

During the specific transaction with the graphic designer one year ago, several control procedures were not followed. For a large expense, the Assistant Executive Director should not have been the sole person to approve the purchase. This expense should have been approved by the Executive Director and at least one board member. They might have also conducted a bid process with the board to ensure high quality and fair cost. The Assistant Executive Director should have required a business quote or invoice outlining itemized costs and work expectations. Creating a purchase order would have been the proper way to initiate the purchase and to designate where the funds would be expensed.

This individual should not have sole authority to decide to use endowment funds, especially when designated to an unrelated purpose. There should be board-approved protocols in place for how, when and for what purpose to use endowment funds. The purchase should have been reviewed first by the board, especially if using designated endowment funds not related to marketing. Lastly, there must be separation of duties. One individual should not be able to approve the purchase, make the purchase, sign the check and then record the payment. These duties need to be divided between staff members, board and CEO.

To increase efficiency and effectiveness, ensure financial accuracy and legal compliance, I recommend that Friends of the Flute implement the following internal control procedures. First they must make some changes to better instill a control environment. Management must model an unwavering commitment to the highest ethical standards. The board should adopt a code of conduct for the organization. The board should be kept independent of management, and always kept informed, especially regarding large or unusual expenses. Creating an environment for open and honest communication should be a top priority. An information and communication system is important so that each employee can look out for suspicious behavior. Make it known that all tips are kept confidential. The organization should also repeatedly take time to identify risks inside and outside of the organization, and then determine what controls can be put in place to minimize these risks.

Based on my knowledge of Friends of the Flute, I recommend they focus primarily on creating controls in staffing and accounting at this time. Management must provide initial and continued training to ensure that staff understand organizational procedures and are able to do excellent work. They must adopt a policies and procedures manual, establish clear lines of authority for all transactions, and separate accounting duties.

The same person should be in control of every step of a transaction. Procedures should be put in place to outline the specific steps of each kind of transaction, and should dictate who will be responsible for each step whether it be approving the purchase order, making the purchase, receiving the invoice, or maintaining record, but one person should not do all these things. All documentation should be compared for accuracy, and ideally more than one signature should be required during the process. Board members should be called on to separate duties, especially for cash management, payroll and non-payroll disbursement. Procedures should clearly outline who will be responsible for which duties.

Beyond staffing and accounting, it would be in the best interest of the organization to also evaluate their controls in information technology, travel and physical assets to ensure ethical behavior and proper security, in all instances ensuring records are secure, backups maintained and several people involved in each area to avoid control remaining in the hands of key individuals.