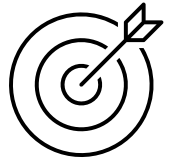# Covid Health Equity Technical Assistance

Internal Controls | June 9, 2022

Maine CDC Office of Population Health Equity

Goals

1. Learn about internal controls and best practices for nonprofits

2. Share resources to help providers enhance internal controls

3. Introduce upcoming subrecipient monitoring

What do you think of when we say Internal Controls?

What Are Internal Controls?

Actively maintaining and adhering to policies and procedures to protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations, and facilitate effective and efficient operations
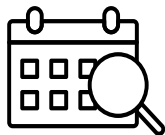
Internal Controls Help to:
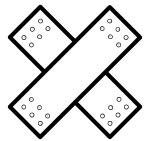
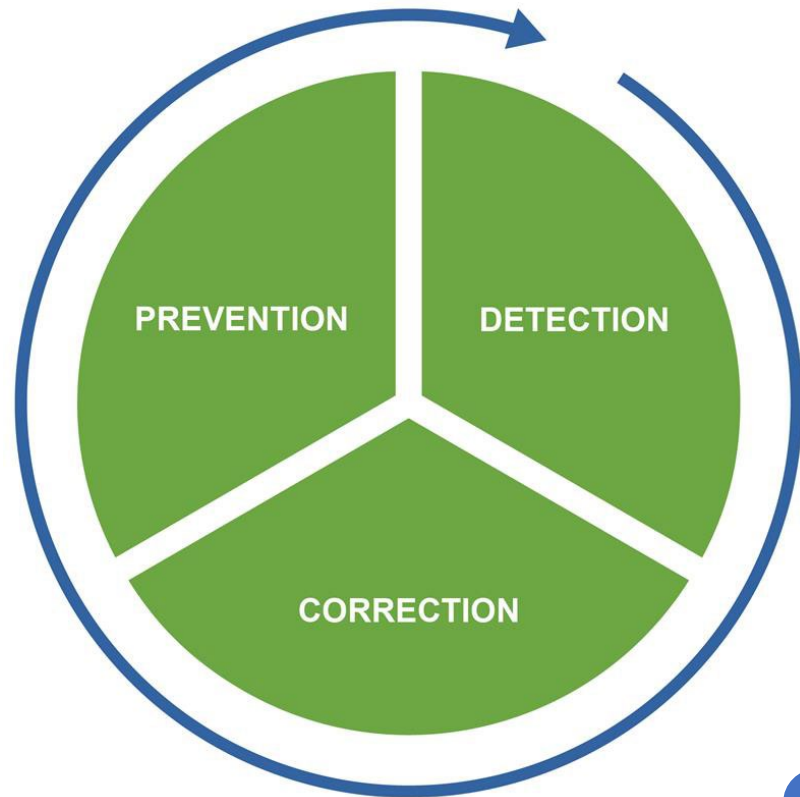Protect you and your organization's assets from fraud

Provide confidence to donors and funding recipients

Help keep your business in compliance and in business with state and federal governments

Functions of Internal Controls

Prevention – Control activities aimed at decreasing the chance of errors and fraud before they occur.

Detection - Control activities designed to find errors or problems after the transaction has occurred and to determine whether current controls are working properly.

Correction - Control activities related to the reaction to and correction of unwanted and undesired events.

Did you know? According to the Association of Fraud Examiners, most fraud in organizations occurs in organizations that are small (fewer than 100 employees) and by an employee.
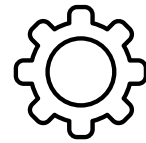
Prevention
Decreasing the chance of errors and fraud before they occur

PREVENTION

DETECTION

CORRECTION
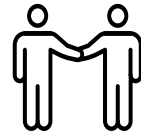
Segregation of Duties − ensures that no one person has complete control over a process, helping to prevent fraud, theft, information misuse, etc.

IT Controls − protects accounting systems from unauthorized access or data manipulation
- **Examples:** authorization, anti-virus software, passwords, email encryption, physical asset controls, etc.

Policies and Procedures – defines what team responsibilities are, promoting efficiency and security
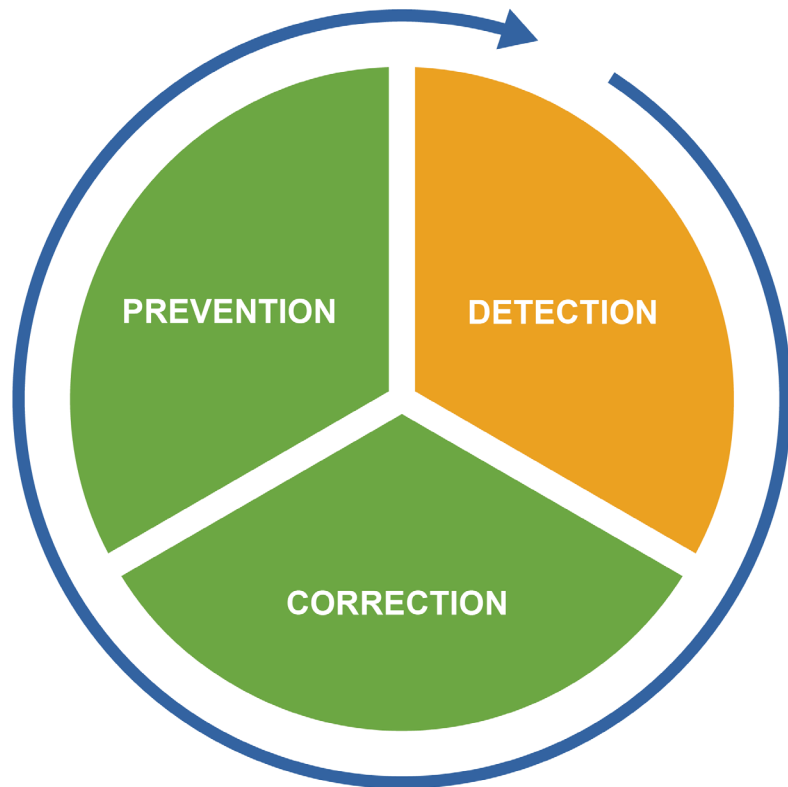- **Examples:** financial policies, conflict of interest policies, background checks, bylaws, etc.

Example of Segregation of Duties: All expenses need to be approved by an individual other than the person who is actually paying the bill.

Detection
Find errors or problems after the transaction has occurred

PREVENTION

DETECTION

CORRECTION

Physical Assets Controls – taking regular inventory of assets, such as financial documents, checks, credit cards, cash, etc.

Financial Controls – conducting monthly bank reconciliations and internal audits, using a 2-person approval process

Staff Reporting – adhering to whistleblower policy, establishing anonymous reporting channel, and conducting periodic management report reviews

Federal law *prohibits all corporations (including nonprofits) from retaliating against whistleblowers and prohibits destruction of evidence.*

Correction
Reactive attempts to correct undesired events

PREVENTION

DETECTION

CORRECTION
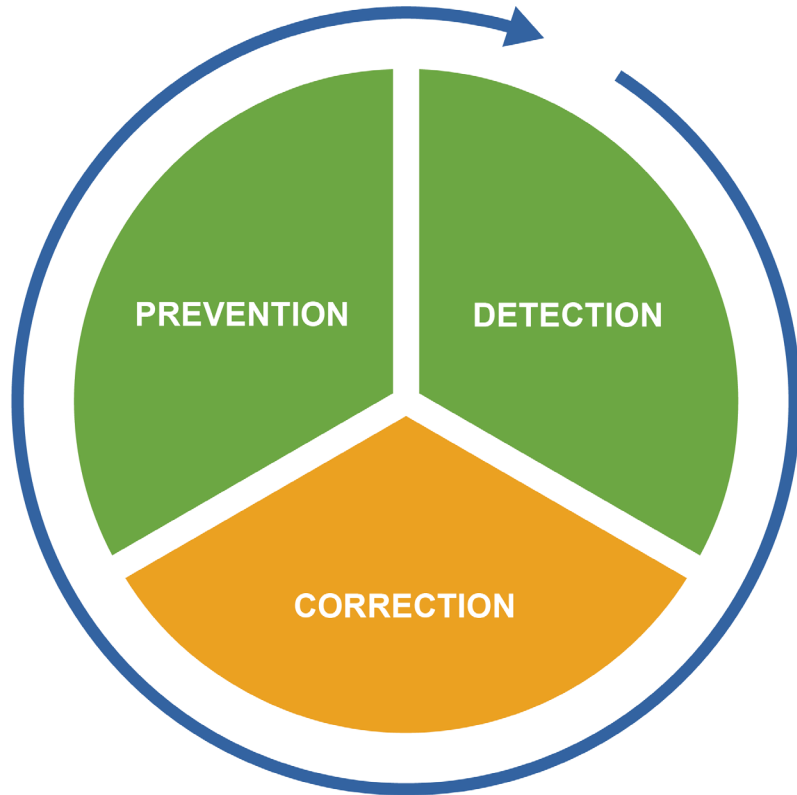
IT Updates and Backups – implementing IT risk or disaster plan, accessing backed-up files in the event of a data breach or loss of documentation; delivering or installing software updates to remedy identified vulnerabilities or bugs

Disciplinary Actions – enforcing policies and procedures in response to an employee rule violation or poor performance by giving a warning, providing an unfavorable evaluation, or terminating the employee
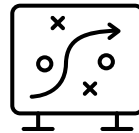
New or Updated Policies and Procedures – revising policies after a detective control identifies a gap in processes

Suspect fraud has occurred? *The State of Maine's Department of Health and Human Services offers an anonymous Fraud Reporting Form*
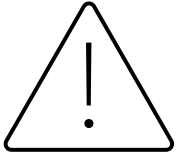
Fraud Triangle
Conditions that Increase the Likelihood of Fraud

Did you know? The top three causes of nonprofit fraud were a lack of internal controls, a lack of management review of existing internal controls, and override of existing internal controls.
-Association of Certified Fraud Examiners, 2020
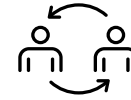
Pressure/Need
Motivation and urgent need

Opportunity
The ability to commit any dishonest actions

Rationalization
Able to justify any dishonest actions

Fraud Case Study: The Fairy Godmother

Ms. Green, 44, was an Administrative Assistant for The Association of American Medical Colleges, processing invoices from vendors and doing other clerical work. Green also owned a bridal shop and was known as the "Fairy Godmother" for giving away over 270 wedding gowns to military brides

The Crime

From **2005 – 2013**, she embezzled **$5.1 Million** by creating and submitting false invoices with vendor names similar to actual vendors of the Association and having checks sent to her.
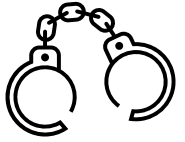
Result and Analysis

Result

Ms. Green was caught when her bank notified management after she tried to deposit a large check into a new account she had just opened. She pled guilty to 2 felonies in the U.S. District Court and received a **4-year prison sentence**.

How could this have been caught sooner?

- ✓ **Segregation of duties** – invoice payer, vendor account creation
- ✓ **Management review** of each payment batch and any new vendors
- ✓ **Trended expense reviews**
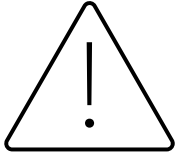
⚠️ Internal Controls Red Flags

- Controls overrides

- Cash accounts do not balance

- "Forgotten" invoices or receipts

- Strange new expenses

- Check and payment "changes"

- Ghost employees

- An unwillingness to share duties

- A notable, unusual closeness with a vendor or donor

How Do I Implement Internal Controls?

Review Current Policies

- Think about each process your organization performs
- Is any documentation missing?
- Do you segregate financial duties?
- Are yearly external and internal audits completed?
- Are there controls on the use of credit, debit and P-Cards?
- Do you have a fraud hotline?

Create and Document a Plan

- Put pen to paper - create and/or update policies and procedures
- Adopt a conflict of interest and code of ethics policy
- Determine how you will monitor and document control effectiveness
- Choose a party to complete external audits

Put the Plan in Place

- Communicate the plan and lay out a clear vision to your team members
- Get team member buy in - Listen and address their concerns
- Train employees
- Follow up and stay connected
- Schedule a date for future control review
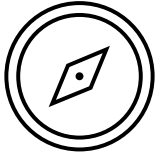
Resources to Help You Review, Develop, or Enhance Your Organization's Internal Controls

Policy Templates and Guides

Template Financial Controls Policies for Small Nonprofits

Sample Nonprofit Financial Policies and Procedures Manual

CompassPoint Nonprofit Fiscal Policies and Procedures: A Template and Guide

CompassPoint Internal Controls Checklist

**Don't be overwhelmed!
We're here to support you!**

Additional Resources

Fraud Reporting Form | State of Maine Department of Health and Human Services (maine.gov)

BestPracticesforNonprofitInternalControls.pdf (nonprofitmaine.org)

Internal Controls for Nonprofits | National Council of Nonprofits

Financial Control Recommendations for Small Nonprofits - Oregon Department of Justice : Charitable Activities (state.or.us)

5 Internal Controls Your (Very) Small Nonprofit Should Adopt (springly.org)

Ten Easy-to-Adopt Internal Controls for Small Nonprofits (clarknuber.com)

What are the 3 Types of Internal Controls? (reciprocity.com)

Subrecipient Monitoring

Purpose - *To ensure that the federal funding dispersed by Maine DHHS is used for the intended purpose and spent in compliance with federal funding requirements*

- Your organization is a subrecipient of Maine DHHS, and the US CDC requires Maine to review all programs funded with federal dollars
- This review process is *not* an indication that your organization has done anything wrong
- **Maine is required by the federal government to conduct monitoring**

What's Next?

- Complete the Programmatic Survey emailed to you and return to CDC-OPHE-Support@maine.gov
- **You will be notified in advance if follow-up is needed**
- Follow-up that may occur:
  - A conversation between the organization and DHHS (Chan and Abdulkerim)
  - Additional review of organization and program

Q&A!
What questions do you have?

Questions and Additional Support

- Questions and answers from the session will be sent to providers from **MaineSupport@pcgus.com**.

- Questions and TA requests should be submitted via email to **CDC-OPHE-Support@maine.gov**.

Next TA Session:

- **Effective Outreach and Marketing** -- Thursday June 23rd at 3:00pm
- **Annual Closeout Report** -- for contracts ending June 30th, a mandatory group training will be held in July about the Annual Closeout Report

Maine CDC Office of Population Health Equity