

Financial Record Keeping



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Tuesday, August 22, 2000

6:30 to 8:30 p.m.

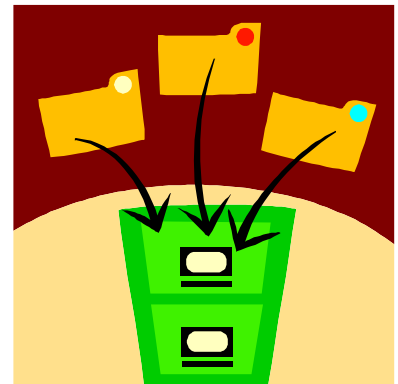
MCDA Conference Room 3

Second Floor, Crown Roller Mill

105 5th Ave S

AGENDA:

- I. Introductions and Background
- II. Treasurer Roles
- III. Board Roles
- IV. Planning
- V. The Financial Committee
Break
- VI. Policies and Procedures
- VII. Clear Expectations and Direction
- VIII. Fundraising
- IX. Regular Review and Evaluations
- X. Evaluation





What is the role of the Treasurer?

Generally, the treasurer is responsible for compiling and keeping the financial records, as well as serving as custodian of the organization's funds. The Treasurer should ensure that payments and deposits are made in an appropriate and timely manner. However, care should be taken to segregate duties

among as many people as possible, to prevent misuse of funds, loss due to error, and to ensure adequate oversight. According to the National Center for Nonprofit Boards, the Treasurer has the following responsibilities:

- Knowledge of the organization and personal commitment to its goals and objectives
- Understanding of financial accounting for nonprofit organizations
- Serves as financial officer of the organization and as chairperson of the finance committee.
- Manages, with the finance committee, the board's review of and action related to the board's financial responsibilities.
- Works with the chief executive and the chief financial officer to ensure that appropriate financial reports are made available to the board on a timely basis.
- Assists the chief executive or the chief financial officer in preparing the annual budget and presenting the budget to the board for approval.
- Reviews the annual audit and answers board members' questions about the audit.

From The Finance Committee: The Fiscal Conscience of the Nonprofit Board. Washington, DC: National Center for Nonprofit Boards, 1995.

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In addition, the Treasurer should work with the Finance Committee to develop the accounting policies for the organization. The Treasurer should be familiar with the policies of the organization, and should review NRP and MCDA contracts prior to Board approval to ensure that they are consistent with organization budgets and

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accounting policy. In addition to providing financial reports to the board, the Treasurer may consider providing a narrative summary to the board.

In larger organizations, the Executive Director may be responsible for some or all of the duties of the treasurer. In that case, the Treasurer and Executive Director should work closely to ensure that the duties are carried out.

What is the role of the Board?



The Board of Directors of the organization should provide adequate policies to guide the Treasurer and staff in handling of the organization's finances; should ensure that there are sufficient internal controls in place; and should regularly review financial reports and records. Policies that the board may consider include an accounting (or fiscal) policy, investment policy, and an audit policy. The board may wish to establish committees to carry out this work, including a Finance Committee and an Audit Committee.

In addition, the Board should provide clarity on the organization's mission, goals, structure, and programs. Effective planning includes financial management, and the budget and chart of accounts should reflect organizational priorities and programs. Ultimately, budgeting is part of the organization's overall planning process, and regular reporting is part of the evaluation process that the Board is ultimately responsible for. The board should regularly review internally prepared financial statements, and should annually review the audited financial statements.

Planning

The Board should take responsibility for developing a reasonable strategic plan for the organization, and this plan should include a financial plan. The organizational plan could span anywhere from one year to several years. When developing a plan, the Board should consider:

- What is the current cost of our programs and management of the organization?
- What resources are available to continue our programs?
- Are our programs as efficient as they could be, or could there be more effective ways of delivering our programs?
- What environmental changes could occur which might affect our funding (e.g. NRP going away, foundations changing strategic focus, etc.)?

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The Board should also review its current programs to ensure that they meet the guidelines and requirements of funders. For example, what are NRP requirements for hiring, bidding, or purchasing equipment?

Committees

The Board should also consider putting in place appropriate committees to help oversee organizational finances. In smaller organization's some of these tasks might be undertaken by the Executive Committee. With more board members and volunteers, the Board may establish a Finance Committee, an Audit Committee, and a Budget Committee. The Finance Committee would be primarily responsible for financial oversight and reporting to the Board. The Audit Committee would be a committee independent from the Finance Committee, and would select and work with an

auditor to review the organization's finances and management practices. A Budget Committee would be responsible for financial planning for the organization, looking ahead to determine future needs for the organization, and evaluating and reviewing budgets and financial reports to analyze how effective the organization has been at carrying out its work.

In most cases, however, all of this work would be done by the Finance Committee. Specifically the Finance Committee would be responsible for:

- Maintaining accurate and complete financial records

The Finance Committee should develop and maintain appropriate practices for maintaining the organizations financial records. How will records be kept and where? What processes should be followed? What records are important to keep?

- Providing appropriate reports for the board;

The Finance Committee should consider what kinds of reports will be most appropriate for the board, as well as what level of detail is necessary. Does the board really need to know what the organization spends on paper clips, or do they just want to know how much is spent on office supplies? Does the board want to know how much it spends on



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programs? Does the board even know what programs it runs? The committee may also want to consider providing a “narrative” summary for the board as an addition to strictly financial reports.

- Budgeting, and anticipating problems;

The Finance Committee should develop annual budgets for the Board in a timely manner. The two primary budgets which will be prepared are Line Item budgets, and Functional (or Program) budgets. A consolidated Line Item Budget would show how the organization will earn or spend money on specific income or expense items (Salaries, supplies, rent and utilities, printing, etc.) for the overall program. Program budgets will show how income and expense will be related to specific services that the organization delivers. Line item budgets may also be divided up by program, and specific line item budgets should be developed for each program. The Finance Committee should be sure to involve the Board, staff, and appropriate committees in the budget development process.



- Safeguarding the organization’s assets;

The Finance Committee should ensure that appropriate policies and practices are in place to protect the organization’s assets. Is the organization insured? Are adequate internal controls in place? Has the Board approved appropriate accounting and employee policies?

- Complying with Federal, State and other reporting requirements;

The Finance Committee should stay abreast of current Federal, State and other requirements. The committee may want to engage an accountant to help provide information on what current requirements are and how appropriate reports can be prepared.

- Helping the Board understand the organizations Finances;

The Finance Committee should carefully analyze and sort information to determine what information will be most useful. As above, this may include providing a regular narrative summary which condenses in plain english the financial condition of the organization. The committee may consider methods for focusing the Board’s time and energy on financial issues. For example, while monthly financial reports may be required by the bylaws, the Finance Committee may want to ask the board to set

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aside time on a quarterly or semi-annual basis to more thoroughly review the finances.

The Finance Committee may be composed of all board members, but you may want to consider bringing in individuals from outside the organization, as well as the bookkeeper and an accountant. By having a mix of experience on the Finance Committee, you can improve your likelihood of meeting the needs of Board

members and outsider reviewers who are either very experienced with financial reports, or who have no experience at all.



Policies and Procedures

The Board is responsible for developing and adopting appropriate policies for the organization, as well as for regularly reviewing these policies. These policies could include accounting (or financial) policies, audit policies, personnel policies, and others. A sound Financial Policy might contain:

- The Fiscal Year of the organization

The Fiscal Year of the organization might be the calendar year, but you may wish to select another month to begin your fiscal year.

- The type of accounting system used to record transactions

Transactions may be recorded using either a “cash” basis or an “accrual” basis. Cash accounting means that transactions are recorded as income when you actually receive a payment, and as expense when you actually make a payment. Accrual accounting means that you record income when as you earn it, and record expenses as you incur obligations. If NRP has the State Auditors conduct your audit, they will convert your financial statements from cash to accrual.

- Manual or automated accounting system

You may want to require that your books are kept by hand, in a check register or general ledger, or that they are kept in an automated system, on the computer.

- Capitalization Policy

A capitalization policy covers the acquisition of durable equipment, such as computers, copiers, or vehicles, or of buildings. A capitalization policy

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would provide a minimum dollar amount for purchase of equipment at which point it would be “capitalized” or listed as a fixed asset of the organization. The policy should say also over what period of time the equipment will be depreciated (for example, a computer is generally considered to have a life of three years). The expense for that purchase would be divided out over the lifetime of the equipment, as opposed to being recorded entirely at the time it was purchased.

- Accounts or chart of accounts

The accounting policy should include a chart of accounts which shows the code numbers for both the line item and the functional expenses of the organization.

- Budgets

You may wish to include guidelines on the development of budgets and how they will be reviewed. For example, will the organization plan over a one year or three year period of time? When should budget development begin and end? Who will be included?



- Petty Cash

A petty cash policy will detail the amount to be kept in a petty cash drawer, and the process for handling petty cash. The Board should approve a custodian for petty cash on an annual basis.

- Internal Controls

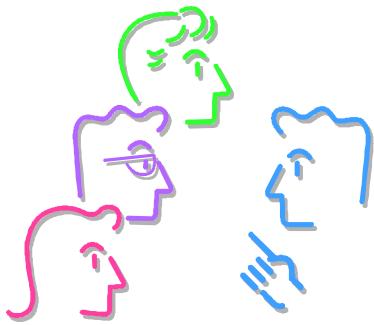
The policy should explain the details for internal controls to prevent loss. Internal controls should help to protect the organization as well as to ensure efficient management. If policies are too onerous, it may interfere with timely payment of bills or deposits. The policy may determine how duties are segregated among two, three or more people. The may also determine additional oversight, such as establishment of an independent Audit Committee.

- Audits

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Most Minneapolis neighborhoods will have audits conducted by the Minnesota Attorney General's Office. However, the Board should still have a policy in place determining how often full audits should be done.

Clear Expectations and Direction



The Board of Directors should be careful to develop clear expectations for committees and staff. For example, the Board should be clear with Committees what role they play within the organization, how they will be involved in planning and evaluating the organization's work, and what the financial responsibilities the committees might have.

When proposals are brought to the board from committees, staff, or other agencies, the board should consider the following:

- How does this proposal support or help us to achieve our mission?
- Has an appropriate process been followed in developing the proposal?
- Do we have the resources to carry out this proposal, or can we develop or get the resources needed?
- How does this proposal fit within our long range plan, particularly our financial plan?
- Is there a more efficient or effective way of achieving this same objective?

Fundraising

One of the major responsibilities of the Board is to ensure that adequate resources are available to carry out achieve the mission of the organization. There are two elements. First is to focus the organizations programs and services to most effectively carry out the work of the organization. This means prioritizing and selectively identifying the organization's work.

The second component is getting more resources to meet the needs. The Board should take primary responsibility for developing a plan for raising the funds needed, identifying the sources of funding, and actively going out and getting the funds.

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The responsibilities in this area are numerous, but all board members should expect to be involved in one or more of the following activities:

- Making a significant contribution to the organization

Every Board member should be asked, and should expect to be asked, to make a significant contribution to the organization, with the goal of having 100% participation from the board. “Significant” is a relative term, and may mean \$5 from one board member, and \$1,000 from another.

- Serving on the fundraising committee

The Board should consider establishing a Fundraising Committee which is charged with the responsibility of raising money for the organization’s needs.

- Promoting the organization

Every Board member has a responsibility for promoting the organization and enhancing its public image. This means that board members will work to maintain integrity within the organization, and also will present a positive face to the outside world. 90% of fundraising is in “development” which means developing relationships with past, current, and especially future donors.

- Identifying potential donors

Every board member can help identify potential donors. Generally a good plan is to start from the inside out: start with board members, then go to family members and friends, go to members, etc. And always take an opportunity to ask a donor if they know of someone else who may be willing to donate.

- Assisting with development of materials for requests

Board members should carefully consider fundraising materials that are being delivered on the organization’s behalf. Fundraising is also an outreach tool, and fundraising packages and materials should be carefully designed to achieve the maximum impact.

- Assisting with preparations for mailings and events

Board members should also serve as volunteers who may help with folding materials and stuffing and stamping envelopes. They may also help with design or development of the materials as well.

- Calling, or calling on, prospective donors

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Not everyone is good at asking for money, but it is a skill that can be learned. The board should identify its members who are most willing to ask directly for contributions, either over the phone, or in person.

- Identifying opportunities for generating new revenues for the organization

Board members, and the Board as a whole, should always be alert to the changing landscape of fundraising. New methods of delivering mailings, standards for writing request letters, internet techniques, and fundraising events are popping up all of the time.

Regular review and evaluations



The Board should be involved on a regular basis in reviewing financial reports and other information. As noted above, the Board may want to consider setting aside time on a quarterly basis or semi-annually for a more thorough review of the organization's financial reports. It should also regularly review organizational policies and procedures.

The board should also review and approve required reports such as annual filings with State and Federal Agencies, as well as the organization's annual audit. These reports include:

- Minnesota Annual Report
- Minnesota Annual Registration
- Federal 990's.

The Board should also regularly inquire in to the status of legal obligations and receivables. Questions the board should ask at least on a quarterly basis, and that you may want to include in a narrative summary for the Board:

- Have payroll taxes been paid, and are they up to date?
- Have quarterly tax reports been filed (Federal 941, MW3)?
- Have salaries been paid and benefits maintained and recorded?
- Have payment requests been made in a timely fashion?
- What is the status of aging receivables?

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- What is the status of payables?
- What liabilities does the organization have?

Segregation of Duties Two Person Model

| | Chair | Treasurer |
|-------------------------------|---|---|
| Receipts | <p>Open Mail</p> <p>Receive and log cash and checks</p> | <p>Prepare and make deposits</p> |
| Disbursements | <p>Approve for payment:</p> <ul style="list-style-type: none"> • invoices • check requests • employee time sheets <p>Sign checks</p> | <p>Prepare invoices</p> <p>Write checks</p> <p>Mail checks</p> <p>Distribute petty cash</p> <p>Distribute payroll</p> |
| Reporting / Accounting | <p>Receive and review bank statements</p> <p>Reconcile petty cash</p> | <p>Prepare and distribute financial reports</p> <p>Reconcile bank statements</p> |

Segregation of Duties Three Person Model

| | Staff or Volunteer | Chair | Treasurer |
|-------------------------------|--|--|---|
| Receipts | Open Mail Receive and log cash and checks | Prepare and make deposits | |
| Disbursements | Mail checks | Approve for payment: <ul style="list-style-type: none"> • invoices • check requests • time sheets Sign checks | Prepare invoices Write checks Distribute petty cash Distribute payroll |
| Reporting / Accounting | Receive and review bank statements | Reconcile petty cash | Reconcile bank statements Prepare and distribute financial reports |

Receiving Cash and Checks: Segregation of Duties

The same person should not do the following:

- Receive and log cash and checks
- Prepare, make and record the deposit
- Receive the bank statement

Do not have the Treasurer or Accountant receive and log cash and checks.

Receiving Cash and Checks

- Log all incoming cash and checks.
 - ⇒ Name of payer
 - ⇒ Amount of payment
 - ⇒ Date received
 - ⇒ Contract number
- Restrictively endorse all incoming checks.
 - ⇒ Stamp (or write) the name of the organization on the back of the check.
 - ⇒ Stamp (or write) “For Deposit Only” on the back of the check.
 - ⇒ Write your bank account number on the back of the check.
- Bundle checks and cash for deposit along with cover letters or any other back-up information and put in a secure place.
 - ⇒ If you receive large amounts of cash on a regular basis, log the cash and immediately store in a locked strong box.
- Don’t spend incoming cash for other purposes. Deposit it intact.
- Make timely bank deposits:
 - ⇒ At regular intervals; or
 - ⇒ When funds accumulated for deposit reach a pre-determined threshold amount.

Purchasing / Check Requests

- Establish a board approved purchase authorization policy which includes:
 - ⇒ Who can authorize purchases / check requests and the dollar ceiling that requires authorization
 - ⇒ The number of signatures required for purchases above a certain dollar amount
- Require three competitive bids or price quotations for purchases of \$500 or more.
- Develop a policy statement with regard to conflicts of interest, including employee-vendor and board member-vendor relationships.
- Require advance approval for all purchases. A purchase authorization order / check request form should include:
 - ⇒ Name of person requesting the purchase
 - ⇒ Vendor name and address
 - ⇒ Description of goods / services
 - ⇒ Estimated cost of goods / services
 - ⇒ Brief description of organizational use for goods / services
 - ⇒ Budget category to which goods / services should be charged
 - ⇒ Authorization signatures (it is best to have at least two signatures)
- Before approving a purchase / check request, review the request against the amount remaining in the appropriate budget category to be sure funds will not be spent in excess of the approved budget.
- Give copies of approved purchase authorizations to both the person who will pay the bills and the person who will receive incoming goods.
- Count and inspect all incoming items.
- Obtain a receipt, shipping slip, invoice, or other receiving documentation for all incoming items and services received. Note any changes or problems with the order on the documentation.
- Give receiving documentation with noted comments to the person who pays the bills.
- Before paying for purchases, make sure the purchase authorization / check request and receiving documents match.

Check / Purchase Request

Check Payable To: _____ **Date:** _____

Amount of Check: _____ **Check #** _____

Coding of check:

| Amount | Description | Funding Source | Line Item |
|---------------|--------------------|-----------------------|------------------|
| | | | |
| | | | |
| | | | |
| | | | |

Requested By: _____ **Date:** _____

Treasurer Review: _____ **Date:** _____

Approved By: _____ **Date:** _____

Approved By: _____ **Date:** _____

Preparing the Deposit

- Photocopy all checks and record on the copies key identifying information about payments.
 - ⇒ Date received
 - ⇒ Funding source or program
 - ⇒ Contract number
- Prepare a detail of cash receipts with identifying information.
- Make copies of any cover letters or back-up information received with payments.
- Prepare deposit by listing all checks and cash received on deposit slip.
- Photocopy deposit slip and attach:
 - ⇒ Check copies
 - ⇒ Cash detail
 - ⇒ Other back-up information which accompanied payments
- Make deposit at bank and obtain a receipt showing correct amount and date of deposit.
- Attach bank receipt to duplicate deposit slip and supporting documents.
- Determine if a transfer from checking to savings or other investment accounts is needed.
- File duplicate deposit slip and attached documents in transaction file.