**Civil Air Patrol Internal Accounting Controls**

Internal accounting controls are checks and balances used to detect errors and financial misappropriation. They are also designed to safeguard assets and resources, ensure accounting information is accurate and reported reliably in a timely manner and assure that all units follow and comply with laws and regulations that apply to CAP. Strong internal controls help demonstrate to the public that our corporation is financially healthy and our financial information is accurate and valid.

The five components of an effective internal control system include:

**Control Standards** – CAP regulations, federal and state laws and regulations, the Cooperative Agreement, and OMB Circulars A-110, A-122 and A-133

**Performance Measurement** – Internal Financial Reviews (IFR), budget-to-actual reports, Wing Financial Analyst (WFA) visit reports, annual audits and compliance inspections

**Deviation Analysis** – Wing finance committee reviews IFR and budgets, units review budgets quarterly, WFAs review and issue reports, and the CAP/IG and CAP-USAF/IG jointly conduct Compliance Inspections

**Corrective Action** – Wing finance committee reviews findings and corrects deficiencies

**Reassessment** – Some standards may be adjusted based on trends or observations, or corrective action may be taken to resolve problems

CAP ensures the integrity and reliability of its financial statements by establishing standardized requirements. All wings are required to use QuickBooks® accounting software with a standardized chart of accounts, Sertifi for approval of expenses over $1,500 and all credit card bills, and SmartVault for document storage. All units are required to use accrual basis accounting. All units must approve bills before they are paid. Wing level expenditures in excess of $1,500 must be approved prior to obligating funds. All checks must be pre-numbered, cannot be made payable to “cash,” cannot be pre-signed and must be stored in a locked cabinet or room. The duty of reconciling bank accounts is segregated from the wing administrator, a paid employee who usually enters most of the transactions in QuickBooks. Itemized bills are required for all expense transactions. Itemized receipts are required as backup for all credit card statements. These controls help ensure that all finance personnel are accurately performing finance duties.

Measuring performance is first accomplished by the finance committee. The wing finance committee is responsible for performing the Internal Financial Review and reviewing the annual budget quarterly. The purpose of the IFR is to identify exceptions or mistakes that may need to be corrected and to verify that all rules and regulations are being followed. At the unit, the finance committee must review the monthly and quarterly reports from wing and notify wing of any errors or omissions. By reviewing the budget quarterly, the wing or unit finance committee makes adjustments to maintain a balanced budget and reviews the financial standing of the wing or unit. The wing finance committee should review the accounts receivable and accounts payable reports to ensure all income and expenses are collected and paid in a timely manner. WFAs perform periodic reviews and annual audits using standardized checklists and issue reports identifying areas that need improvement. The Compliance Inspection is used by NHQ to evaluate how well a wing is managed and whether it meets program objectives. Compliance Inspection questions are published on the NHQ website and provide a standardized review that is the same for each wing. WFA reports and Compliance Inspection reports provide feedback to the finance committee that is essential for their decision making processes in the future.

Any deviations must be investigated by the finance committee. The finance committee must review the most recent Internal Finance Review at their next meeting and devise corrective action for any irregularities. If credit card receipts are missing, a letter must be written to the cardholder warning them of the requirement for receipts and that their access to the credit card is in jeopardy. If bills are not being approved correctly, the finance committee must develop a system to ensure all bills are approved according to their established procedures. Deviations from standards are documented in WFA reports and Compliance Inspection Reports. Budget variances should be researched and adjustments made to ensure budgets remain balanced. Outstanding receivables should be investigated to ensure balances do not become stale and uncollectable. Outstanding payables need to be researched to ensure bills are paid promptly. The finance committee must review these deviations and develop a plan to correct any problems.

Corrective action may require the finance committee to modify current processes. If the designated person is repeatedly late reconciling bank accounts, then an assistant or new designee may be appointed. If units are repeatedly purchasing equipment valued at $500 or more and are not entering the items in ORMS, then the wing director of logistics must develop a plan to correct this error. Wing may need to provide the director of logistics with a quarterly report documenting recent purchases so that follow up may be accomplished. If pilots are not uploading fuel receipts into WMIRS, then the wing Director of Operations needs to counsel them or the Wing Commander needs to ground them. The wing may develop a checklist to help the pilots ensure all fuel receipts are uploaded. WFAs may be asked to provide additional training to wing finance personnel to help ensure that all required standards are met.

Reassessment may be accomplished when WFAs or inspectors notice a trend. If numerous wings are repeatedly performing a process incorrectly, NHQ may develop training materials or checklists to assist wings in correcting the problem. Examples of effective processes performed by other wings are available on the NHQ website. Finance regulations may be changed to clarify procedures or correct repeated problems. Instead of having finance committees develop separate Financial Management Procedures for recurring expenses, expense authorizations, bank transfers and credit cards, NHQ created a simple form where all the required information can be recorded in one place. Reassessment allows NHQ to fine tune its requirements to ensure standardization.

Internal accounting controls are essential to a successful financial management program. Strong internal controls help ensure that all CAP assets are safeguarded. The most vulnerable asset in CAP is cash. Segregation of duties so that one person does not have control over all the accounting and disbursing functions helps ensure cash is protected and not misappropriated. Periodic reviews using standardized checklists reduce the risk of simple errors and provide a basis for assessment. Finding, correcting and preventing future errors help ensure the integrity of our financial statements and are the result of good internal financial controls.