Strategies for Financial Oversight

Welcome and Introductions

- Scott Kim, DDS – Treasurer, CDA Board of Directors
- Kevin Roach, Chief Financial Officer, CDA
- Heidi Stevens, VP, Finance, CDA



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Session Goals

- Define and distinguish roles and responsibilities in financial oversight.
- Learn effective financial controls and fraud prevention measures.
- Expand understanding of budgeting and forecasting techniques.



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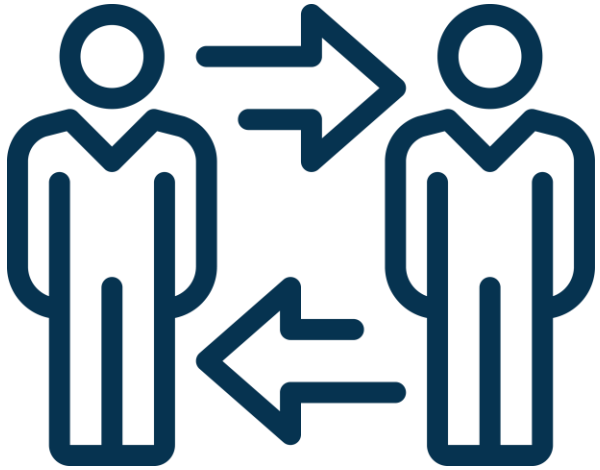
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Roles and Responsibilities

Clarify roles:

- Staff, board, and financial oversight committee
- When and why to form committees







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Roles and Responsibilities – Board

"Board members are the **fiduciaries** who steer the organization towards a **sustainable future** by adopting sound, ethical, and legal governance and **financial management policies**, as well as by making sure the nonprofit has **adequate resources** to advance its mission."

– Council of Nonprofits

Roles and Responsibilities – Board Fiduciary Duties

Duty of Care

- Take care of the association by ensuring prudent use of assets

Duty of Loyalty

- Act in good faith
- Ensure the association's activities and transactions advance its mission
- Make decisions in the best interest of the association, not the individual or other for-profit entity

Duty of Obedience

- Ensure the association follows applicable laws and regulations, its bylaws and adheres to its stated purpose

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Roles and Responsibilities – Board and Staff

Board Members

- **Approve** annual budget
- **Review** financial statements
- **Oversee** internal control and compliance processes
- **Oversee** enterprise risk management processes

Staff

- **Prepare** annual budget
- **Maintain** accounting records
- **Prepare** financial reports
- **Implement** internal controls
- **Implement** risk identification and management processes

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Roles and Responsibilities – Board Committees

Do we need a finance or audit committee:

- How large and complex are my organization's finances?
- Can the board effectively oversee financial matters in its normal meetings, or does it require more time outside of meetings to do so?
- What is the financial competence of the board? Of management?
- What are the goals of the organization and can added focus on finances or compliance help achieve those goals?
- Is an external audit required? (>$2 million in annual revenue)

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Roles and Responsibilities – Board Committees

Finance Committee:

- Oversee annual **budget** process
- Oversee administration, collection and disbursement of **financial resources**
- Advise the Board regarding **significant financial decisions**
- Evaluate and advise the board organization's **financial condition**
- Evaluation of and compliance with **investment policies**

Audit Committee

- Oversees:
  - **Financial reporting** processes
  - **Internal control** processes
  - **Annual audit** process
  - **Legal and regulatory** compliance
  - **Risk management** policies
  - **Related party transactions**

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Audit Committee – Sample Meeting Schedule

First Quarter	Second quarter

• Roles and responsibilities
• Insurance coverage review
• Every meeting:
  – Financial reports
  – Legal, compliance update
  – Closed session with staff
	• Audited financial statements and auditor report
	• Closed session with auditor
	• Every meeting:
	  – Financial reports
	  – Legal, compliance update
	  – Closed session with staff

Third quarter	**Fourth quarter**

• Appointment of auditor, audit planning
• Closed session with auditor
• Enterprise risk management
• Every meeting:
  – Financial reports
  – Legal, compliance update
  – Closed session with staff
	• Review of tax return
	• Internal controls manual
	• Audit committee self-evaluation
	• Every meeting:
	  – Financial reports
	  – Legal, compliance update
	  – Closed session with staff

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Finance Committee – Sample Meeting Schedule

First Quarter	Second quarter

• Roles and responsibilities
• Every meeting:
  – Financial reports
  – Investment report
	• Investment policy
	• Every meeting:
	  – Financial reports
	  – Investment report

Third quarter	**Fourth quarter**

• Staff compensation
• Enterprise risk management
• Every meeting:
  – Financial reports
  – Investment report
	• Approval of budget
	• Every meeting:
	  – Financial reports
	  – Investment report

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Roles and Responsibilities – Accounting Services

Audit	Review	Compilation	Tax
• Highest level of assurance • Perform testing of detailed transactions and controls • Higher cost	• Limited assurance • No detailed testing of transactions • Moderate cost	• No assurance • Prepare financial statements • Low cost	• No assurance • Prepare tax returns • Relatively inexpensive for tax return preparation • Higher cost for tax planning strategies

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Roles and Responsibilities – Audit Services

Do I need an audit or a review?

- Independent audit required
  - More than $2 million in annual revenue (CA nonprofit)
  - More than $750,000 in expenditures from federal sources (i.e. grants)
  - If required by a lender
  - If required by a grant funder

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Questions?
Roles and Responsibilities

The Control Environment

Effective financial controls and fraud prevention measures

- Understand risks of fraud and impact on associations
- Identify effective anti-fraud controls
- Assess the effectiveness of your current fraud prevention measures



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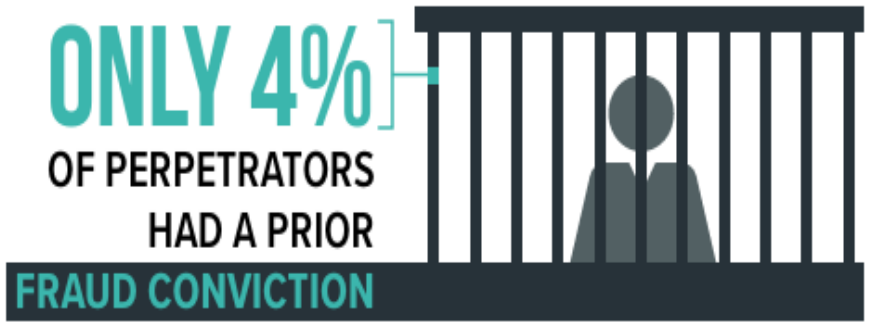
Fraud Risks













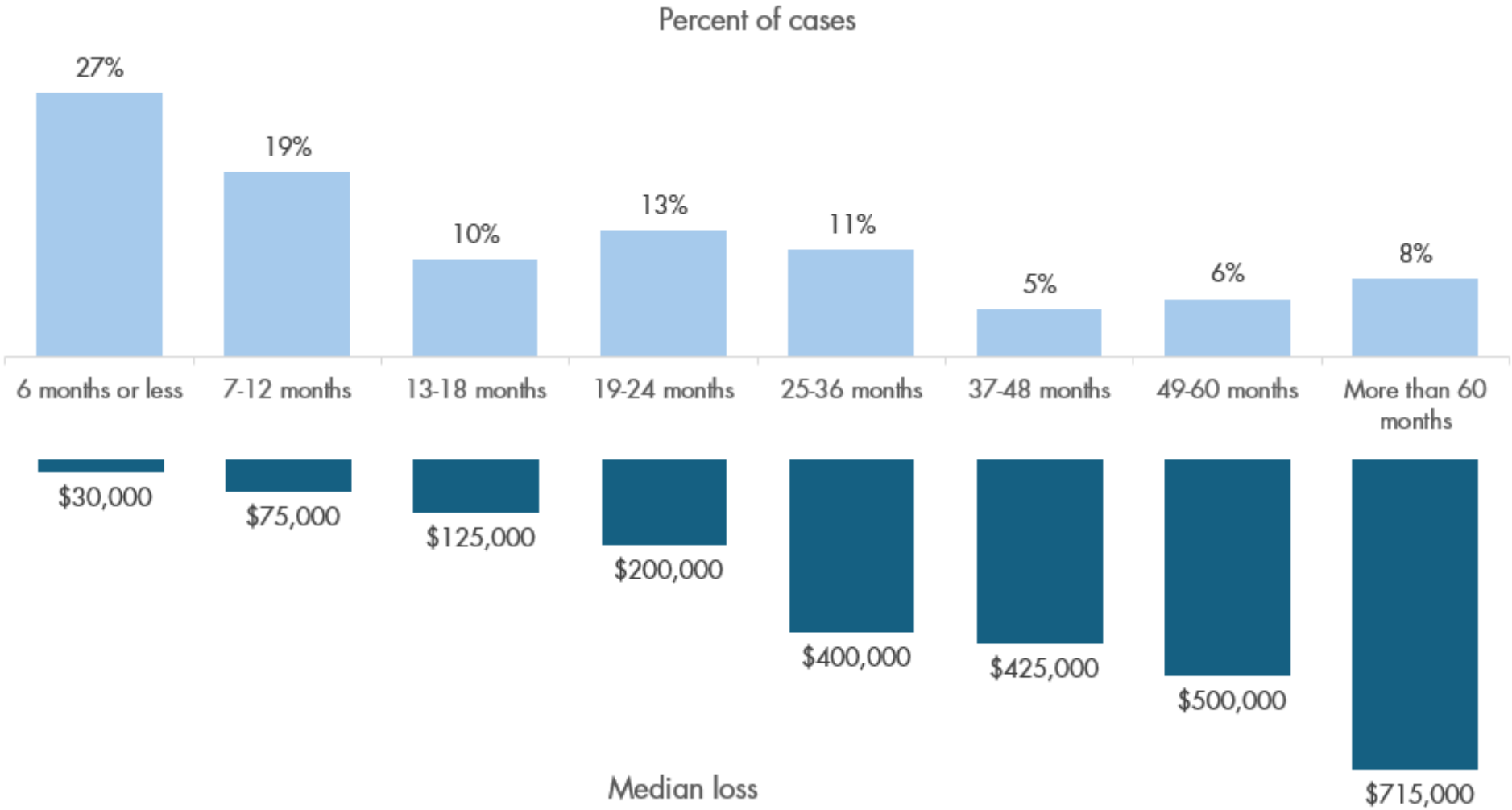




Source: Association of Certified Fraud Examiners 2018 Report to the Nations

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Duration of Fraud Schemes

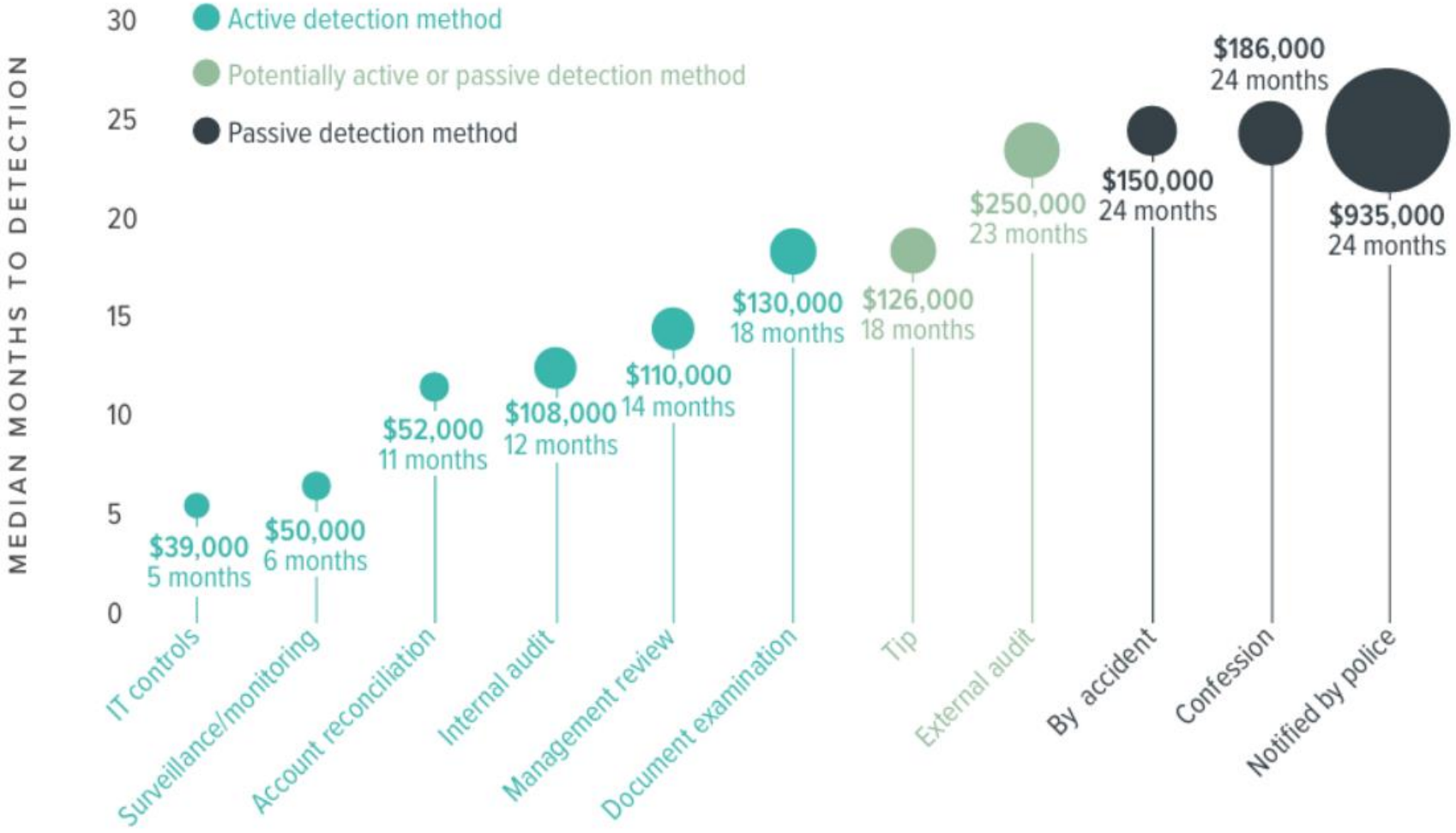


The longer a fraud goes undetected, the greater the loss to the organization

Source: Association of Certified Fraud Examiners 2018 Report to the Nations

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Median Loss by Detection Method



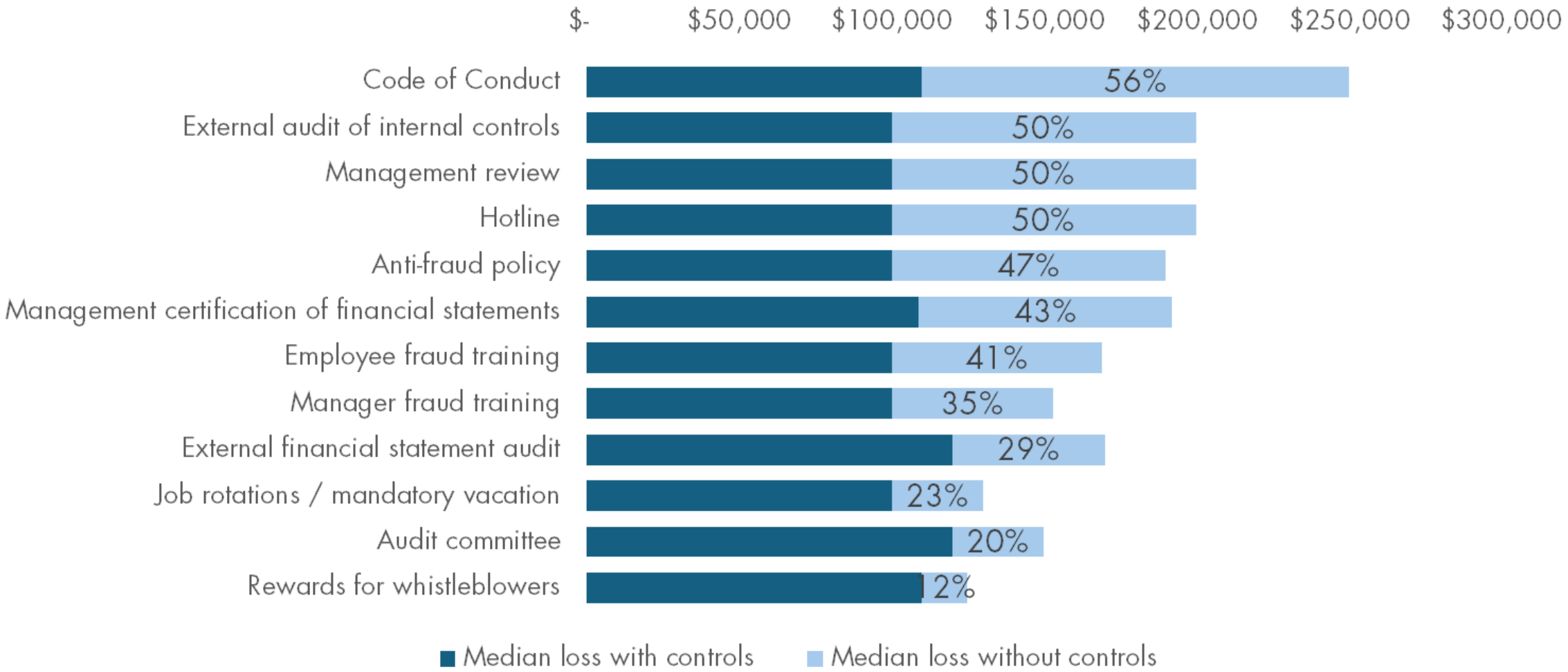
Effective internal controls significantly reduce the time that the fraud goes undetected and dramatically reduce the expected loss

- IT Controls
- Account reconciliation
- Management review
- Document examination

Source: Association of Certified Fraud Examiners 2018 Report to the Nations

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Reduction in Loss from Anti-Fraud Controls



Source: Association of Certified Fraud Examiners 2018 Report to the Nations

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Internal Controls

- Control environment
  - Code of conduct
  - Anti-fraud policy
  - Conflict of interest policy
- Clear roles and responsibilities
  - Policies and procedures manual
  - Internal controls manual
- Risk and Compliance
  - Annual board review of 990 tax return
  - Annual board review of insurance policies
- Access controls
  - Passwords (don't share)
  - Locked file cabinets for checkbooks, payroll records, etc.
- Reconcile balance sheet accounts, especially cash
  - Review bank statements
  - Review balance sheet reconciliations
- Payroll
  - Review timesheets
  - Review payroll registers

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Internal Controls

Cash and disbursements

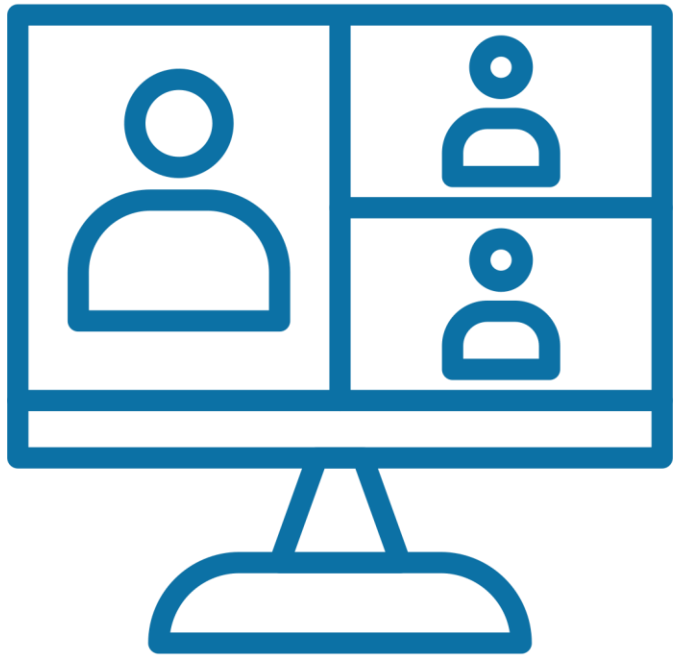
- Annual board review of bank signature cards
- Assign spending authority limits
- Review employee credit card statements
- Avoid debit cards
- Verbally verify all electronic payment instructions
- Segregation of duties between disbursements (check signing) and accounting (bank reconciliation and bookkeeping)
- Obtain original invoices

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Follow-up Webinar

Deep Dive: Financial Fraud Prevention and Cyber Security

- **June 17, 2025 | 6:00-7:00 pm**
- Heidi Stevens, CDA VP Finance and Katie Fox, CDA Security Engineer
  - How to recognize common fraud schemes, particularly cyber-fraud
  - Effective risk prevention techniques



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Questions?
Internal Controls

Budgeting and Forecasting

- Understand the purpose of annual budgets
- Value of long-range forecasting
- Practical approaches and best practices



"A budget is a **guide** that can help a nonprofit plan for the future as well as assess its current financial health."

– Council of Nonprofits

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Budgeting and Forecasting – Annual Budget

- Opportunity to reflect on the organization's **goals**
- Ensure **resources** are allocated to highest priorities
- **Communication** tool
- Provides **accountability** and **control**



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Budgeting and Forecasting – Long Range Forecast

- Opportunity to reflect on the organization's **goals**
- Evaluate **feasibility** of organization's strategies
- Establish financial **targets**
- Assess impact of financial **risks**
- Consider alternative **scenarios**



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Budgeting and Forecasting – Getting Started

- Understand your organization's goals, priorities and long-term strategy
  - What programs or member benefits do your members find valuable?
- Assess where you are by analyzing the current and prior year financial records, including trends and key drivers
  - Consider available resources, including all income streams.
  - How reliable are your income streams? What resources do you need to maintain them?
  - What are the organization's current commitments? Include staff, contracts, rent, etc.

Budgeting and Forecasting – Approaches

- Start with **Revenue**
  - What resources do you have?
  - Conservative approach, ensures you don't overspend
  - Based on historical data, can sometimes limit forward-looking creativity
- Start with **Programs**
  - What value do you want to create?
  - What resources would you need to make it happen?
  - Forward-looking, value-based, can inspire creativity and challenge assumptions

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Budgeting and Forecasting – Result

- **Expenses** should be within your means (i.e. less than or equal to revenue)
- Ensures **resources** are allocated to your highest **priorities**



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Budgeting and Forecasting – Reserves

Operating Reserves

- "Rainy-day fund"
- Maintains stability in cases of unexpected expenses or losses in revenue
- 3-6 months operating expenses as a starting point

Strategic Reserves

- May be intended for specific purposes (i.e. purchase of real estate)
- Can provide flexibility to respond to future opportunities

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Budgeting and Forecasting – Best Practices

~ Nonprofit is a tax status, not a financial strategy ~

- Plan to achieve a surplus from annual operations
- Develop a plan to build up to 3-6 months of **operating reserves**
- Set **strategic reserve** target that aligns with your long-term goals

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Budgeting and Forecasting
Example – Revenue and expense increase

	2025	2026	2027	2028	2029	
Dues	$ 80,000	$ 82,400	$ 84,872	$ 87,418	$ 90,041	3% ↑
Non-dues revenue	20,000	20,600	21,218	21,855	22,510	3% ↑
Total revenue	100,000	103,000	106,090	109,273	112,551	
Expenses	99,000	101,970	105,029	108,180	111,425	3% ↑
Net income	**1,000**	**1,030**	**1,061**	**1,093**	**1,126**	☑
Reserves	**33,000**	**34,030**	**35,091**	**36,184**	**37,309**	☑

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Budgeting and Forecasting

Example – Dues flat, non-dues revenue increase

	2025	2026	2027	2028	2029		
Dues	$ 80,000	$ 80,000	$ 80,000	$ 80,000	$ 80,000	0%	
Non-dues revenue	20,000	23,000	26,450	30,418	34,980	15%	↑
Total revenue	100,000	103,000	106,450	110,418	114,980		
Expenses	99,000	101,970	105,029	108,180	111,425	3%	↑
Net income	**1,000**	**1,030**	**1,421**	**2,238**	**3,555**		☑
Reserves	**33,000**	**34,030**	**35,451**	**37,688**	**41,243**		☑

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Budgeting and Forecasting
Example – Increase dues only

	2025	2026	2027	2028	2029		
Dues	$ 80,000	$ 82,400	$ 84,872	$ 87,418	$ 90,041	3%	↑
Non-dues revenue	20,000	20,000	20,000	20,000	20,000	0%	
Total revenue	100,000	102,400	104,872	107,418	110,041		
Expenses	99,000	101,970	105,029	108,180	111,425	3%	↑
Net income	**1,000**	**430**	**(157)**	**(762)**	**(1,385)**		☒
Reserves	**33,000**	**33,430**	**33,273**	**32,511**	**31,126**		☑

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Budgeting and Forecasting
Example – Temporary decrease in revenue

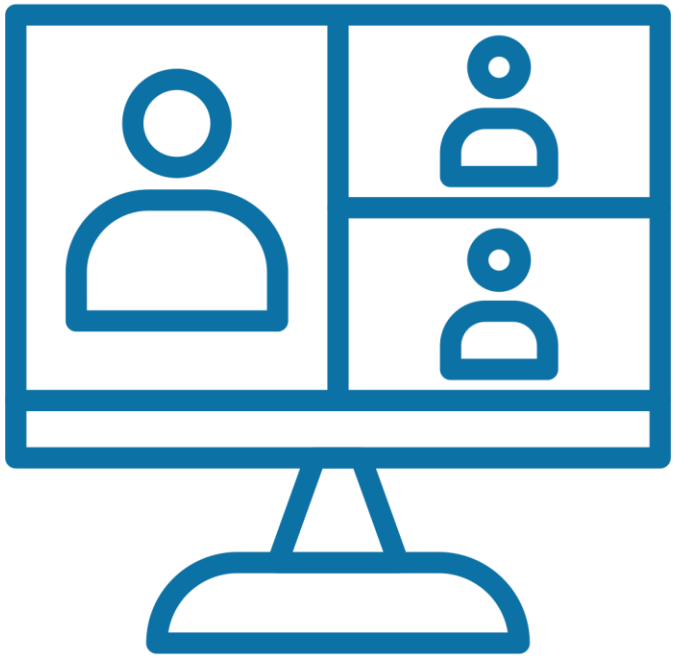
	2025	2026	2027	2028	2029		
Dues	$ 80,000	$ 83,200	$ 86,528	$ 89,989	$ 93,589	4%	↑
Non-dues revenue	20,000	12,000	14,000	16,000	18,000		
Total revenue	100,000	95,200	100,528	105,989	111,589		
Expenses	99,000	101,970	105,029	108,180	111,425	3%	↑
Net income	**1,000**	**(6,770)**	**(4,501)**	**(2,191)**	**163**		
Reserves	**33,000**	**26,230**	**21,729**	**19,538**	**19,701**		☑

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Follow-up Webinar

Deep Dive: Nuts and Bolts of a Financial Budget and Forecast

- **September 30, 2025 | 6:00-7:00 pm**
- Heidi Stevens, CDA VP Finance
  - Practical approaches to budgeting and forecasting for associations
  - Customizable budgeting and forecasting template



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Questions?
Budget Forecasting

Summary

- Oversight and management of financial resources is an important responsibility of the board and management
- Effective internal control processes can reduce the risk of loss due to fraud and improve reliability of financial information
- Budgets and forecasts can help society leaders maintain the organization's financial health



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Follow-up Webinars

- Webinar #1 Financial Fraud Prevention and Cyber Security

  June 17, 2025 | 6:00-7:00 pm
- Webinar #2 Nuts and Bolts of a Financial Budget and Forecast

  September 30, 2025 | 6:00-7:00 pm

SCAN ME

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Resources

Heidi Stevens, VP Finance, CDA

- Heidi.stevens@cda.org

Board Self-Assessment Workbook

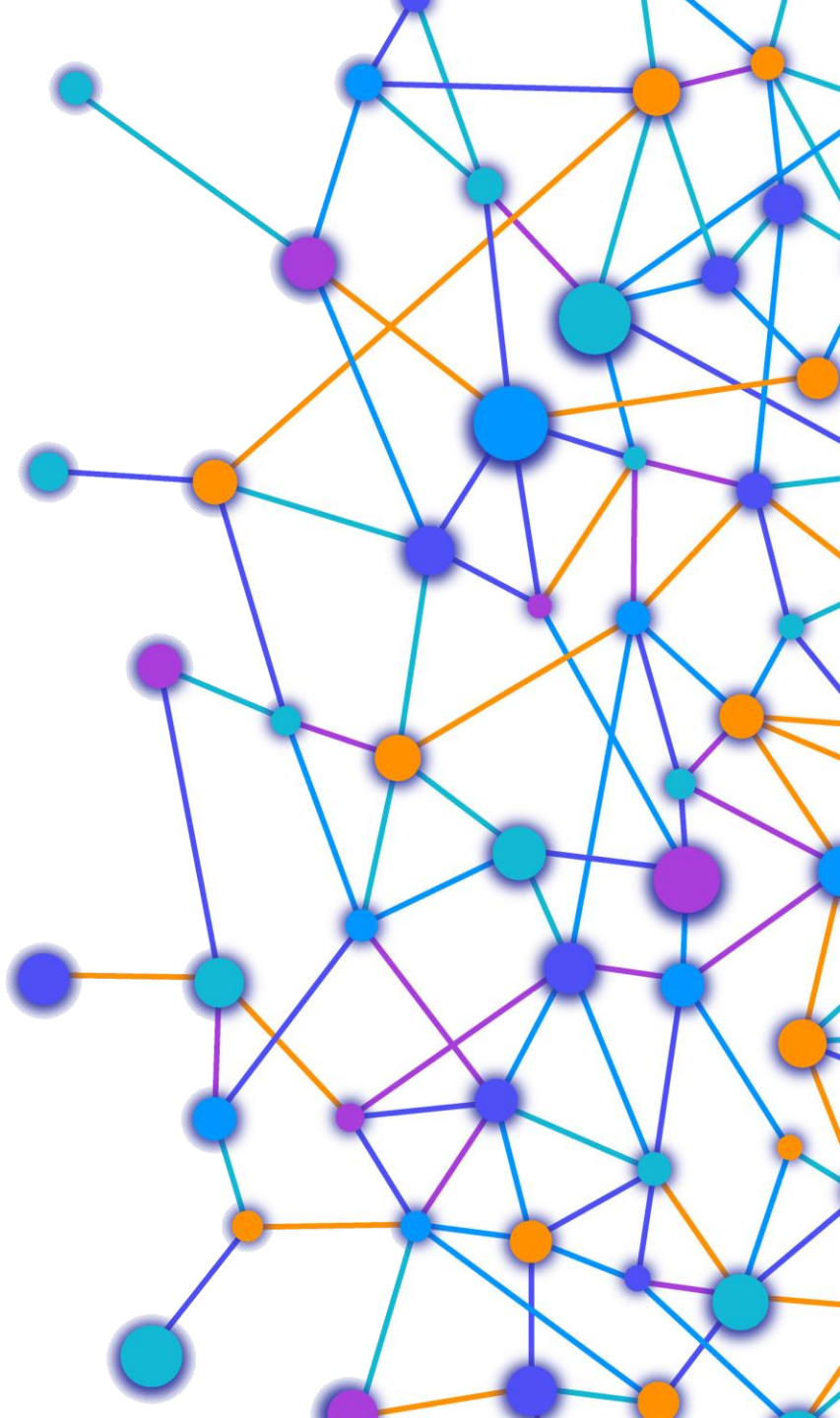
- https://cda.boardeffect.com/workrooms/68776/resources/918765
- Once logged into Board Effect, open the "Component Operations" folder, select the PDF file "Local Dental Societies Self-Assessment Workbook"

Guidestar – Resource for non-profit 990s

- https://www.guidestar.org/

Association of Certified Fraud Examiners, Report to the Nations

- https://legacy.acfe.com/report-to-the-nations/2024/



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Thank you for attending!