Internal Controls Scenarios

1. When Lorna became the executive director of a small, single-purpose Head Start agency, she was impressed with the collegial atmosphere in the organization. People pitched in to help wherever they were needed, so it wasn't unusual that the agency's receptionist was always willing to pick up the agency mail from the Post Office box and open and distribute it. This was a benefit to the two-person fiscal office that was made up of the fiscal director and the bookkeeper, who together managed the office. The other agency staff members, who didn't want to have to leave the office in the middle of the day to fetch the mail, appreciated the receptionist's efforts. Direct Post Office mail delivery wasn't an option in the community, so the agency was resigned to mail pick up. Besides, they liked the flexibility of picking up mail early, if needed.

   After serving in her position for about nine months, Lorna received a call from the large grocery store chain where the agency bought most of its food for preparing the meals it served to the hundreds of children in the agency's care. The store representative wanted to know why the agency had failed to pay invoices on its open purchase order system. The store had records showing that the agency was in arrears by about $8,000.

   Lorna immediately talked with the fiscal manager to determine why payments were late. After conducting research, he showed Lorna that all of the bills received had been paid. He called the store for more information. The store provided copies of purchase orders that matched the outstanding invoices. All the purchase orders had been signed by the receptionist. She later admitted that she had been buying her family groceries using the agency purchase order system; and when invoices matching these purchase orders came in the mail, she intercepted them so that the fiscal office never received them.

   - *What systems would you put in place to strengthen internal controls?*
   - *In a small nonprofit, how do you ensure a segregation of duties? Who else could be responsible for mail duty?*

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2. ABC Child and Family Services is a large, non-profit agency that provides full-day child care services to some of its Head Start and Early Head Start children. A combination of parent co-pays, state child care reimbursements, and Head Start funds is used to cover the costs of the full-day service. The agency spans a vast geographic area, but administrative services are carried out from one centralized administration building. To make it easy for parents to pay for their share of child care costs, the agency allows payments to be made on-site where their children are served. Each of the 10 Head Start/child care centers is staffed with teachers, assistant teachers, and a team leader. Parents pay their child care costs by check or money order and occasionally with cash throughout the day to whomever is available when they drop

off their child. When cash is received, staff members send it to the central office at least weekly through someone who is going by the office. Families are supposed to mail checks and money orders to the central administrative office weekly, but invariably the central office staff ends up contacting 10 parents a week (on average), seeking their child care payments. Often, what is discovered is that a staff member has misplaced the checks or did not write a receipt of payment, which is the policy. In one particular center, the team leader has had trouble reconciling the center's petty cash and came to realize that it's because teachers are using petty cash to make change when parents pay for child care with large denominations.

- *What systems would you put into place to strengthen internal controls?*

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3. Pat Johnson, a board member for a local Community Action Program agency, recently was elected treasurer of the agency's board. She operates her own small accounting business and is well suited to her role. She is a dedicated board member who is committed to making a personal contribution to the agency. Recently, the agency's independent auditor has challenged the board to create a risk management plan. Pat volunteered to assist on that plan and work with the executive director and fiscal manager to consider how to assess overall organizational risk. She evaluated the fiscal office processes to determine whether or not the agency is facing any risks that could lead to fraud. Here are areas of concern she uncovered:

   - ✓ Each of the agency's 10 Head Start centers has a credit card with the agency name on it, so a card can be signed by anyone in the organization. Center managers at each of the sites control the cards, and these managers give the cards to the staff person who is making the purchase. The cards have a $500 limit and are used for buying food at local markets, diapers, and items needed in an emergency. As a board member, Pat has reviewed monthly credit card activities that are part of a report the fiscal director prepares for the board. However, the report is simply a summary of the activities and isn't itemized. Pat, as a board member, was unaware until now that all 10 of the centers have credit cards. She is concerned about the use of the credit cards, although she realizes that these "far-flung" centers need a means of purchasing from local markets.
   - ✓ The fiscal office doesn't have adequate storage so it keeps the agency's check stock in a common room and not under lock and key. The fiscal office uses a stamp of the executive director's signature, as there are so many checks that are printed each week; and the executive director doesn't want to sign them all. The fiscal manager reviews the check run before authorizing a bookkeeper to use the signature stamp.

- *What recommendations might you have for tightening internal controls to address Pat's concerns?*

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