



Constructing Internal Controls – Turning Risk Into Rewards

“An effective internal control framework can identify and reduce corporate risk, while providing a mechanism to ensure the achievement of organizational objectives. ~ Jennifer Eversole”



JENNIFER EVERSOLE
Managing Partner,
Co-founder-
Management Stack LLC

As part of the XLerant Thought-leadership Series, guest presenter Jennifer Eversole, CPA, recently spoke on the business case for building an effective internal control framework. A dynamic speaker and industry expert in finance and organizational strategy, Jennifer is Managing Partner and Co-founder of Management Stack, LLC, a CPA firm and digital consultancy in Roanoke, VA. She serves on the Board of Directors of the Virginia Society of Certified Public Accountants and is a member of the American Institute of CPAs.

XLerant is excited to share highlights from this informative and actionable webinar presentation. The full recording can be found on XLerant's website at: XLerant.com/resources/webinars/

Webster's dictionary defines bureaucracy as a system of administration by officialism, red tape and proliferation. Internal controls and bureaucracy are often seen in the same light. Quite the contrary...

Internal controls are there to help ensure that organizational objectives are being carried out – not to prevent them from being carried out efficiently.

When determining what controls to implement to support your business objectives there are a number of things that you can do to create an effective system that can walk the fine line between being comprehensive and practical:

- **Prioritize risks** so that potential events with the most impact are guarded against more heavily than those that are less severe.
- **Seek input** from all levels of the organization.
- Keep an eye towards **eliminating unnecessary controls**, not just adding new ones.
- And finally, **embrace technology** in both processes and in controls.

“As the saying goes, every organization is perfectly designed to get exactly the results that it gets. So why not design your organization from the ground up so that from an internal perspective people know the purpose behind the work that they're doing every day. And from an external perspective customers have amazing experiences with every single interaction. ~Jennifer Eversole”



Just as no two businesses are exactly alike... Internal Control Frameworks are unique to each business.

Formalizing internal controls into a complete framework requires detailed analysis and documentation of five key components:

- 1** The **Control Environment** is the company's attitude towards risk, and the culture surrounding integrity and ethics. It starts at the top and permeates through the entire organization.
- 2** **Risk Assessment** is all about uncertainty that affects an organization's performance. Risks come in all shapes and sizes and range from known to unknown. Because risks can adversely affect the achievement of a company's objectives, the first step in risk assessment is to identify those objectives.
- 3** **Control Activities** can be either preventative or detective. Preventative controls are designed to avoid events that can erode the company's value. Whereas detective controls identify when an event has happened as quickly as possible. Preventative control should be of primary concern, with detective controls for secondary assurance.
- 4** **Information & Communication** concerns how information flows from both internal and external sources and is used to support internal controls. It also involves how information is shared and communicated up, down, and across the organization-as well as to relevant stakeholders outside the organization. Employees need to feel safe to offer suggestions and bring previously unidentified risks to light.
- 5** Use **Monitoring Activities** because unmonitored controls tend to deteriorate. Look at the whole system and make sure that everything is working as planned and see what updates and adjustments need to be made on a continuous basis. With effective monitoring issues can be identified and corrected quicker, and information is more accurate.

OPTIMIZING BUDGETING AS AN INTERNAL CONTROL

Budgeting is simultaneously a control objective and a control opportunity. Building a culture of communication and integrating the proper tools to disseminate that information are an important part of budgeting - ensuring that everyone on the team is making informed decisions.

“*Risk is extremely elevated when people are making decisions without all the relevant information, they are making assumptions, or they have inaccurate information.*

While Excel offers many benefits in calculations and data analysis, we've all experienced errors in formula calculations. Having a budgeting and forecasting system in place that eliminates the risk of Excel errors is also a valuable internal control.

~Jennifer Eversole”

When evaluating a budgeting and forecasting solution, consider how it facilitates the key tenets of successful internal controls.

- »»» **Does it facilitate communication** of the organization's strategy, ensuring the budget is aligned with key objectives?
- »»» **Can users capture and document** the justification and rationale behind their numbers – providing a historical record of decisions and guarding against turnover?
- »»» **Is it easy for everyone** to use regardless of their level of financial expertise (reducing the potential for errors while increasing engagement)?
- »»» **Are there built-in controls** and approvals which enable finance to lock down key elements such as benefits or headcount while providing flexibility in budgeting methods?

The surprising side effects of an effective internal control environment:

In addition to mitigating risk, internal control frameworks offer some very positive side effects that may challenge your traditional thinking about internal controls.

»»» **Employee Engagement:** When employees know what's expected, and are empowered to make decisions necessary to do their jobs, they are significantly more engaged.

»»» **Money & Resource Savings:** Effective internal controls save money by preventing fraud and streamlining or eliminating unnecessary processes. The control process also aligns the work that people do every day with the organization's key objectives and strategic goals.

»»» **Customer Satisfaction & Loyalty:** When companies have good processes supported by strong internal controls, they have a foundation to give customers the exceptional experiences that they demand.

To learn more about the benefits of Internal Controls, and how to implement a framework that works for your organization [watch the webinar now](https://www.xlerant.com). Visit [Xlerant.com](https://www.xlerant.com) to learn more about how we are helping organizations leverage budgeting in their internal control framework.



“*Budgeting in and of itself is a control activity. Budgets should be designed to be used as a benchmark against which results are measured.*

The financial results themselves don't mean much out of the context of expectations. Collaborative budgeting is definitely a critical success factor in gathering that information. It also is a critical factor in employee engagement. It's very demoralizing to be handed a goal when you've had no input on how accurate that goal is going to be. ~Jennifer Eversole”

At Xlerant we believe that when employees are empowered to outline their ideas for the wisest uses of funds, explain their reasoning and have a discussion with their management about available resources and expectations, they really own their numbers. And they take accountability for their decisions. This increase in ownership and accountability improves accuracy and helps to ensure that the budget is both a numerical expression of the strategic plan and an effective addition to your internal control framework. This is ultimately what all organizations – whether corporate, nonprofit or higher education are hoping to achieve, and the mission we're here to support.