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Internal Audit & ERM Priorities for 2021

Housekeeping

CPE Credit/Technical Support

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- Please complete the electronic survey that will appear automatically at the **end of the webinar.**
- Attendees seeking CPE for this presentation must complete the survey and **enter all three CPE words.** You cannot claim CPE unless we receive a completed evaluation with the correct words.
- This presentation will be recorded and made available to download at www.grfcpa.com/webinars.
- Technical questions about the survey can be addressed to Nathan McElveen at nmcelveen@grfcpa.com.

Housekeeping

Additional Information

Learning Objective To provide attendees with a better understanding of internal audit programs and how to address the top nonprofits risks for 2021.	Instructional Delivery Methods Group Internet-based
Recommended CPE 1.0 CPE Credit	Recommended Fields of Study Management Services - Technical
Prerequisites None required	Advance Preparation None
Program Level Basic	Course Registration Requirements None
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Gelman, Rosenberg & Freedman CPAs is now GRF CPAs & Advisors



Please note our new address:

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Presenters

Meet the Instructors



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Agenda

Topics to be Discussed

- The Need for Better Risk Oversight
- Insurance considerations
- Internal Audit Plan Insights
- Next Steps

Establishing a Professional Internal Audit Activity

- “Establishing a professional internal audit activity should be a governance requirement for all organizations. This is not only important for larger and medium-sized organizations but also may be equally important for smaller entities, as they may face equally complex environments with a less formal, robust organizational structure to ensure the effectiveness of its governance and risk management processes.”

– Institute of Internal Auditors

Polling Question #1

What is your organizations current state of Internal Audit?

- A. *No Internal Audit process in place*
- B. *Yes, Internal Audits are conducted annually*
- C. *Currently investigating the concept of Internal Audit but have made no decisions yet*
- D. *Unknown*

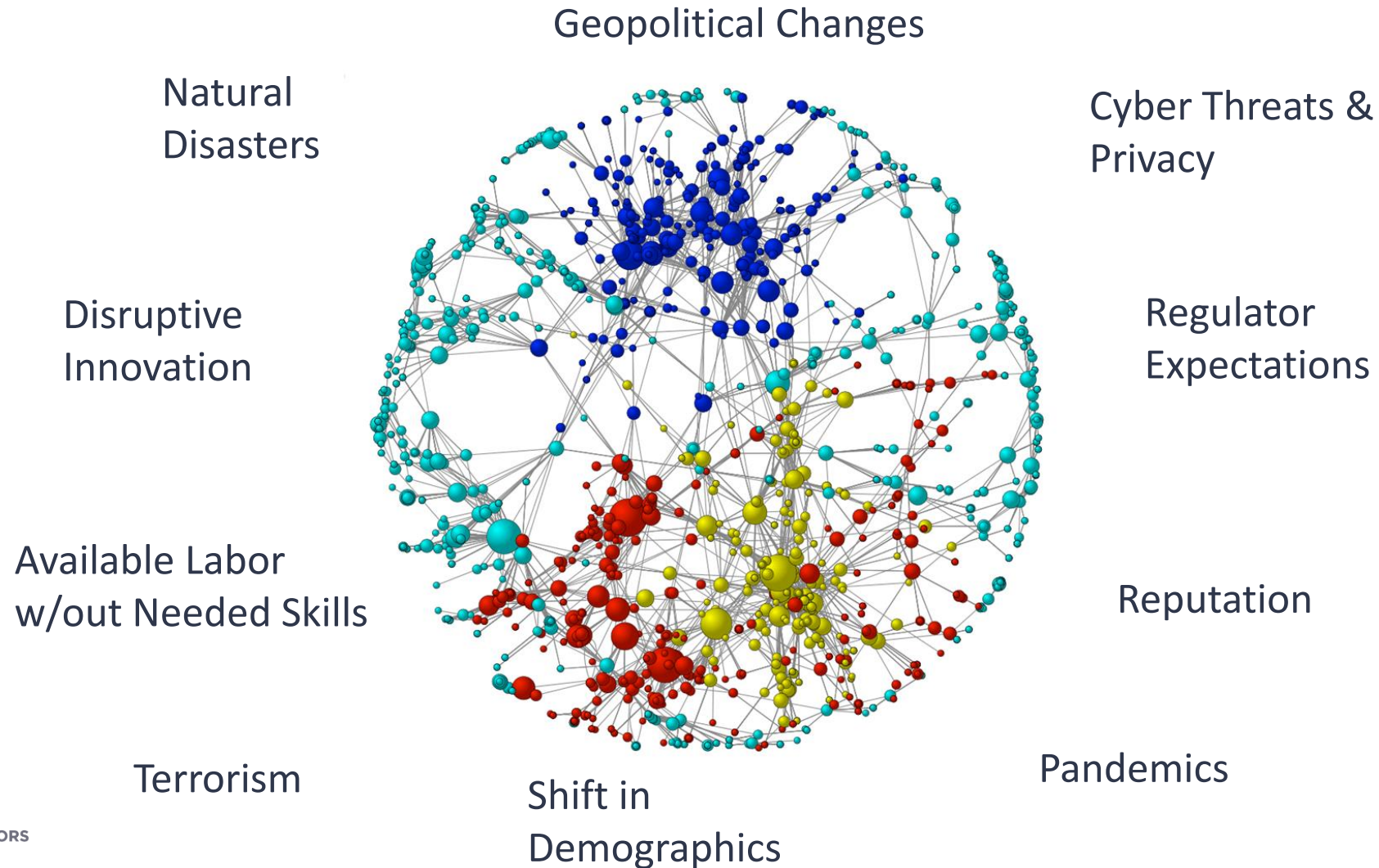
Understanding the Need for Better Risk Oversight



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Understanding the Need for Better Risk Oversight

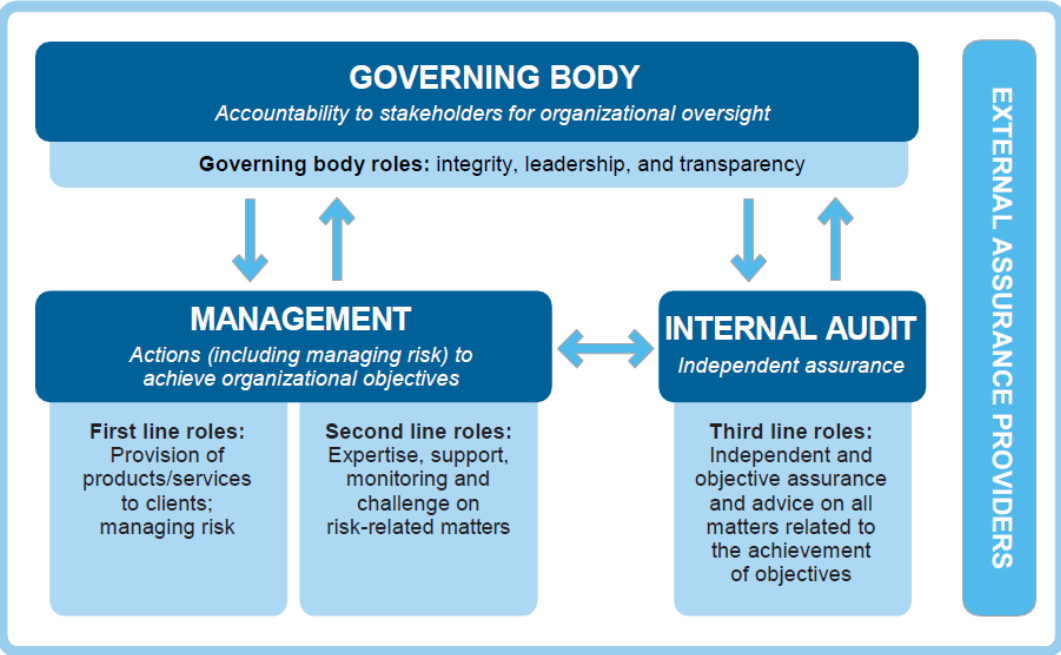
Growing Uncertainty



Understanding the Need for Better Risk Oversight

Frameworks & Models

The IIA's Three Lines Model

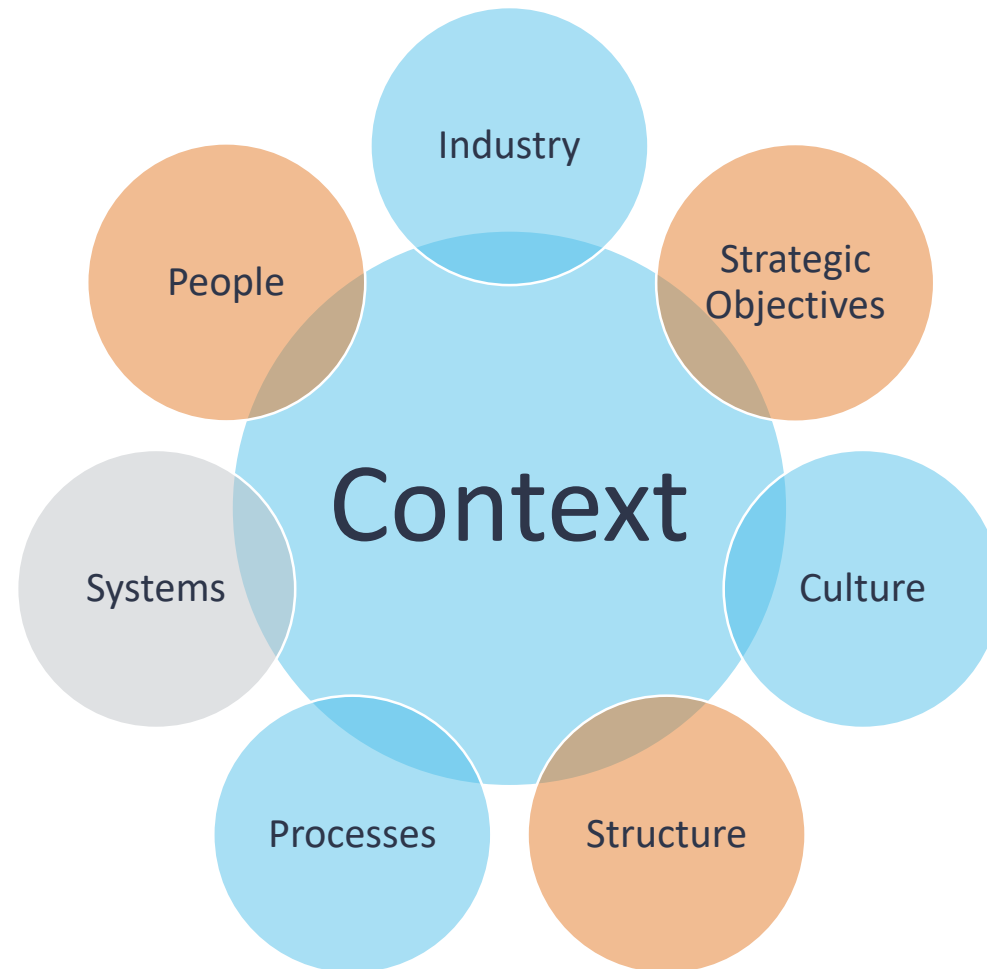


KEY: ↑ Accountability, reporting ↓ Delegation, direction, resources, oversight ↔ Alignment, communication coordination, collaboration



Understanding the Need for Better Risk Oversight

Understand the Organizational Context



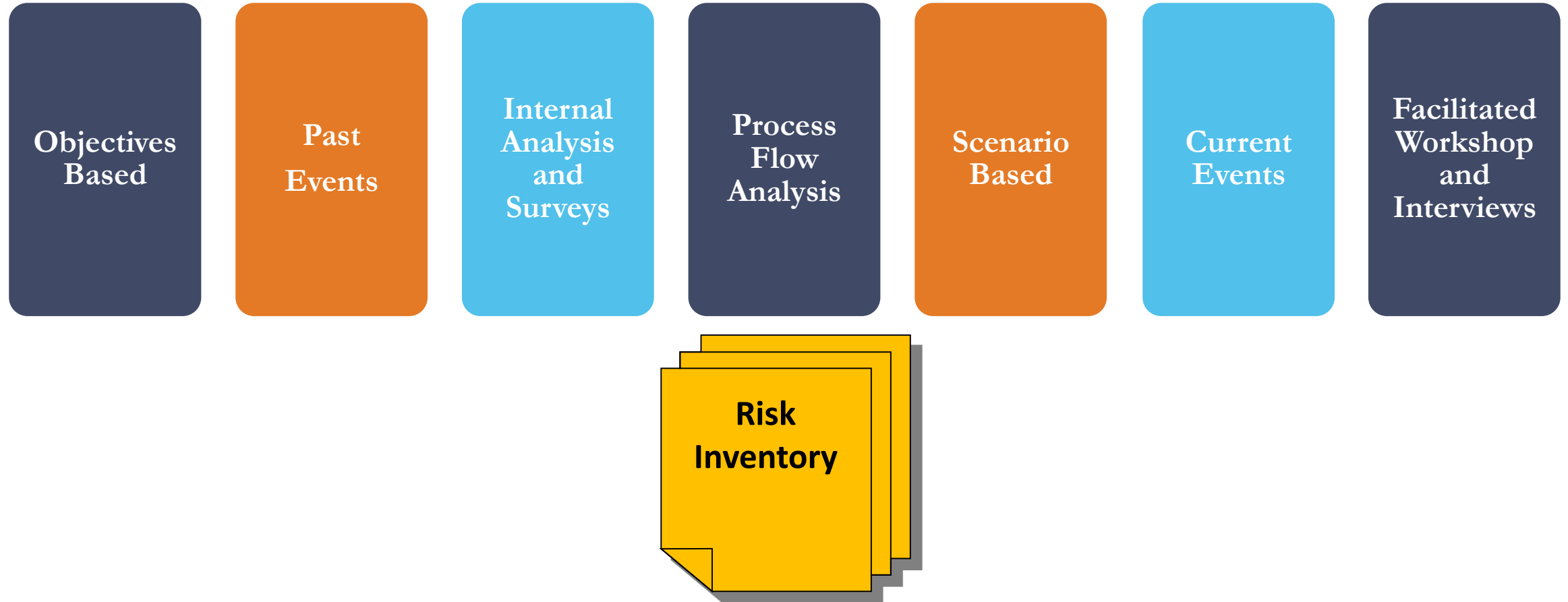
Understanding the Need for Better Risk Oversight

Strategic objective centered ERM approach

TOP RISKS	STRATEGIC INITIATIVE #1	STRATEGIC INITIATIVE #2	STRATEGIC INITIATIVE #3	STRATEGIC INITIATIVE #4	STRATEGIC INITIATIVE #5
Risk #1	X	X			
Risk #2				X	
Risk #3	X				
Risk #4	X	X	X	X	X
Risk #5	X				
Risk #6		X		X	
Risk #7	X		X		
Risk #8			X		
Risk #9		X			
Risk #10	X				

Understanding the Need for Better Risk Oversight

Key Risk Identification Techniques



Understanding the Need for Better Risk Oversight

Risk Universe

Categories



Understanding the Need for Better Risk Oversight

Monitor and Report

Management Handling Plans

RISK STATEMENT		DATES		
Cause		Status	Open	
Risk		Opened		
Impact		Approved		
Management effectiveness score		Closed		
RISK CLASSIFICATION		HANDLING PLAN		
Executive Owner		Description of Task	Owner	Status
Risk Manager				
Handling Approach	Mitigate			
INHERENT RISK RATING	CURRENT	TARGET		
Impact Rating (1-5)				
Likelihood Rating (1-5)				
Risk Score				
INTERRELATED TOP ENTERPRISE RISKS				

Independent Assurance



Understanding the Need for Better Risk Oversight

Is your Board Oversight Adequate



Insurance considerations



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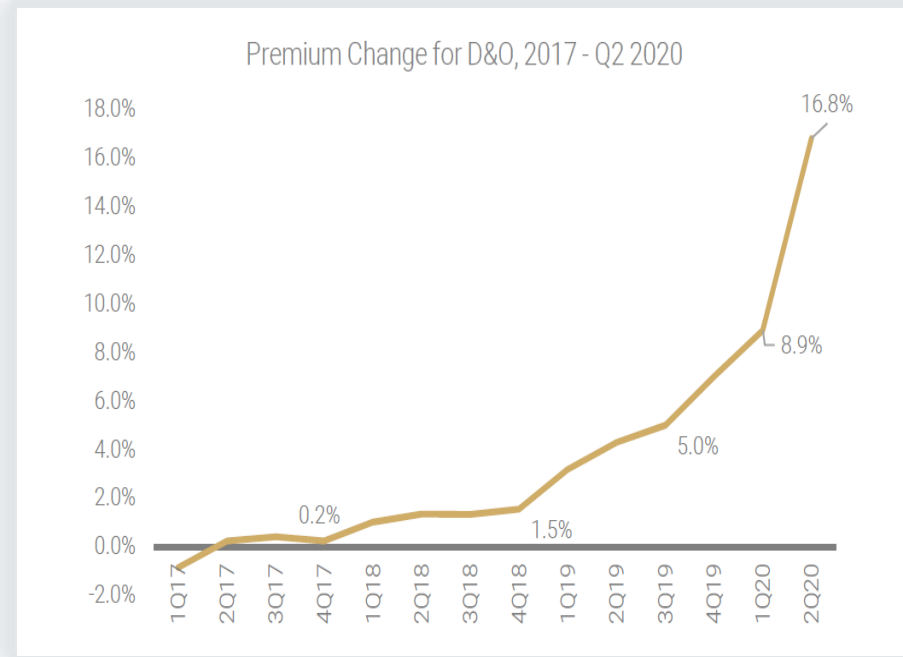
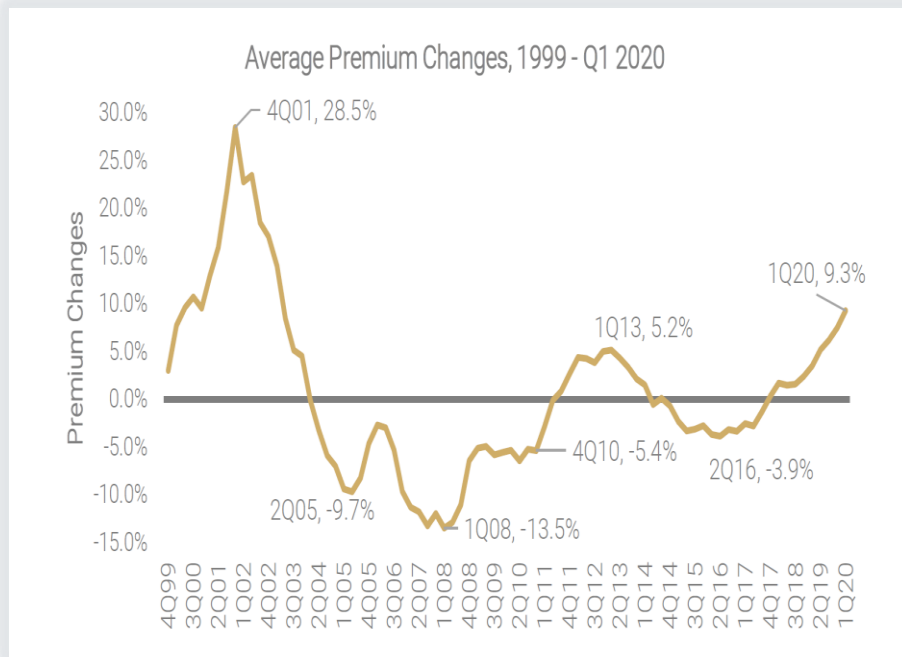
Polling Question #2

When was the last time your organization's insurance program was audited?

- A. *This year*
- B. *Last 3 years*
- C. *We've never done an insurance audit*
- D. *Unsure*

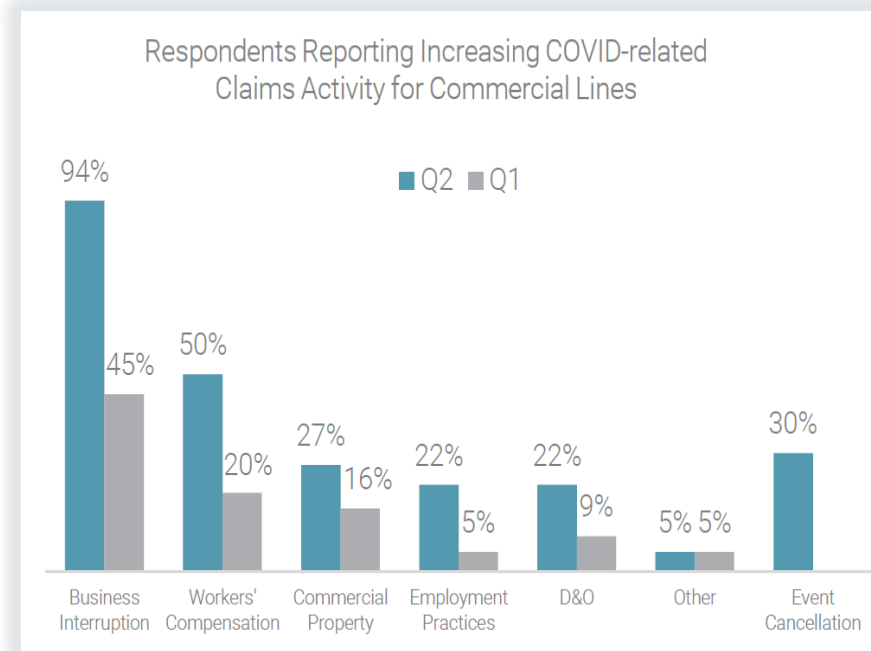
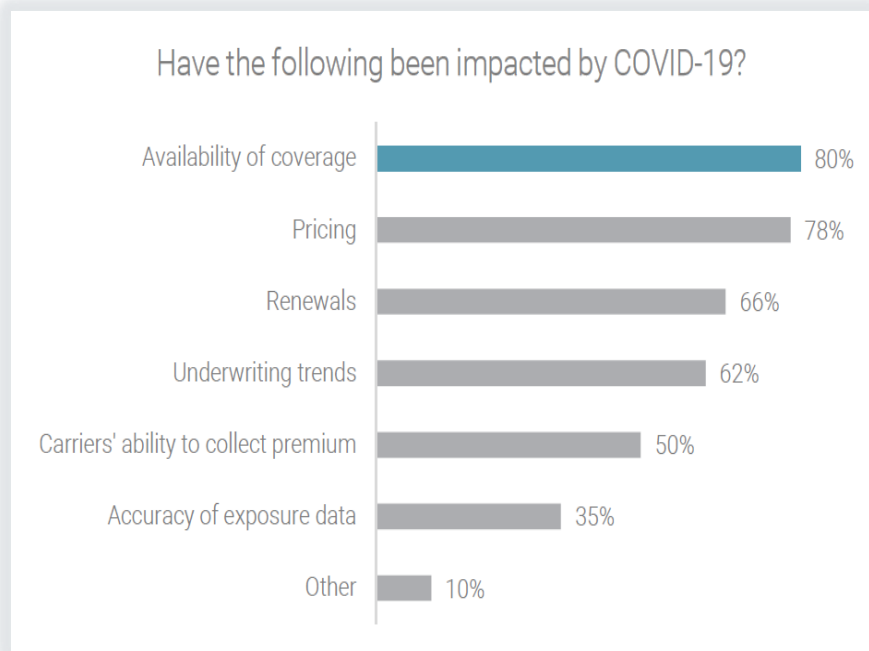
US INSURANCE MARKET RATE CHANGE – Q2 2020

The market continued to harden in Q2 2020, with premiums increasing by an **average of 10.8%** across all-sized accounts, marking the 11th consecutive quarter of increased premium pricing across all-sized accounts. As with the previous quarter, large and medium-sized accounts were hardest hit, recording average increases of **14.2% and 11%**, respectively, while small accounts experienced an average increase of 7.3



COVID-19 CLAIMS & UNDERWRITING IMPACT– Q2 2020

It was evident that COVID-19's impact on insurance accelerated into the second quarter, as the majority of respondents noted **increased pricing, decreased carrier appetite, stricter underwriting and an increase in reported claims** across key lines of business. It is important to note this survey was fielded from July 1 – July 31 and respondents were only asked to report on activity that occurred during Q2, this does not address forward-looking predictions.



Insurance Considerations

Trends

- We are in a “hard market” for the first time in 15 years.
 - Rates increasing from 10 - 15%
 - Coverage is more difficult to obtain
 - Drastically increased underwriter scrutiny
- Emerging claims areas for non-profits
 - Cyber Liability
 - Ransomware
 - Business Interruption
 - Social Engineering
 - Crime
 - Funds Transfer Fraud
 - Employment Practices Liability
 - Hiring practices, discrimination, harassment, etc..
 - #metoo

Insurance Considerations

How to incorporate into your annual plans

- When auditing key areas of risk – work with broker to understand “How would our insurance respond in the event of a financial loss?”
- At minimum work with broker to take insurance program to market every 3 years.
 - Ensures competitive rates
 - Latest coverage forms
- Consider forming a risk management committee or a sub-committee of audit to review annually.

Internal Audit Plan Insights



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Polling Question #3

Does your organization develop and execute an annual internal audit plan?

- A. *Yes*
- B. *No*
- C. *Looking into this concept*
- D. *Unsure*

Internal Audit Plan Insights

NUL - Insider Example

Introduction

- NUL and Affiliates (1910)
- Geography
- Terms of Affiliation

Affiliate Financial Management Structure

- Separate 501 (c)(3)
 - Internal Control Structures
 - External Audits
 - Governance
 - Program Implementation

Internal Audit Plan Insights

NUL - Insider Example

Reports to the NUL- ADM Database

- Monthly- SOFP, SOA, Budget to Actual
- Quarterly – 941s
- Annually- Audit, Management Letter, Tax Returns, Budgets, BOD.

NUL Processes

- Monthly Desk Reviews
- Emergency Site Visits
- Performance Assessments
 - Governance
 - Fiscal Operations
 - Program Execution.
- Report to Board/NUL

Internal Audit Plan Insights

International NGO

Take a risk-based approach and analyze individual components:

- Understand different control environment(s)
 - Organizational, geographic, political, etc.
- Gather information (policies and procedures, financial statements, budgets, etc.)
 - Do policies and procedures differ from HQ? Where?
- Understand capacity and segregation of duties
- Perform risk assessment and focus testing on material and/or high-risk components
 - Budget time and effort based on assessed level of materiality/risk
- Design testing over key systems and processes
- Virtual vs. onsite internal audits

Internal Audit Plan Insights

Investigate Allegations into Possible Misconduct

- Whistleblower hotlines and conflicts of interest
 - Anonymous
 - Annual review and disclosure
- Fraud procedures
 - Banking Internal Controls
 - Spot checks
- Data analytics
 - Artificial Intelligence
 - Business Intelligence



Developing the Internal Audit Plan

Developing the Internal Audit Plan

- Understand Goals and Objectives
- Understand the entity level controls that currently exist
- Gather Risk Information (Interviews, surveys, workshops, prior audits)
- Understand Level of Documentation
- Consider Risk Scenarios (what can go wrong)
- Develop Audit Universe
- Create Internal Audit Plan (3 year rolling plan)

Internal Audit Plan Insights

Types of Internal Audits

Financial audits

Compliance audits

Operational audits

**Information technology
audits**

**Consulting and advisory
services**

Special investigations

Polling Question #4

What Model for Internal Audit is at your organization?

- A. *In-house*
- B. *Co-source*
- C. *Out-source*
- D. *Unsure*

Internal Audit Plan Insights

Risk Areas / What Can Go Wrong

Example Risk Areas	“What Can Go Wrong” (Sample)
Organizational Culture/“Tone at the Top”	Strategic company goals and objectives are undefined or unclear, employee behaviors are not aligned with organizational principles, unclear or undefined delineation of authority, management is not aware of unethical acts by employees.
Financial Closing/Reporting	Unauthorized or inaccurate accounting entries are made, inaccurate financial statements, inefficient financial closing process, operational decisions are made based on inaccurate, insufficient or untimely financial information.
Cash and Accounts Receivable	Improper processing of checks payable to company, inefficient processing of cash receipts, misappropriation of cash receipts, failure to adequately monitor/follow up on receivables.
IT Security and System Access	Access to systems may not be restricted or updated appropriately, security of servers may not exist, compromise of data integrity may occur, critical systems are not available due to outage, virus, etc.
Accounts Payable	Fraudulent disbursements, duplicate payments, payments to inappropriate vendors, timely payment discounts not taken, vendor credits not applied.
Business Continuity/Disaster Recovery	Lack of knowledge transfer due to excessive dependence on informal procedures/tribal knowledge, critical data is not recoverable in the event of a disaster or other loss, critical business functions cannot efficiently resume in the event of a disaster.
Payroll and Benefits	Inaccurate or inappropriate payments to employees, fictitious employees are on the payroll, inaccurate payroll information is reported to finance and accounting, incorrect tax/benefits withholdings, employee benefit packages are not competitive.

Internal Audit Plan Insights

Potential Internal Audit Projects

Example Audit Plan Objectives	Estimated Hours	Estimated Budget
<i>Internal Audit Staffing</i>	In House	Out-Sourced
Cash/Pledge Receivables <ul style="list-style-type: none"> • Controls around cash receipts/segregation of duties • Processes and controls to process/record new donor pledges • Processes and controls around monitoring/follow up and collection of outstanding donor pledges • Valuation of pledge receivable assets (e.g., provision for pledges that may not be collected) 	# - # Hours	NA
IT Asset Management <ul style="list-style-type: none"> • Processes to manage IT assets from procurement to retirement • Processes and controls to monitor compliance with licensing and vendor agreements • Processes to measure system problems, performance, availability, responsiveness, etc. 	NA	10K to 15K
Accounts Payable <ul style="list-style-type: none"> • Payables analysis using Spend Risk Assessor – overall spend summary, analysis for possible duplicate payments, comparison of vendor payment terms to actual payment, discount analysis, etc. • Roles and responsibilities/segregation of duties 	# - # Hours	NA
IT Outsource Contract Review Compliance with contract terms and conditions, including any performance standards/evaluation metrics	NA	5K to 7K

Top Priorities



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- Enterprise Risk Management/Strategic Risk Identification
- Digital Transformation / Evaluation / Project Management
- Cybersecurity/Privacy Risk
- Talent Management/Culture Risk
- Third Party Risk Management (TPRM)
- Fraud Risk Management
- COVID 19 Economic Uncertainties

Key Take Aways



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How to Begin?

- The establishment or evolution of an ERM and internal audit function need not be a major investment. The function can be internal, outsourced or co-sourced.
- Begin with a risk assessment to prioritize of the areas of need to determine how to efficiently staff the priority projects and get the benefit of internal audit at your organization.



Questions?

Contact Us



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