but we’re getting, we got a lot of questions ahead of this webinar and also now about, what do you do if staff pushes back about new requirements? How do you handle that feeling that people aren’t being trusted sufficiently, that you’re actually imposing make-work on them. What are your thoughts about that?

**Wade Rogers:** I’d love to hear from the others. [Jon:Yeah.] I see Dana, as well. It’s that, I do think that codifying these procedures is really helpful, and getting staff to understand that internal control is not based on trust, but based on processes to ensure that we also appear that we’re, that we not only give the appearance of doing it correctly, but we actually are. I think that it’s simply having that conversation, that it’s not singling someone out. It’s that we actually do have to have this to respect our internal control environment. And in a lot of cases, we have to have this because our funder requires that documentation. I mean, I once had to submit a Burger King receipt to a funder to give backup for an expenditure, so even the smallest things are necessary for us to be compliant with our funding agreements.

Dana, I saw you starting to speak.

**Dana Britto:** Yeah, I was waiting a bit to not introduce this. It seems kind of hokey, but I think, again, that the fact that trust is not an internal control, I think we wouldn’t get through this webinar without saying that. And I think, especially in the nonprofit sector, there’s a tendency — again, not necessarily exclusive to nonprofits — but I do think because of the solidarity around the mission, it’s easy to think, “Oh, we’re all a family. We’re working towards the same thing.” And it’s not that you’re not necessarily working towards the same thing; I think internal controls are necessary, and understanding the implications of not having internal controls, because, again, it’s not even just about fraud, and we’ll talk about this later, it’s making sure that you... all of us are dealing with limited resources, regardless of whether we’ve experienced fraud or not, so it’s really about making sure that.... These internal controls are not just a way of making sure that no one on staff or board is embezzling millions of dollars. It’s also to make sure that we’re actually using it in integrity, and in best use and in service of our mission as well. It’s part of the conversation of, “It’s not just about you. It’s making sure that we’re doing things to the best of our ability — and while also avoiding more egregious instances like fraud.”

**Ruth McCambridge:** I’m just going to ask one more question. I’m going over a little bit, but this is a question that a couple people have asked and a few people have seconded, which is, how does having an external bookkeeper or financial contractor change your internal control environment?

**Jon Osterburg:** I think I’m probably the right person to take that question.

**Wade Rogers:** For sure!

**Ruth McCambridge:** I think I’m going to let you take that, Jon, and then we’ll move right into your presentation. Jon’s going to be presenting on what the remote environment and remote financial work has done to the internal controls rules and practice.

**Jon Osterburg:** Yeah, so to quickly address that third-party bookkeeper, essentially, you have insulated separation of duties because you have very natural separation of duties between your approving of invoices and payments and their cutting of those checks, their reconciliation of your account. So you really do get a partner in ensuring that your financials are safe, reviewed, and confirmed by not only them, but they also will want to involve your board to make sure that you’re also conducting all the right activities that you should be to keep your money and your donors’ money safe, essentially.

I did notice one question in there about reimbursements. It comes back to culture. You can have a policy, but if you don’t enforce it, then you probably don’t have the right culture for protecting your money. So, if people aren’t submitting the receipts, and you have a policy where all receipts need to be submitted to be reimbursed, then don’t reimburse them for receipts not submitted. That’s the cultural part of that answer.

Alrighty. I’m going to hop in here. Thanks for the introduction. Thanks, Wade, for setting us up there. My name is Jon Osterburg. I’m the COO at Jitasa. We provide outsourced bookkeeping and accounting services to the nonprofit sector. We have about 450 global staff, all working from home, who serve about 1,400 nonprofit clients.

I want to talk about the changing landscape of internal controls today, through the lens of technology. And I break this up mentally into three different time periods. I started thinking about manual processes. Think about having a filing cabinet in your office, where you have an alphabetical — hopefully, an alphabetical — file for all of your invoices. And there was some early technology. We were exchanging documentation back and forth via emails, fax, and scanning. One thing that I think about at this period that’s interesting is that as early as the year 2000, digital signatures became legally binding via the Electronic Signatures in Global and National Commerce Act. And I thought that was interesting because it shares the idea that nonprofits typically lag in technology adoption. Fortune 500 companies probably did have access to digital signature technology back in the year 2000, but most of our clients didn’t start really utilizing some of that technology for another decade, really.

So then we get into this period where there’s emergence of financially focused software. So think of your QuickBooks and your Xeros, this period where you have end-point solutions, and an end-point solution is technology that just solves one problem, but it’s not integrated with anything else. And so you’re manually still going back and forth from solution to solution in order to get things accomplished.

Then, we started to slowly move into the cloud. These are still end-point solutions that are not integrated. And then, really over the last decade, we’ve had a flurry of what we call “digital transformation,” but really comprehensive solutions that solve most of your problems in terms of how you facilitate your finances internally — and if you are still using endpoint solutions, rapid integration via API. So all these softwares are talking to each other, and we’re lucky all those things were in place pre-pandemic, because it allowed organizations to quickly adapt when nobody was able to go to the office anymore. And everybody had to conduct these things via home. It was possible to do a virtual audit prior to the pandemic; it just became commonplace to do so once the pandemic was in full swing.

So, I thought it’d be interesting to just quickly review, to juxtapose these two processes with each other: what virtual internal controls look like, or visualizing internal controls, when we were in an office versus when everybody is forced to go home. In the office, you’d have an office manager who opens that mail. They create a mail log. They then walk all the invoices over to the accountant’s desk. In this case, we’re gonna follow the process of a bill payment that has to do with a grant in a program that the organization has. The accountant then goes over to the grant manager’s office and gets a signature on the invoice for approval. Walks over to the program manager’s office, gets a signature for approval. And then, of course, you don’t pay it right away, because it’s not efficient to just cut checks as you get invoices; you wait until it’s check-cutting day. So on check-cutting day, the accountant prints all the checks and goes to the executive director’s office, gets a signature on all the checks. This specific bill happens to be over a thousand dollars, so the bylaws require two signatures on this check. So a board member, who looks a little unhappy, has driven in that day just to sign one check. And then, at the end of this entire process, the check goes out in the mail.

And so, this is the way it was done when we were in the office or pre-technology. Now we’ll look at what this looks like with implementation of technology via bill payment software. I’m not going to include people on this slide because none of these people ever actually have to look each other in the eyes. They never actually have to see each other. So in this process, the accountant receives an invoice in their inbox directly. After that, the accountant forwards an email with this invoice to their bill payment software. Their bill payment software uses optical character recognition to immediately determine who needs to approve this invoice before it even goes to get approved for payment. So in this case, the bill payment software sends to both that grant manager and the program manager an email notifying them that there’s an invoice they need to review and approve. Once it’s approved, it goes to a register of pre-approved invoices for the executive director to review and actually send out payments to the vendors. And in this case, that board member who was involved has actually already approved this invoice — after it was, of course, approved by the grant manager and program manager — because she got a notification on her phone, opened the invoice, and approved it right away. And, of course, none of these actually go out in the mail. All of these payments go directly to the vendors. And so, if you look at these two separation of duties, internal processes, they accomplished the same exact thing. They’re just worlds apart because of the utilization of technology.

So, with the advent or adoption of all of these technologies, we’ve got these new processes that sort of enable some of these internal controls to be more efficient. However, all of these new efficiencies create opportunities for new risks, and so we have to find new solutions to some of these risks. So, what I think about these is, we go into a new client. We look at the software setup, maintenance, and training. So, how was the software set up? If it’s not set up correctly, you actually have risks that would be there in any scenario, right? And so you really need to make sure you either have an internal champion who’s going to take ownership of this process and ensure that it gets set up properly. You can also work with an external consultant who’s already an expert in one of these things to make sure that you get everything set up correctly. Or you can work with a third-party provider, who will actually not just set you up, they’ll actually set it up and run it for you on an ongoing basis. You also have the ongoing maintenance of these softwares, and then training implications. It was pretty easy to train people in person; now you need to make sure that everybody that comes to your organization gets trained on each specific software. Not just the entirety of the software, but also their specific role.

So, let’s get into the roles, via access management and user roles. So, you need to have processes and procedures in place for — whenever somebody comes into your organization, you need to make sure that they get added to all these softwares. And, whenever somebody leaves your organization, you need to make sure they’re removed from all of these softwares. Above and beyond that, you need to have periodic reviews of user roles. Ten years ago, you either had access to the software or you didn’t have access to the software. Your level of access has become more complicated. There’s various roles in each of these softwares. So, bill payment software example: You would have somebody that’s able to approve invoices but not able to enter invoices. And you need to go through on a periodic basis and audit those user roles to ensure that you mitigate those risks.

The next area that we think about in terms of new risks, the ones that get all the headlines. These are the phishing scams and the malware attacks out there. So, think emails that you get phishing for you to pay them. I’m sure most people on this call have probably received one. And then, also, the malware attacks; think “all of our files have been locked and now we have to pay somebody in Bitcoin.” So these are the things that get the most headlines, and the ways you mitigate those is to make sure that you have ongoing education and training as it relates to those phishing scams so people can identify those issues as they pop up or those infiltrations as they bot up up.

An example would be, I actually saw people sharing links in chat. I hadn’t thought of it until we were providing this webinar. You need to be able to assess whether or not that link is taking you somewhere safe or not. So that education and training is something that you need to be aware of, and all of your staff need to be aware of.

The other things are two-factor authentication and antivirus software. I like to think of antivirus software as protecting all of our hardware. If you’re working at home, you need to make sure that all of the hardware that is accessing your files and data has the right antivirus software to protect your organization. And then two-factor authentication is easy to talk about, but I think it’s almost a cultural thing. One, you need to make sure that if you have control, you do enforce two-factor authentication on the softwares that your staff are accessing. But the second thing, much harder than just talking about two-factor authentication, is making sure you have a culture where people follow through and actually have two-factor authentication on their logins.

And then lastly is, relevant over the last month, software glitches, downtime, and internet outages. One of the liabilities or risks around having everybody in a distributed workforce is like... Hurricane Beryl. We had five staff in Houston who couldn’t access the internet for three days, and so we had to have a backup plan in place for that. They had payrolls that they had to process. They had checks that needed to get cut to vendors. Well, I guess they weren’t checks. They were EFT payments to vendors. But you need to have systems in place or backup plans, failover plans in place for if that happens. The other example, CrowdStrike, just a week ago, right? Those airlines had to have a plan in place for when they could not process tickets at the gate. And so many of them were manually entering every single ticket in order to make sure that those riders could get onto those airplanes. So, yeah, with the advent of all-remote work, again, you’re going to have new risks, but you will also have to have new solutions.

All right. With that, I’ll pass it over to Dana to cover how financial literacy can be used as another internal control.

**Dana Britto:** Thanks so much, Jon. And thank you all for being here. I’m loving the activity and the peer support in the chat, and I encourage you all to keep that coming. So, Jon, you can shift to the next slide.

So, I think, up to now, in Wade’s segment, we talked a lot about things like dual approvals and setting up the appropriate separation of duties as an internal control; just heard a lot of input from Jon and this new digital and remote landscape, about the importance of really understanding and knowing user roles within your systems and technology platforms and education around phishing scams. And I think all of those things are important.

And I think, to the extent that we’ve heard some of it even in the chat, really never underestimating the extent to which building a culture in which numbers are understood and talked about frequently is actually one of the most important internal controls — again, not just from the perspective of preventing fraud, but also for ensuring optimal use of your limited financial resources.

And so a lot of that really depends on shifting from cultural norms that reflect historical tropes about finance being something that done by a guy with a green visor furiously calculating numbers in a silo separated from the rest of your organization, shifting from that to a much more team-based, intentional discussion and interpretation around the numbers. It may not be able to prevent fraud, but I do think in the instances where fraud is actually happening, having a culture where that’s done more regularly and more rigorously, it really disincentivizes the instances of further fraud going forward.

And beyond just fraud, misuse of resources and fraud is not the same, and I think that’s a really important distinction to make, is that you can still be misusing sources that either aren’t in line with the restrictions from the funder or are not in line with your organizational values or your mission, and being on top of that, and identifying that, and understanding that as quickly as possible and making whatever course corrections that are needed is huge.

So, in terms of thinking about internal controls, yes, there’s steps, there’s workflows, there’s safeguards that need to be put in place, but really not underestimating the cultural shifts that are necessary, not just to prevent egregious fraud, but also to make sure that you are using your limited resources in a way that is best suited to achieve your mission and reflect your organizational values. Next slide, Jon.

So, how do we do this? I think it really starts, again, with ensuring that the data is accurate and also as broadly available as appropriate within your organization. Typically, at least at the leadership team level, and certainly at the board level, you can be looking at many other reports besides these two, but really starting, if you’re starting from scratch, really starting with the baseline of making sure that your balance sheet or statement of financial position is regularly distributed and talked about. That’s not just going to show you what you own in the form of assets and what you owe in the form of liabilities, but what your net assets or what your equity is, and how much of that is yours free and clear and isn’t subject to external donor restrictions, versus the amounts that may be yours that is truly liquid, flexible working capital available for day-to-day expenses, and really understanding in the context of your business model what those net assets and what that liquidity needs to look like. The other report that is really key, especially throughout the year, are your budgets versus actuals. “So, based on this plan and this budget that you’ve established, how are you doing? What are the variances, both favorable and unfavorable, and what can be done to mitigate any potential risks to your budget?”

The other hard truth and thing to acknowledge is not all of us are finance people, especially those who don’t have direct finance roles or aren’t a part of your finance function. So, really being conscious of that in making financial information available and also able to be interpreted and digested in a way that brings everyone to the table in the same way. Thinking about, just putting together a couple of budget narratives every month to outline for your staff and your board — Where are you at? Where are you behind? Why? — and some potential action steps. Thinking about things like dashboards; here at Nonprofit Financial Commons, we had a great webinar a few months back on this and encourage those of you who weren’t able to attend to go to our website and get more resources around this. But dashboards are a great way — in a very quick, visual snapshot — to see how well you are or are not doing, and it helps to democratize that information in a way that... for people, especially, whose eyes glaze over when you look at financial reports, dashboards are a great way to make sure that people are really interpreting and can engage in the information in a robust way.

Most importantly, it’s making space for regular discussion around this. Generally, I definitely see organizations do better at this in the context of board meetings, relatively speaking, avoiding detailed, line-by-line-item discussions and really enforcing and working towards more higher-level financial storytelling is the key here. But, even with staff, is it monthly? Is it around the timing of your board meetings when you’re regularly pulling together this information anyway, where staff also have an opportunity to see how the organization is doing and be thought partners with you in setting the course and thinking about mitigating strategies or risks to the organization and making sure that you’re planning accordingly. Next slide, please.

So, part of this interpretation piece is really, especially in the unique context of your own organization, really making sure you know the quote-unquote “formulas,” or really know your business model really well. It obviously starts with really understanding your key revenue and expense sources, and understanding where they’re coming from and where the risks are to each of them. [Next slide, please.] And then also establishing benchmarks for what those should look like throughout the year. So at Quarter One, what your numbers should look like, or after a major gala or event, what you want those numbers to look like, and, again, involving the right stakeholders in that benchmarking process.

The other piece of it is really understanding the cyclicality of your business model. So, if you’re an organization that has a special event around the springtime or whathaveyou, if you’re looking at reports and you’re seeing contractors jump between March and April, that may not be a red flag. But if you’re seeing certain contractors that are supposed to be tied to this event and seeing those fees surge in November or December, then, that may not be fraud, it may be fraud, but it still begs the question of, why is this happening? And is this in line with our plan? And if so, great; if not, why not, and what do we need to change? So, it’s more than just understanding the business model; the cyclicality and the timing and the flows around that are really important, in terms of understanding and identifying potential instances of fraud, or even potential misuse of resources.

The other piece that I think is worth noting, and I mentioned this when we were talking about the balance sheet, is really being intentional about what your target should be, especially as it relates to flexible working capital that’s yours free and clear to cover day-to-day expenses, payroll, whathaveyou, and then reserves that might be set aside either as a rainy-day fund or are intentionally being set aside for facility repairs. Really understanding what that picture should look like to make sure that you are building the structure and the infrastructure necessary to effectively safeguard resources.

Again, it’s really understanding the ins and outs of your business model, and especially when you have a sense of the timing of those things and when they should be hitting your books, that essentially gives you a leg up in terms of understanding or identifying potential instances of fraud, at least understanding potential instances of misuse, and then also ensuring best and optimal use of limited resources in what can be some very challenging circumstances for many, many nonprofits.

So, with that, I’ll hand it over to Ruth for our final Q&A.

**Ruth McCambridge:** Absolutely. I want to just ask Wade and Jon and Dana all to answer this question: If you could recommend one key shift for organizations to make to improve their internal controls environment, what would that be? What would that shift be that you would recommend people pay attention to? And I’m going to start with you, Dana.

**Dana Britto:** Yeah, I mean, I’m a little biased based on the content that I just shared, but I think the big shift is, I’ll say, making sure that you have a culture where you’re not just spitting out reports from the accounting system. You actually have an opportunity to talk about them together — at minimum as a leadership team, certainly as a board. I think a lot of organizations typically treat it as a check-the-box exercise, like, this monthly report, 12 days after the end of the fiscal month flows, I’m generating this report and I’ve done my job, and I think it’s shifting to, okay, that’s step one, and step two is actually talking about it and making sure that people understand it, and that it’s actually worth the effort and time of having the conversation, so people are coming at the information in the same way and can engage in a way that helps them be effective thought partners and decision-makers with you.

**Wade Rogers:** Right.

**Ruth McCambridge:** Wade?

**Wade Rogers:** I think it goes back to that discussion we had earlier about getting buy-in from folks on your team, that part of this whole framework is transparency and dissemination of the information and proper training so that we can understand why it’s important, rather than just something that has to be abided.

Thinking, too, about just general processes, but, even looking at the different things that we do day to day, like, I’ve got a group that has a very complicated tracking spreadsheet for their grants — that’s a mess. And I want to really help them to make it better and make it more efficient. So, I think it’s digging into everything we do, to look at those efficiencies, because part of that control environment, too, is operational. That we’re doing things as efficiently as possible. Oh, and make sure you reconcile your bank statement. That’s really important.

**Ruth McCambridge:** Jon? [The basics, Wade. The basics.]

**Wade Rogers:** There you go.

**Jon Osterburg:** That was good. I think there’s two things, depending on where you’re starting. If you don’t already have a strong culture of internal controls, then it’s important to be able to shift that culture. If we use the example of reimbursing receipts earlier from the comment section, really being a beacon and standing up and saying, “These are important.” And also educating internal staff why they’re important. They’re not just in place to protect the organization. The employees are the organization, and so you’re really also protecting yourself, because if the organization’s reputation dissolves, you don’t have a job. And so ensuring that everybody understands that connection.

The other thing I would think through is if you already have a strong culture of organizational controls, making sure you’re sustaining that, because it can get very easy to just open the email and click approve, over and over and over again. I’ve seen it too many times. People fall asleep at the wheel, essentially, because — we’ve talked it about before — you start to trust that everybody in the line is doing what they said they were going to do to make sure we don’t have any fraud happen, and over time, that’s where multi-year leakages happen, in terms of fraud for these organizations.

**Ruth McCambridge:** Right. One of the things that I like to think about when we think about how to set up a positive culture of internal controls is to make sure that people really feel empowered to comment and critique. If you don’t, if there is one or two people that are dealing with the numbers and they’re very jealously guarding their control of those numbers, then you may have a problem that’s way bigger than what you imagine that it might be. It is really important. That’s the financial literacy that Dana talked about in organizations, is a natural with whistleblower policy that doesn’t necessarily let things get to the point where you’re on the edge of a cliff before people realize that there’s something wrong. It’s those formulas, understanding when something’s off. “Wait a second, we just did this campaign and this is supposed to be like that. Usually it’s like that. Why aren’t we there?” Very effective internal control.

So with that, thank you, Jon and Wade and Dana. I can see all of your questions at the end here, and we will try to answer them in the forum, which is on our website, and in the document we send you later, with the resources that we’re sending you, but Amanda will talk more about that now, and thank you all for coming and for sharing the information with one another. Amanda?

**Amanda Nelson:** Thank you, Ruth. And thank you to all our wonderful presenters — John, Wade, Dana — for sharing all your insights and expertise with us today. As Ruth mentioned, please, if you have any questions that did not get answered today, please head over to our forum on our website and you could ask any of those questions. You can also start new conversations and continue this conversation over in our forums. We value participation, but most importantly, our community relies on your shared knowledge. So please head over to the forum. We look forward to seeing you there.