

# **OUTright Youth of Catawba Valley, Inc.**

## **Fiscal Responsibility and Internal Controls**

### **Overview**

The goals of requiring fiscal responsibility and establishing internal controls are to:

- Protect the assets of the organization
- Protect the profits of the organization
- Maintain the fiscal viability of the organization
- Protect the reputation of the organization
- Protect, or defend, against lawsuits

These can be due to:

- Human error
- Negligence
- Conflict of interest
- Theft, embezzlement, etc.

### **Conflicts of Interest**

Under no circumstances is a stakeholder to act in behalf of any other agency or enterprise in their actions or activities while being a stakeholder at OUTright Youth of Catawba Valley (OYCV) that could in any manner be construed as a detriment to OYCV whether in respect to the reputation of OYCV or the financial resources of OYCV.

Any representations made by a stakeholder are not to be, in any manner, for their personal gain or for the gain of relatives, friends and other close associates.

This policy will be monitored and documented on an annual basis by the Legal Counsel.

A fully detailed Conflicts of Interest policy and procedure guideline has been executed by the Legal Counsel and is considered an integral part of this document and will be distributed to all stakeholders in the organization.

### **Whistleblower Policy**

All stakeholders of the organization must be constantly aware of how their actions and/or decisions impact the financial viability of the organization and set an outstanding example of prudence and a vigilant eye towards waste or other misuse of the assets of the organization.

Any indication that there are acts and/or decisions by any stakeholder in the organization that could negatively impact either that financial viability or the reputation of the organization must be brought immediately to the attention of the proper authority.

Stakeholders should not consider themselves either an investigative arm of the organization or render judgment as incidences or potential problems arise. It is their sole responsibility to make the proper authority aware of any instance that might require further action.

Proper authority shall be construed as being the individual to whom the person suspected of possible improper behavior reports to.

No action will be taken against any stakeholder that reports legitimate concerns of the organization to the proper authority.

## **Budget**

The Treasurer and/or the Office Manager shall prepare an annual budget for the organization that is to be presented first to the Executive Committee and with their approval and recommendation then to the Board of Directors for review and a vote at the first Board of Directors meeting of each calendar year.

The budget shall not only include an income statement but also an estimate of capital expenditures required and a statement of estimated cash flows.

It is the responsibility of the Treasurer and/or the Office Manager to report any significant variance from the budget throughout the year to the Executive Committee and to the Board of Directors as soon as that information is known.

That variance will be fully detailed and if any remedial action is feasible that recommendation will be also be forwarded for review.

## **Annual Financial Reports and Revue**

The organization will engage the services of an independent Certified Public Accountant who will perform all year end financial reports and review that are:

- Required by law – IRS Form 990
- Required by contractual obligation
- Requested by the Executive Committee and/or the Board of Directors

The Treasurer and/or the Office Manager will be required to work with the independent CPA in order to provide the documentation required to perform the necessary reports on a timely, accurate and complete basis.

Form 990 will be distributed to and reviewed by the Board of Directors prior to submission to the Internal Revenue Service.

An overview and highlights of IRS Form 990 is at the end of this manual.

## **Financial Statements**

The treasurer and/or the office manager of the organization shall execute and maintain complete financial records for the organization on a monthly basis and in accordance with Generally Accepted Accounting Principles (GAAP) and report the most current financial status to the Executive Committee on a monthly basis and to the full Board of Directors at each board meeting.

The reports that will be submitted on a monthly basis will include the current Income Statement and the Balance Sheet. The Executive Committee and/or the Board of Directors may at any time request any additional documentation.

That reporting may be in summary form but the full reports will be available on request and at all board meetings.

## **Practices and Procedures – Introduction**

Routine practices and procedures along with periodic and/or random testing can deter, reduce or, possibly, eliminate problems that will reduce the value of the organization and threaten its financial viability.

While we do not encourage stakeholders to become distrustful, or to suspect others of acting against the best interests of the organization we would suggest that no one should be entirely trusting and that the stronger the safeguards that exist the better the chance negative results will not occur. The old adage, “an ounce of prevention is worth a pound of cure,” operates extremely well in this, or any, environment.

We will review numerous areas of the organization and implement safeguards to the process.

## **Cash – Checking Account**

Checks will be safeguarded with limited access. Checks will be issued only against approved invoices/receipts. Checks are sequentially numbered by the bank but periodic tests will be made to insure that all checks are accounted for; that payments are fully documented; and, that the payment amount equals the invoice amount.

Any and all disbursement accounts or investment accounts of the organization must be approved by the Board of Directors.

All expenditures of the organization must be paid through the board approved checking account of the organization or on application for a reimbursement of expenditures to an individual who has properly acted in behalf of the organization and who has provided required documentation in a complete and timely manner as detailed below.

### **Cash Account – Disbursements**

Disbursements from the checking account are to be prepared by the Treasurer and/or the Office Manager and presented with full documentation for proper signature.

Amounts under \$1,000 will require one signature; amounts \$1,000 and over will require two signatures. Where two signatures are required on a check the signatories may not be from the same household.

Signatories for the account shall include the Board President; the Board Vice-president; the Legal Counsel and the Executive Director.

The Administration Committee may add signatories as necessary.

The Treasurer and the Office Manager will not be permitted to sign disbursements.

They, however, will have account signatory status for deposits to the account.

### **Cash Account – Bank Reconciliation**

At each board meeting the Treasurer and/or the Office Manager will prepare a bank reconciliation form detailing the balance as per the bank and the balance per the current Balance Sheet along with details as to the transactions that have not been recorded that create any variance. This will be presented to either the President of the Board or the Vice-president of the Board for their review and sign off.

### **Cash - Investments**

The documentation for all investments will be securely safeguarded and procedures implemented to reduce access to transfer or cash out of investments including requiring two signatures.

Periodic reviews of any fund activities will be implemented with the Treasurer and/or the Office Manager providing complete and current information on the investments to the President or the Vice-president of the Board for their review and sign off.

### **Petty Cash**

All payments from petty cash will be based on approved submission of documentation with approval from an individual other than the caretaker of the fund. Periodic checks will be made as to the authenticity of documentation and approvals. Monthly reconciliation of the account is required.

## Stakeholder Loans/Employee Advances

It is strictly against organization policy to grant any loan, whether interest-bearing or not, to any stakeholder in the organization.

It is strictly against organization policy to advance money to any employee against their future earnings.

## Capital Assets

Capital Assets are those items of value owned by the organization with a life expectancy of one year or more and an accumulated cost of \$1,000 or more.

These assets will be depreciated on a straight-line basis as follows:

Asset	Life
Building	25 years
Furniture & fixtures	5 years
Computer	5 years
Vehicle	5 years
Leasehold improvements	Balance of lease

A Capital Asset ledger will be maintained based on GAAP.

Annually the Treasurer and/or the Office Manager will take an inventory of all capital assets and report any shortages to the Board of Directors.

Standardized maintenance programs would be set up to keep all assets at maximum efficiency levels and prolong their useful life.

Prior to acquisition, and based on the asset, the Treasurer and/or the Office Manager will provide the board with relevant information so that they can make an educated decision as to the acquisition.

Various options will be presented to the Board for their review and vote to include:

- Purpose of the acquisition;
- Competing products and/or sources;
- Purchase versus lease;
- Warranties that are available included in the acquisition or available through purchase; and,
- Expected life.

## **Accounts Payable**

All invoices received will be reviewed, prior to posting, for accuracy and compared, when applicable, to purchase orders.

Internally a routine procedure will be instituted to control that payments are made exactly to the approved amounts. The Accounts Payable subsidiary ledger will be periodically reconciled to the General Ledger and random checks will be made comparing actual payments (the organization check that was issued in payment) to the vendor's invoice.

Every effort will be made to pay invoices promptly - failures to pay vendors properly can lead to bad credit reports and damage an organizations ability to purchase on credit or secure financing as needed.

## **Other Liabilities**

All other liabilities, especially Loans or Notes Payable, will be reconciled to the balances as stated, in statements, by the Lender to insure prompt and accurate payments.

This protects the organization's reputation as well as preventing extra charges for late payments that can prove to be very expensive.

All forms of debt should be reviewed periodically in an attempt to reduce the cost of debt (interest payments and fees) by using the lowest cost provider.

## **Payroll**

Payroll will be secured from several aspects.

All extra payments (such as overtime, bonuses, etc) should be strictly controlled with independent approvals. These must be approved in advance by the Board of Directors and complete documentation rendered and filed.

Rates of pay (salaried or hourly) must also be secure within the operating system. Information on rates of pay will be limited to a need to know basis. Access will be limited to those involved in the direct payment process.

Periodic checks will also be made to insure that rates and extra payments adhere to the approved standards.

Employees will be entitled to an annual review as detailed in the Employee Manual. Not only must pay changes be approved by the Board of Directors but records will be maintained as to how the compensation was calculated such as a comparative analysis.

## **Organization Expenditures**

All expenditures of OYCV must be pre-approved by the Board of Directors. An annually approved budget is in essence the approval for the expenditures contained within the context of the budget.

Any expenditure not approved within the context of the budget must be submitted to the Board of Directors for their approval. That submission must include a reasonable description of the item or items; an estimated cost to include any relevant costs such as shipping, installation and/or training costs; and, the purpose and/or use of the expenditure.

## **Reimbursement of expenditures**

All legitimate, and approved reasonable and customary expenses incurred by a stakeholder of the organization, in the normal course of business activities, will be reimbursed to the stakeholder within a reasonable period after presentation to the organization provided that

1. the expenditure has been approved by the management of the organization
2. the proper form has been fully and accurately completed (see Employee Manual Addenda E), and
3. the proper documentation, such as receipts, has been submitted along with the expense form

It is contrary to organization policy to issue any organization credit cards and neither a manager nor an employee of the organization is authorized to request any credit cards to be issued wherein any organization identity appears in the contractual obligation.

All expenses that are to be reimbursed are to be submitted no later than five working days after completion of the week in which the expenses were incurred or within five working days after the completion and return from a business trip.

## **Contractual Obligations**

No stakeholder in the organization is permitted to enter into any contractual obligation for the organization without the express approval of the Board of Directors.

All contractual obligations of OYCV must be pre-approved by the Board of Directors. An annually approved budget is in essence the approval for the contractual obligations contained within the context of the budget.

Any contractual obligation not approved within the context of the budget must be separately submitted to the Board of Directors for their approval. That submission must include a reasonable description of obligation; the time period covered by the obligation; an estimated periodic cost and life cost of the obligation to include any relevant costs such as shipping, installation and/or training costs; and, the purpose and/or use of such obligation.

## **OYCV Property**

All stakeholders in the organization should clearly understand that all assets (items of value) of the organization are to be utilized strictly and solely for organizational activities.

No organizational asset is to be removed from organizational premises (which includes organizational activities not at organizational property) without the express, written, approval of the Executive Committee and/or the Executive Director even when that removal may be for organizational related endeavors.

Organizational assets are to include the time stakeholders have committed to the organization and therefore the use of communications devices during those hours should be kept to a minimum unless it is of urgent importance and organization computers, et al are not for personal use.

## **Computer Programs and Data**

There are three major aspects to controls in the Information Systems operation.

The first is to prevent changes in the raw data that can information and lead to possible loss of profits, embezzlement, etc. Proofing data tables, on a periodic basis, is essential. Limiting access on a need to use basis is also critical. Users do not have to have access to the core files and through the use of passwords the integrity of the files can be maintained.

The second aspect is to retain the integrity of the system itself. It has been shown that changes in source code usually erode the integrity of data and the ability of multi-purpose systems (where programs are integrated) to properly function. Source codes should never be changed and, if required, only by the company that sold us the software. Many software packages can be purchased without the source codes and this is advisable as it is a great security measure as well as cost-saving.

The third aspect is prevention of damage to files. The organization should have two sets of back-up media (disc, etc). All systems should be backed up on a daily basis with one set kept off premises each night. In the event of fire, water damage, etc, a full set of files would be retained to recreate the system.

## **Long Term Strategy**

All stakeholders of the organization must take a long term view as to committing the organization as to investments and expenditures and be exceptionally prudent in the decisions that are made.

Adequate income flows that are reasonably secure must be in place prior to entering into organizational obligations that might either deter the growth of the organization or its financial viability.



## Insurance Policies

The Executive Committee, along with the Legal Counsel, will investigate and report to the Board of Directors on those insurance policies that they deem are prudent and necessary to protect not only the organization but also the stakeholders of the organization.

This shall be reviewed on an annual basis.

All organizations are unique and have different requirements based on their particular circumstances. We should also realize that as we evolve our circumstances will change and our insurance requirements will have to reflect those changes.

## Written document retention and destruction policy

The organization will properly store all organizational documents as per the following listing and, as a matter of routine, destroy the documents that are beyond the required retention period.

Records are kept:

- If they are legally required
- If they are required by agreement or contract
- To protect the assets of the organization
- To protect the profits of the organization
- To prevent, or defend, against lawsuits

### Records Retention Schedule

Record	Retention Period	Record	Retention Period
Accounts payable	7 yrs	General ledgers	Permanent
Audit Reports	Permanent	Insurance policies – expired	3 yrs
Background checks	10 years	Insurance records (2)	Permanent
Bank reconciliations	1 yr	Internal audit reports	3 yrs
Cash books	Permanent	Internal reports – misc	3 yrs
Charts of accounts	Permanent	Property appraisals	Permanent
Checks – standard transactions	7 yrs	Invoices from vendors	7 yrs
Checks – special transactions (1)	Permanent	Journals	Permanent
Contracts and leases – expired	7 yrs	Minute books – board	Permanent
Contracts and leases – current	Permanent	Payroll records	7 yrs
Correspondence – general	3 yrs	Petty cash vouchers	3 yrs
Correspondence – legal, etc	Permanent	Property appraisals	Permanent
Deeds, mortgages, etc	Permanent	Property records (3)	Permanent
Depreciation schedules	Permanent	Purchase order	7 yrs
Duplicate deposit slips	1 yr	Subsidiary ledger	7 yrs
Employee personnel – terminated	3 yrs	Tax returns, etc	Permanent
Employee applications	3 yrs	Trial balances – end of year	Permanent
Expense schedules	7 yrs	Voucher register and schedules	7 yrs
Financial statements–end of year	Permanent		

- (1) Taxes, purchases of property, special contracts, etc – checks to be filed with the papers to the underlying transaction
- (2) Accident reports, claims, policies, etc
- (3) Costs, depreciation reserves, end of year trial balances, depreciation schedules

## IRS - Form 990

IRS Form 990 is the main tool used by the Internal Revenue Service (IRS) to verify that an organization meets its tax-exempt requirements. It must be filed annually.

It also serves as a means to monitor changes in the sector in general and as a source of information for state regulators and the public at large.

Potential donors, for example, may investigate an organization to verify that it is a legitimate charity. IRS Publication 78 lists qualified 501 (c) 3's.

As Form 990 is a public document (and an organization should make this document available on its website) the organization needs to pay special attention to the organization's profile, activities and accomplishments.

In 2009 non-profits are filing a new Form 990 that has substantial changes – the first overhaul since 1979.

The biggest change in the document relates to the IRS's specific interest in governance that is in detailed questions related to board structures and practices that focus on how non-profit boards assume their role at the helm of their organizations.

The three main principles the IRS has in mind are:

1. Enhance transparency – provide it and the public with a more realistic picture of the organization.
2. Encourage compliance (legal requirements) and ethics stressing avoidance of conflicts of interest and personal benefit.
3. Minimize the burden on the filing organizations by streamlining the document.

Key points are:

- Every tax-exempt non-profit must have a board of directors
- There should be no apparent conflicts of interest with board members.
- The board must be equipped to exercise independent judgment when making decisions
- Board members should not be compensated as an officer or employee of the organization or a related organization.
- Board members should not be compensated as a contractor.
- Board members should not be involved in any other financial transactions including grants, loans and similar payments.

Compensation: The IRS wants to know –

- Who gets paid.
- How much they get paid.
- Via what process.

There is extensive detail here including all benefits.

Key questions relevant to compensation are:

- Does the organization rely on comparable data?
- Do independent individuals approve the compensation for top management?
- Does the board keep accurate and contemporaneous records of how the compensation decision was made?

Conflict of interest avoidance is critical and spelled out especially as to delegation of authority:

- The Board must not delegate its authority to an executive of the organization, or another committee or an outside group.
- Committees only make recommendations which must be authorized by the board.

The IRS also asks many questions about an organization's practices and processes:

- The mission and major programs of the organization must be stated
- If any substantive changes occur in major programs they must be detailed.

Conflicts of Interest – the most complicated and most often misunderstood situations encountered by an organization:

- Does the organization have a written conflict-of-interest policy?
- Are board members and key staff required to disclose potential interests that could lead to a conflict?
- Are these situations monitored and enforced?
- Is the organization in compliance with its by-laws that clarify how the board functions, is structured and what decisions it makes?
- Is the board in compliance as to the taking of minutes and the inclusions to those minutes in a permanent record?

Whistleblower Policy:

Since the Sarbanes-Oxley Act was passed many non-profits quickly drafted a whistleblower policy. Neither the law nor the IRS actually require non-profits to have a policy per se. It does, however, make sense for a board to consider one to protect itself. We have drafted one which is found above.

That is the critical part of the form.

**OUTright Youth of Catawba Valley, Inc.**

**Annual Check List of Organizational Responsibilities, Fiscal Responsibilities and Internal Audit Control**

Item	Check
<b>Budget</b>	
Prepare annual budget for income and expenses	
Prepare annual budget for capital expenditures	
Prepare annual cash flow estimate	
<b>Personnel</b>	
Annual evaluation of staff	
Annual wage adjustment of staff	
Annual evaluation of volunteers	
<b>Conflict of Interest – annual disclosure statement</b>	
<b>Financial Audit</b>	
Financial statements	
Checking account	
Bank reconciliation	
Investments	
Petty cash	
Capital assets	
Accounts Payable	
Other liabilities	
Payroll	
Expense reimbursements	
<b>Review of obligations</b>	
Contracts	
Insurance policies	
<b>IRS Form 990 – annual submission</b>	
<b>Policies and Procedures – annual review</b>	
<b>Records – destroy records beyond retention date</b>	