



*Enter here. Start anew.*

**CITYGATE**™  
NETWORK

*Against  
All Odds*

1 John 5:4



*step #1:*  
**Download  
Whova**



*step #2:*  
**Sign-in &  
Find Event**

*Whova*

Sign Up / Sign In

Find My Event / Conference

See a Demo Event

See a Virtual Demo Event

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1 John 5:4

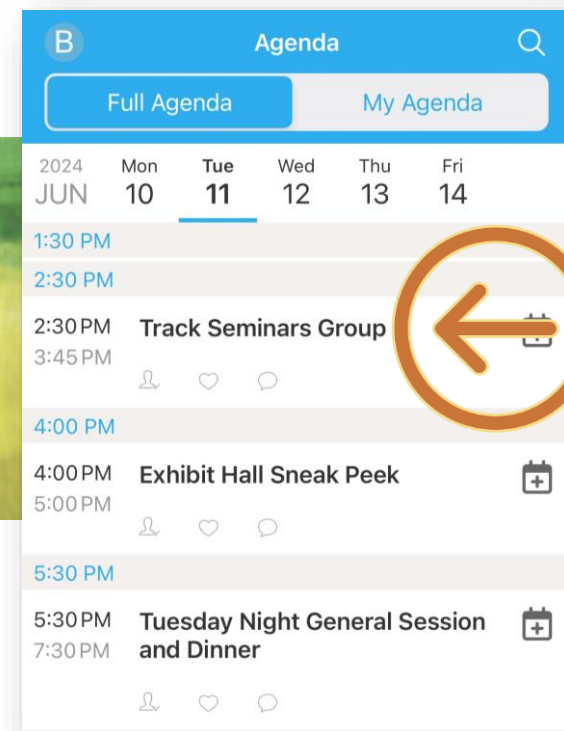




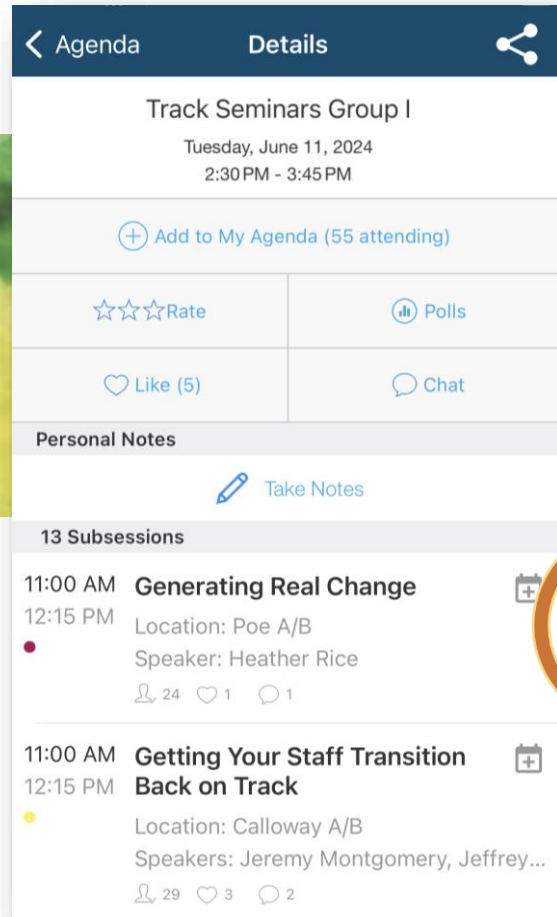
*step #3:*  
**Click  
'Agenda'**



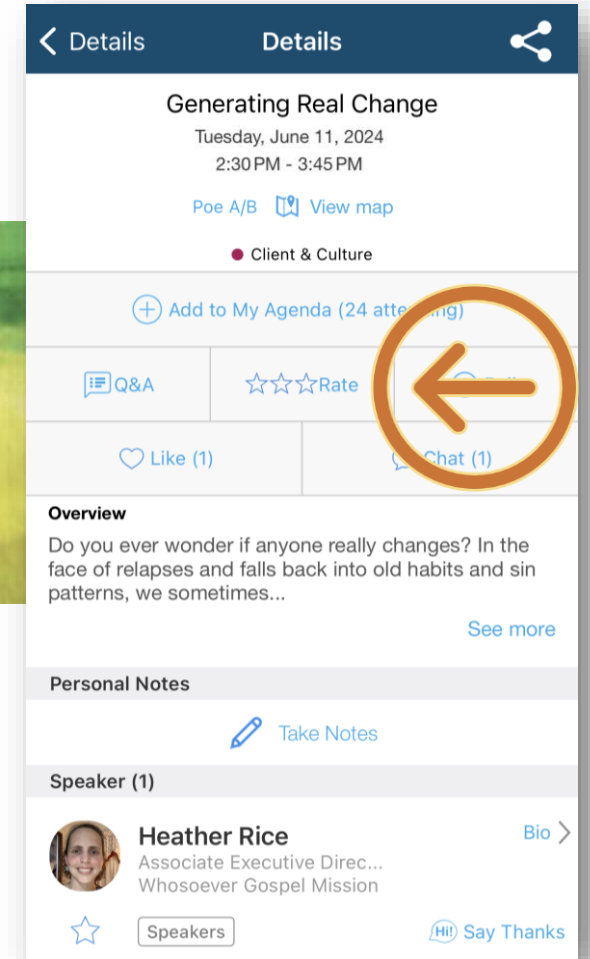
*step #4:*  
**Open Track  
Seminar Group**



*step #5:*  
**Find  
Seminar**



*step #6:*  
**Select  
'Rate'**



**Against  
All Odds**

1 John 5:4



*step #6:*  
**Answer Questions  
& Submit!**

< Details Generating Real Change

### Feedback for Generating Real Change

How well did the seminar meet your expectations? \*

1 2 3 4 5

How would you rate the speaker's presentation skills? \*

1 2 3 4 5

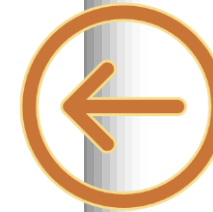
How would you rate the speaker's command of the topic? \*

1 2 3 4 5

Did the topic description match the seminar content? \*

1 2 3 4 5

< >



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# The Who, What, Where, When and Why of Internal Controls

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CityGate Network – June 13, 2024

Julie Beasley, Senior Compliance Associate



# Internal Control – Why is it important?

- **Biblically**
  - The Bible calls us to be above reproach
    - *We want to avoid any criticism of the way we administer this liberal gift. For we are taking pains to do what is right, not only in the eyes of the Lord but also in the eyes of man.*  
2 Corinthians 8:20-21
  - We are called to be good stewards
    - *Each of you should use whatever gift you have received to serve others, as faithful stewards of God's grace in its various forms.*  
1 Peter 4:10



# Internal Controls

The mechanisms, rules and procedures implemented by a ministry to:

- Ensure the integrity of financial and accounting information
- Promote accountability
- Prevent fraud





*“While integrity can only enhance trust in a nonprofit’s ministry, a lack of integrity — or even that perception — can cause skepticism and a diminished witness for the gospel.”*



# Important Questions for Building an Internal Control Structure

Who?

Leadership team and those involved in operations

What?

Assess risks inherent to the organization

When?

Initially and revisited on a periodic basis

Why?

Protect the ministry both now and for the future

Where?

Anywhere and everywhere

How?

Brainstorming, prioritizing risks

# Internal Controls

- One size doesn't fit all
- Controls must be:
  - Existing – The controls need to actually exist in practice and be carried out in a regular process
  - Effective – The controls must actually accomplish their intended purpose without leaving real possibilities for the fraud to be perpetrated
  - Current/Dynamic – As your organization and the environment around it change, an organization's internal controls must also change
- Efficiency vs. Effectiveness – Looking for a balance means to obtain reasonable assurance. Too many controls stifles an organization and too few controls opens it up to great risk.





# Internal Controls

Internal controls are primarily in two forms

## Prevention Controls

Designed to prevent something bad from happening

## Detection Controls

Designed to detect when something bad has happened

*“Jehoiada the priest took a chest and bored a hole in its lid. He placed it beside the altar, on the right side as one enters the temple of the LORD. The priests who guarded the entrance put into the chest all the money that was brought to the temple of the LORD. Whenever they saw that there was a large amount of money in the chest, the royal secretary and the high priest came, counted the money that had been brought into the temple of the LORD and put it into bags.”*

2 Kings 12:9-10



# Segregation of Duties



Custody



Recordkeeping



Authorization



# Cash Receipts

- Identify the revenue streams and the different ways funds come into your organization
- Separate:
  - **Custody** – physical control of receipts
  - **Authorization** – preparing of invoices or donor records
  - **Recordkeeping** – recording in general ledger



# Cash Receipts

- Those involved in accounting for incoming funds should not also have the ability to access those funds.
- Have at least two unrelated individuals work together to process cash receipts
- Have an independent person perform/review account and bank reconciliations

# Electronic Revenue Collection

- Advantages
  - Ease of collection
  - Available to donors 24/7
  - Encourages recurring giving
  - Funds are available to ministry faster
- Types
  - Online giving
  - Text-to-give
  - Paypal, Venmo, etc
  - Online payment for goods





# Electronic Revenue Collection

- Controls
  - Communicate to donors the approved channels for electronic contributions and payments
  - Security of donor information such as credit/debit card numbers, bank account information, etc.
  - Develop controls to detect if an unauthorized change is made to the depository account
  - Maintain appropriate separation of duties – an individual authorized to change a depository account should be separate from those processing funds or modifying donor records
  - Obtain and review the merchant services SOC1, Type 2 report.



# Cash Receipts Example

## Example 1

- **Custody** – Accounts Receivable employee has authority to change bank account where online donations are deposited.
- **Authorization** – Notice from merchant service provider of a bank account change is sent to Accounts Receivable employee
- **Recordkeeping** – Accounts Receivable employee reconciles donations to donations income account

## Example 2

An unauthorized GoFundMe page is set up using your nonprofit's name and logo to collect funds for victims of a recent hurricane



# Cash Disbursements

- Segregation of Duties: Those involved in processing accounts payable should not also be approvers
- Dual Control: Have at least two people involved in disbursement functions to release funds from the bank account
- Oversight/Monitoring: Independent reconciliation/review of g/l accounts and bank accounts
- Separate:
  - **Custody** – access to check stock
  - **Authorization** – check signer
  - **Recordkeeping** – recording in general ledger



# Cash Disbursements – Case Study

- Who – CFO for Nonprofit
- Loss – \$500,000
- Method
  - Wrote fraudulent checks to herself
  - Forged her supervisor's signature
- **Internal Controls that opened the door**
  - Unsecured check stock
  - No separation of duties for bank account reconciliations
  - Lack of management review and oversight



# Electronic Payment Methods

- Wire Transfers and ACH – What's the difference?
  - Wire transfers are bank account to bank account transfers processed via a network like SWIFT, the Fedwire or CHIPS (Clearing House Interbank Payment System). They are faster, generally processing in under 24 hours, cost more than ACH transfers and are more popular in scams because once the payment is sent it can't be canceled.
  - ACH transfers are bank to bank account transfers using the Automated Clearing House network, take 1-3 days to process, are typically cheaper than wire transfers and more secure than wire transfers.



# Electronic Payment Methods

- Wire Transfers and ACH – Internal Control Considerations
  - Two separate people to authorize any electronic disbursement (initiator and approver)
  - Robust passwords that are not shared
  - Dual authentication
  - Bank call back for transactions exceeding a predetermined dollar amount
  - Consider a debit block or ACH filter for your bank account



# Electronic Payment Methods

- Direct Pay – web payments directly on vendor's website
  - Not recommended
  - Difficult to control who can set up or make the payments and what accounts they relate to.
  - Example – If you have American Express business credit cards, easy for an employee to make a payment to their personal credit card on the American Express website.





# Electronic Payment Methods

- Third Party Processors – Cloud-based accounts payable management systems
  - Benefits
    - Centralized location for all supporting documentation
    - Remote access to the system from anywhere at anytime
    - Detailed audit trail of approvals
    - Most can handle the payment of invoices both electronically and by check
    - Eliminates the need to physically print and sign checks
    - Can segregate roles and provide a great internal control structure when set up correctly



# Electronic Payment Methods

- Third Party Processors – Cloud-based accounts payable management systems
  - Internal Control considerations
    - Obtain a copy of the service provider's SOC 1 Type 2 Report
    - Establish sound policies and procedures for reviews and approvals within the system.
    - Ensure a single individual cannot push a payment through the system alone and it not be easily detected.



# Electronic Payment Methods

- Disbursements from Other Types of Accounts

Know all the accounts from which disbursements can be made:

- Paypal
- Venmo
- Virtual currency
- Investment accounts
- Any other bank accounts outside the regular operating accounts



# Electronic Payment Methods

- Credit card and expense reimbursements
  - Receipts should be turned in timely
  - Detailed review of supporting documentation



# Electronic Payment Methods – Case Study

- **Who** – Church Administrator
- **Loss** – \$360,000
- **Method** – Opened 5 business credit card accounts in the church's name and used them, as well as a credit card used by the youth pastor to make personal purchases. Wrote checks to herself and forged the church treasurer's signature
- **Internal Controls that opened the door**
  - Unsecured check stock
  - No separation of duties for credit card reconciliations and bank account reconciliations
  - Lack of receipts for purchases
  - Lack of management review and oversight



# Payroll

- Internal controls help prevent errors, fraud and unauthorized access to employee payroll data.
- Segregation of duties
  - Payroll data entry
  - Payroll approval
  - Payroll disbursements
- Authorization and approval procedures
  - Predefined approval hierarchy
  - Documentation of approval
  - Reconciliation with supporting documentation



# Payroll

- Separate:
  - **Custody** – access to payroll system
  - **Authorization** – approval of new hires and pay rates
  - **Recordkeeping** – recording in general ledger





# Payroll – Case Study

- **Who** – HR Director for a large community organization
- **Loss** – about \$450k over 6 years
- **Method**
  - Ghost employees and/or terminated employees left on payroll
  - Insurance premium payments directed to personal account
- **Internal Controls that opened the door**
  - Lack of timely bank reconciliations
  - Unsecured check stock
  - Lack of oversight of management overrides
  - Started small and built up because “no one appeared to be noticing”



# Payroll

- Outsourcing – Benefits
  - Save time
  - Reduce costs
  - Maintain tax accuracy
  - Ensure compliance with state and federal rules and regulations
  - Eliminate concerns of keeping internal software current
  - More support – not dependent on one person



# Payroll

- Outsourcing – Downsides
  - Error and time – may take longer to get an employee's payroll check corrected
  - Ultimately, you are still responsible for any tax filing mistakes or other payroll errors
  - Data protection - breaches can still happen

# Payroll

- Outsourcing – Internal Control Considerations
  - Does the payroll provider undergo a SOC 1 audit?
  - Separate payroll bank account
  - Same internal controls as if processed in-house
    - Segregation of duties
    - Authorization and approval procedures and documentation
    - Reconciliations
    - Access controls
    - Secure data transmission



# Impact of Fraud

- Loss of resources stolen
- Cost of investigation
- Damage to organization's reputation
  - Relationships with other organizations
  - Employee morale and retention
  - Donor confidence
- Litigation



# Internal Fraud

- Fraud is like fire in that it takes three building blocks in order to happen
- There is likely someone at your organization that has 2 or 3 of these components.



# Examples of Internal Fraud

- Check forgery/redirection
- Invoice manipulation
- Personal use of ministry credit cards
- Non-cash/asset misappropriation
- Computer systems
- Cash handling



# Internal Fraud – Case Study

- **Who** – Athletic Director of Christian School
- **Loss** – \$41,000
- **Method** – Used school credit card issued in his name to purchase gift cards which he then redeemed at a sports betting website. Also accused of not turning in cash from gate and vending sales from high school sporting events
- **Internal Controls that opened the door**
  - Lack of management oversight
  - Continued because “no one appeared to be noticing”
  - Lack of accountability regarding gift cards
  - Only one person handling cash versus two



# Examples of External Fraud

- Fake invoices submitted for payment
- Unauthorized webpage, Facebook page, GoFundMe page with ministry's name used to solicit donations
- Unauthorized change to foreign recipient's bank account
- Data breaches
- Spamming, spoofing, and phishing messages
- Ransomware and malware

# So what can we do?

- Most internal fraud is discovered by tips, not audits
- Make it easy for staff to express concerns, suspicions, or inconsistencies without fearing they may be jeopardizing their employment



# Handling Fraud Discovery

## Have a Plan

- Begin an investigation – you have fiduciary responsibilities
- Notify appropriate parties
  - Consult whistleblower policy
  - Report to top staff member
  - Alert legal counsel
  - Board Members
  - ECFA
  - Don't use the press as a first response



# Handling Fraud Discovery *(cont'd)*

- Seek professional assistance along with an attorney
- Make this a priority! – speed and efficiency may be key to recovery
- Maintain a Christian witness
  - Do not throw Matthew 18 out the window, but don't use it as a crutch for inaction either – Romans 13 and 1Peter 2
  - Try to redeem the situation – but don't act foolishly
  - You have stewardship and fiduciary obligations
  - Don't forget to protect other organizations



# ECFA Resources

9 Essentials of Internal Controls  
for Ministries eBook



9 Essentials of Avoiding  
Ministry Fraud eBook





*Don't forget to do the*



*evaluation!*





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Julie Beasley, Senior Compliance Associate





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