



Financial Management: Oversight, Policies, and Procedures

Who's responsible for which kinds of oversight?

- The Board of Directors has overall legal responsibility for the financial health of your nonprofit. Board members need to understand key financial information and policies, and it's recommended that they look at the following reports at least quarterly:
 - Fiscal year budget (with comparisons to actual expenditures/revenue).
 - Profit and loss statement (including programs). Compare to previous year-to-date.
 - Balance sheet statement (needs to reflect restricted and current unrestricted net assets). Compare current to previous year-to-date.
 - Cash flow analysis.
 - Reports required for local, state, and federal regulators.
- The Executive Director/CEO and financial staff should review and create:
 - A bookkeeping and accounting system appropriate to your size and type of organization (with guidance from an accountant to determine whether you should designate your system as cash or accrual). Adopting the *Unified Chart of Accounts (UCOA)* enables nonprofits to quickly and reliably translate their financial statements into categories required by the IRS Form 990, the federal Office of Management and Budget, and into other standard reporting formats.
 - Do budget analysis monthly.
 - Review your cash receipts journal monthly.
 - Review accounts payable and general ledger monthly.
 - Institute and oversee a business continuity plan so all systems have backups in case of an emergency.
 - Consider bonding selected staff members who deal with financial transactions.

Financial Policies and Procedures

- **Internal controls.** Regular, rigorously applied internal controls are the key to fiscal responsibility.
 - Follow segregation of duties. No one person should handle all financial transactions.
 - Define and document your purchasing and check-writing process (e.g., two signatures on checks, accounts payable, purchase orders).
 - Document and follow a process to handle incoming funds (e.g., accounts receivable, checks and payments, credit cards, e-commerce, grant monies, contract payments).
- **Policies.** Create written policies for financial issues and to comply with state and federal regulations. Some examples:
 - Create written investment policies for cash reserves, land purchases, fixed assets, and securities.
 - Institute safe harbor guidelines to prevent identity theft and respond appropriately to any instances of identity theft involving personal information retained by your nonprofit.
 - Institute conflict-of-interest and confidentiality policies.
 - Comply with employment and labor laws (e.g., HIPPA, COBRA, retirement policies).
 - Comply with the two mandates of the Sarbanes-Oxley Act that are required for nonprofits: whistleblower, and document-retention and destruction policies.

Legal Accountability with Federal and State Regulations

- **Annual IRS filing.** File a Form 990 or 990-EZ with the Internal Revenue Service (IRS) if you have an average annual budget of \$25,000 or more. File a Form 990-N (e-Postcard) with the IRS if you have an average annual budget of less than \$25,000.

- Be descriptive in your statement about program services so that your Form 990 helps you tell the story about your mission. This is a public document that funders and others will see.
 - Create a system that allows you to be mindful about how total allocations affect your functional expenses within your program and support services.
 - Properly report direct lobbying expenses.
- **990-T Unrelated Business Income (UBIT)**
 - You may be required to report Unrelated Business Income and pay taxes on it. UBIT is income you receive that is not directly related to your mission.
 - Some examples of UBIT are advertising, renting lists and labels, income from businesses unrelated to your mission (e.g., a thrift or gift shop), subletting office space, and debt-financed income.
 - Track both expenses *and* revenue related to UBIT.

Audits, Financial Reviews, and Compilations

These audit services are designed to obtain a professional, outside opinion about your financial statements. Select the service that best fits your organization's size, financial complexity, grantor requirements, and budget constraints. Know what your funders require (e.g., how much specificity they want such as a yellow book audit versus another kind).

- **Audit:** A letter signed by a CPA and attached to a set of financial statements which conforms to Generally Accepted Accounting Principles (GAAP); an audit has the highest degree of assurance and costs the most.
- **Financial Review:** Performed in accordance with Statements on Standards for Accounting and Review Services (SSARS); is more affordable than an audit, but has a lesser degree of assurance.
- **Compilation:** Performed in accordance with SSARS, a compilation costs less than a review; however, it offers no assurances about the financial statements.
- For all of the above, go through a Request For Proposal (RFP) process with a minimum of three CPA firms. Be sure to ask for 3-5 references and résumés of partners and managers.
- Engage the Audit and/or Finance Committee of your board in the RFP process.

Resources:

- Accounting Assistance Program, N.C. Center *for* Nonprofits. Free assistance from CPAs for Members of the Center. Contact the Board and Staff Helpline (see below).
- Board and Staff Helpline, a confidential service for organizations that are Members of the N.C. Center *for* Nonprofits. Members can also access hundreds of Frequently Asked Questions on the website. Visit www.ncnonprofits.org/infocenter.asp.
- *Financial Leadership for Nonprofit Executives*, Jeanne Bell Peters and Elizabeth Schaffer, 2005, Wilder Publishing. Available from the N.C. Center *for* Nonprofits (www.ncnonprofits.org/pdf/publications.pdf).
- Free Management Library, Basic Guide to Nonprofit Financial Management (www.managementhelp.org/finance/np_fnce/np_fnce.htm).
- N.C. Center *for* Nonprofits (www.ncnonprofits.org). To join, visit www.ncnonprofits.org/joindonateaffiliate.asp, or call 919/790-1555, ext. 100.
- *Principles and Practices for Nonprofit Excellence: A Self-Help Tool for Organizational Effectiveness* (www.ncnonprofits.org/principles.asp), published by the N.C. Center *for* Nonprofits. Provides 108 specific benchmarks for well-managed and responsibly governed organizations.

HandsOn Northwest North Carolina and the N.C. Center *for* Nonprofits have created a close partnership to provide a seamless continuum of support services to Winston-Salem/Forsyth County nonprofits. These partners work closely together to ensure that services to local nonprofits tap all existing statewide and local resources and avoid duplication and the waste of resources. Visit HandsOn Northwest North Carolina at www.nonprofit-connections.org (or call 336/703-3029) and the N.C. Center *for* Nonprofits at www.ncnonprofits.org (or call 919/790-1555, ext. 100) to learn more.