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Nonprofit Financial Practices – Has Your Organization Adopted the Necessary Policies?

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... Accounting Policies and Procedures Manual

Why is a written accounting policies and procedures manual important for nonprofits?

- Protects the assets of the organization.
- Ensures the maintenance of accurate records of the organization's financial activities.
- Provides a framework for the organization's financial decision making.
- Establishes operating standards and behavioral expectations.
- Serves as a training resource for staff.
- Ensures compliance with federal, state, and local legal and reporting requirements.

... Accounting Policies and Procedures Manual, Continued

Accounting Policies and Procedures

- Basis of Accounting
 - Policy – Accrual vs Cash
 - Procedure – Each month are you following strict accrual?
- Journal Entries
 - Policy – What type of transactions are journal entries posted for?
 - Procedure – Who is responsible for posting journal entries?
 - Procedure – Who reviews and approves and how is this documented?

... Accounting Policies and Procedures Manual, Continued

- Bank reconciliations
 - Policy – Bank reconciliations will be prepared and approved within 30 days of close of the month.
 - Procedure – Who will open all bank statements and review and approve?
 - Procedure – Who will prepare the bank reconciliation?
 - Procedure – Who will review and approve the bank reconciliation?

- Monthly close
 - Policy – When are books closed?
 - Procedure – What are the basic monthly steps involved in closing?
 - Procedure – Who is responsible for these monthly steps?

... Accounting Policies and Procedures Manual, Continued

Internal Controls

- Lines of authority
 - Policy – What is the level of authority for the board, Executive Director, top financial manager and other financial staff?
 - Procedure – Who approves each element of the fiscal system?
 - Procedure – Who and how is approval documented?

Accounting Policies and Procedures Manual, Continued

Internal Controls

- Segregation of duties
 - Policy – Financial duties are distributed among multiple people to ensure protection from fraud and error.
 - Procedure – Check signers should not be involved in expense approval.
 - Procedure – Someone outside of accounting should open and log all checks received.

Accounting Policies and Procedures Manual, Continued

Internal Controls

- Physical security
 - Policy – Maintain physical security of assets to ensure that only people who are authorized have access.
 - Procedure – Where are the blank checks stored?
 - Procedure – Are passwords used to prevent unauthorized access to accounting software?
 - Procedure – Are bank deposits made regularly?

... Polling Question #1

After hearing Peggy speak about Accounting Policies and Procedures Manual, how does your Organization stack up?

- a. We hit every point and could have taught this presentation!
- b. We could definitely use some beefing up of our accounting policies and procedures!
- c. We will be calling the accounting experts at D&M as we need to start from scratch!

... Accounting Policies and Procedures Manual, Continued

Revenue and Accounts Receivable

- Invoice preparation
 - Policy – All grants and projects are invoiced monthly or quarterly to ensure a regular cash flow for the organization.
 - Procedure – Who prepares the invoices and who approves?
 - Procedure – Who reviews outstanding receivables and how often?
 - Procedure – What are the procedures for collections?

Accounting Policies and Procedures Manual, Continued

Expense and Accounts Payable

- Payroll
 - Policy – What are the pay periods, pay dates and is the payroll outsourced?
 - Procedure – How are timesheets submitted and approved?
 - Procedure – How is sick and vacation time recorded and approved?
 - Procedure – Who approves payroll registers?

... Accounting Policies and Procedures Manual, Continued

Expense and Accounts Payable

- Invoice approval and processing
 - Policy – All invoices are approved by each department manager and paid within 30 days of receipt.
 - Procedure – Who receives and opens invoices?
 - Procedure – How are invoices approved?
 - Procedure – Who enters the invoices into the accounting system?

... Accounting Policies and Procedures Manual, Continued

Expense and Accounts Payable

- Expense allocations
 - Policy – What is the basis for cost allocations?
 - Procedure – Who is responsible for calculating allocations?
 - Procedure – Who is responsible for posting allocation entries?

Accounting Policies and Procedures Manual, Continued

Policies on Cost Allocation Methods

- Direct Assignment – Any cost directly intended for a program.
- Staff Time – Calculating staff time dedicated directly to the program's execution and management. Some staff only have a portion of their time dedicated to the program.
- Cost Drivers – Can be anything from square footage to the number of participants or attendees of an event. Cost drivers are used to allocate the costs of rent, marketing materials, or training supplies.
- Estimate – This is for allocating costs that don't have a clear metric to divide it up, such as website costs and public policy involvement.

... Accounting Policies and Procedures Manual, Continued

Asset Management

- Capital equipment
 - Policy – What is the organization's capitalization policy?
 - Procedure – Who maintains the depreciation schedules?
 - Procedure – How often is depreciation posted to the general ledger and by whom?

... Polling Question #2

How does your Organization determine your cost allocation method?

- a. We spend quite a bit of time developing our methodology which includes a time study.
- b. We do not review until year end and could use some more attention throughout the year.
- c. We throw a dart at the wall and see where it lands!
- d. What cost allocation?

... Conflicts of Interest Policy

Why should a nonprofit organization have a policy on conflicts of interest?

- **IRS Form 990** asks not only about whether the nonprofit has a written policy on conflicts of interest, but also about the process that the nonprofit uses to manage conflicts, as well as how the nonprofit determines whether board members have conflicting interests.
- **New York law** requires nonprofits to have a conflicts of interest policy and the state law also provides guidance for drafting the policy, which must state that directors, officers and key employees are to act in the "best interest of the nonprofit." New York law also requires nonprofit boards to adopt a process so that board members can annually disclose potential conflicts.
- Often people are unaware that their activities or personal interests are in conflict with the best interests of the nonprofit so a goal for many organizations is to simply raise awareness, encourage disclosure and discussion of anything that MAY be a conflict.

... Conflicts of Interest Policy, Continued

What should a policy on conflicts of interest include?

- Requirement that those with a conflict (or who think they may have a conflict) to disclose the conflict/potential conflict, and
- Prohibit interested board members from voting on any matter in which there is a conflict.
- Beyond including those two basic directives, each nonprofit needs to determine how the board will manage the conflict.

... Conflicts of Interest Policy, Continued

Where can I find examples of a conflicts of interest policy?

- New York State Charities Bureau website

https://www.charitiesnys.com/pdfs/Charities_Conflict_of_Interest.pdf

- Internal Revenue Service website

<https://www.irs.gov/pub/irs-pdf/i1023.pdf>

- National Council of Nonprofits website

<https://www.councilofnonprofits.org/tools-resources/conflicts-of-interest>

... Conflicts of Interest Policy, Continued

Now that we have one, what should we do with it?

- Nonprofits should circulate a questionnaire each year to find out whether any board or staff member has a conflict of interest. Typically, the questionnaire asks board and staff members to disclose existing conflicts and reminds them to disclose any that may crop up in the future.
- Minutes of board meetings should reflect when a board member discloses that he/she has a conflict of interest and how the conflict was managed, such as that there was a discussion on the matter without the board member in the room, and that a vote was taken but that the “interested” board member abstained.

... Conflicts of Interest Policy, Continued

Conflict of Interest Examples

- Financial benefit through “insider” connections
- Serving on boards of two organizations in the same field

... Gift Acceptance Policy

Why should a nonprofit have a gift acceptance policy?

- Having a gift acceptance policy in place is considered a "best practice" from multiple perspectives - whether relating to relationships with donors or managing the nonprofit's own risks such as a public relations risk.
- Accepting some types of gifts may run counter to the nonprofit's values - so a gift acceptance policy can be useful to underscore why the nonprofit cannot accept the gift.
- A policy de-personalizes the situation for staff members on the front-line of receiving an unusual gift who may be in the awkward position of explaining to a donor that the nonprofit will not automatically accept the donor's gift.

... Gift Acceptance Policy, continued

- Some gifts may lead to legal obligations that the nonprofit is not otherwise ready to handle. Example: Gifts of real property may raise property tax issues; gifts of motor vehicles or boats may raise issues about disposal of hazardous waste or licensing issues.
- The nonprofit may simply not be equipped to either use or dispose of certain types of gifts or easily maintain them.
- The IRS Form 990 asks whether a nonprofit has a “gift acceptance policy” and requires nonprofits that respond “Yes” to complete Schedule M, as well as report any non-cash contributions/in-kind gifts.

... Gift Acceptance Policy, Continued

What should be included in a gift acceptance policy?

- Purpose of the policy
- When to seek advice of legal counsel
- Restrictions of gifts
- Gift Acceptance Committee?
- Types of gifts that are acceptable
- Miscellaneous provisions such as appraisals, valuation of gift, gift acknowledgements

... Gift Acceptance Policy, Continued

Where can I find examples of gift acceptance policies?

- Planned Giving Design Center website

<https://www.pgdc.com/pgdc/understanding-and-drafting-nonprofit-gift-acceptance-policies>

- Nonprofit Risk Management Center website

<https://cacnc.org/wp-content/uploads/2016/06/Sample-Gift-Acceptance-Policies.pdf>

... Gift Acceptance Policy, Continued

Now that we have one, what should we do with it?

- Some nonprofits adopt a policy for external use with donors, but also draft guidelines to help staff and board members put the policy into practice.
- For maximum financial transparency, consider posting the policy on your nonprofit's website which helps manage donors' expectations before they approach your nonprofit with a non-standard gift.
- If the policy will not be linked from the website, determine how will it be distributed so that individuals who are considering a gift can be informed about the policy.

... Polling Question #3

Has your Organization ever been put in an ethical situation where these policies helped direct a decision?

- a. Yes, policies and procedures helped us govern!
- b. Yes, but wished we had these policies in place at the time.
- c. No, but we are ready if we do!
- d. No, we will be calling our attorneys today to brush up!

... Employee and Volunteer Reimbursement Policies

Why should a nonprofit have a reimbursement policy?

- Ensure that employees and volunteers get reimbursed for their expenses.
- Ensure that Internal Revenue Service guidelines are followed to avoid the need to pay payroll taxes on these reimbursements.
- Ensure that proper controls are in place to avoid fraud schemes related to expense reimbursements.

... Employee and Volunteer Reimbursement Policies, Continued

What should be included in the reimbursement policy?

- Clear understanding of the type of expenditures that will be reimbursed such as travel, meals and entertainment, gifts and transportation. Is pre-authorization required?
- Clear understanding of the reimbursement process such as forms to be used, deadlines for submission, internal approval process.
- Reimbursements made under an “accountable plan” as defined by the IRS allow you to reimburse your employees or volunteers for their business-related expenses without including the expenses in their compensation, which might be subject to payroll taxes.

... Employee and Volunteer Reimbursement Policies, Continued

Under an accountable plan, the following must be included in the policy:

- The plan must state that employees or volunteers will only be reimbursed for ordinary and necessary business expenses.
- The plan must require that expenses be substantiated with a reasonable period, typically 60 days.
- If the employer advances an amount to the employee to cover costs which are not later substantiated, the employee must return that advance with a reasonable period, typically within 120 days.

... Employee and Volunteer Reimbursement Policies, Continued

An accountable plan requires the following questions be documented on an expense reimbursement request:

- Who incurred the expense?
- What was purchased? Requires original receipts or invoices.
- When and where did the expense occur?
- What was the business purpose of the expense?

... Employee and Volunteer Reimbursement Policies, Continued

Where can I find examples of a reimbursement policy?

- Internal Revenue Service website
- National Council of Nonprofits website

... Whistleblower Protection Policy

Why does a nonprofit need a whistleblower protection policy?

- Federal law (45 states have adopted similar laws) prohibits all corporations, including nonprofits, from retaliating against employees who “blow the whistle” on their employer’s financial management and accounting practices.
- Will help a nonprofit comply with state and federal laws and can help ensure that if there is a problem it will be investigated and fixed.
- Adopting a whistleblower protection policy signals to employees, board members, and the donating public, that your nonprofit is open to hearing concerns or complaints about its practices, demonstrating that it values transparency and accountability practices.

... Whistleblower Protection Policy, Continued

What should be included in a whistleblower protection policy?

- Reporting responsibility
- No retaliation
- Reporting procedure
- Compliance officer
- Accounting and auditing matters
- Acting in good faith
- Confidentiality
- Handling of report violations

... Whistleblower Protection Policy, Continued

Where can I find examples of a whistleblower protection policy?

- National Center for Family Philanthropy
<https://www.ncfp.org/knowledge/whistleblower-policy-sample-2/>
- New York State Charities Bureau
https://65.118.144.71/pdfs/Charities_Whistleblower_Guidance.pdf
- National Council of Nonprofits website
<https://www.councilofnonprofits.org/sites/default/files/Sample%20WhistleblowerPolicy%202.2010.pdf>

... Document Retention Policy

Why does a nonprofit need a document retention policy?

- IRS Form 990 includes a question regarding the adoption of a written record retention policy.
- Ensure that staff and volunteers follow consistent guidance about document destruction and becomes a regular business practice.
- Ensuring the nonprofit has the appropriate documents to support potential audits or future claims brought against the organization.

... Document Retention Policy, Continued

What should the retention policy include?

- Should include a list of document categories along with number of years the documents should be retained. Some documents should be maintained permanently.
- Document retention policies apply equally to documents saved in the cloud, on a server or in a filing cabinet. If your nonprofit is using digital storage, make sure you have a back-up plan.

... Document Retention Policy, Continued

Where can I find examples of a document retention policy?

- Internal Revenue Service website
- New York State Charities Bureau website

... Polling Question #4

How does your Organization handle their Whistleblower reporting?

- a. We post an external phone number of a board member or outside service.
- b. We post a name of someone to report to internally.
- c. We need to revisit our policy as it is not up to date.

... Annual Review of Executive Compensation

Why does a nonprofit need a written policy on the annual review of Executive Compensation?

- The Board of Directors are responsible for hiring and establishing the compensation (salary and benefits) of the executive director/CEO by identifying compensation that is "reasonable and not excessive," but that is also attractive enough to retain the best possible talent to lead the organization.
- Nonprofits filing IRS Form 990 must describe the process they use to approve executive compensation as part of the nonprofit's response on the annual return.
- The written policy gives the Board of Directors a road map of the process they must follow.

... Annual Review of Executive Compensation, Continued

What should the written policy on the annual review of executive compensation include?

- The board should arrange for an "independent body" (which means that the person receiving the compensation should not be part of the review process) to conduct a "comparability review." Many nonprofits task a "compensation committee," or use their executive committee, or another sub-group/task force of board members, for this purpose.
- The independent body should take a look at "comparable" salary and benefits data, such as data available from salary and benefit surveys, to learn what nonprofit employers with similar missions, and of a similar budget size, that are located in the same, or a similar geographic region, pay their senior leaders.

... Annual Review of Executive Compensation, Continued

- The board/independent body that is conducting the review should document who was involved, (and their "independence" i.e., that they do not receive compensation from the nonprofit) and the process used to conduct the review, as well as the disposition of the full board's decision to approve the executive director's compensation (minutes of a meeting are fine for this). The documentation should demonstrate that the board took the comparable data into consideration when it approved the compensation.

... Annual Review of Executive Compensation, Continued

Where can I find examples of a written policy on annual review of executive compensation?

- Internal Revenue Service website
- National Council of Nonprofits website

Questions



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