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# Policies and Procedures that Help Nonprofits Achieve their Financial Goals

Center for Nonprofit Advancement

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## Jim Larson, CPA

Audit Partner, Gelman, Rosenberg & Freedman CPAs

- **25 years** of experience in auditing, consulting and accounting
- Specializes in audits for domestic and international nonprofit organizations, including foundations
  - Focuses on planning and budgeting audits in accordance with Yellow Book and OMB Circulars A-122 and A-133
- **Community Involvement:**
  - Member, American Society of Association Executives' (ASAE) Finance & Business Operations Section Council
  - Board member, Mill Creek Towne Swim Association



## Trevor W. Williams, CPA

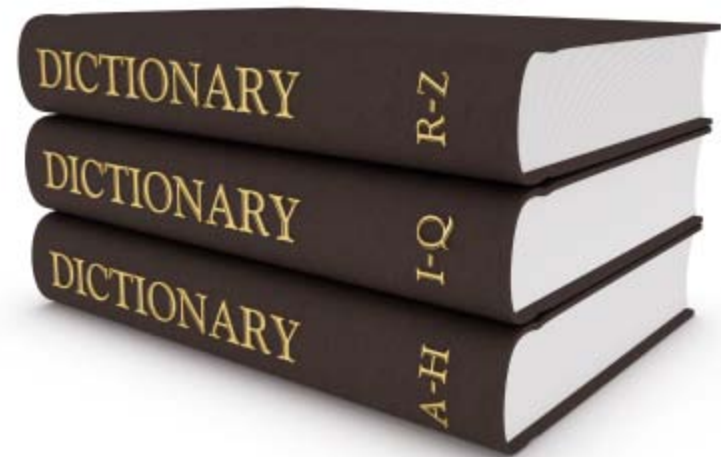
Senior Audit Manager, Gelman, Rosenberg & Freedman CPAs

- Senior Audit Manager
- **Nearly 20 years** of experience with audit functions, contractual compliance rules, regulations and policies
- Supervises the overall planning and administration of audit, review and compilation engagements
- **Nonprofit Involvement:**
  - Board member, MD/DC/VA Chapter of the Lupus Foundation of America
  - Board member, Mentors, Inc.



## What Are Policies?

- Mean different things to different people





## Policies Are ...

A documented set of guidelines, formulated after an analysis of all internal and external factors that can affect a firm's objectives, operations and plans. Formulated by the firm's board of directors, policies lay down the firm's response to known and knowable situations and circumstances. Policies also determine the formulation and implementation of strategy and direct and restrict the plans, decisions and actions of the firm's officers in achievement of its objectives.

*BusinessDictionary.com*

## Procedures Are ...

A fixed, step-by-step sequence of activities or course of action (with definite start and end points) that must be followed in the same order to correctly perform a task.

*BusinessDictionary.com*



## Purpose of the Accounting Manual

- Proper application of accounting principles
- Consistent treatment of similar transactions
- Desired financial report
- Training device for new employees
- Helps assist management in delegating and segregating duties



## Policies and Procedures Manual: Accounting Manual

- Pertinent accounting rules and other information for an organization
- Contains guidelines for various policies and procedures
- Specifies organizational rules and standards for corporate accounts





# What Happens When You Do *Not* Have Policies and Procedures





## When and Why Policies Are Necessary

- If guidance is needed about the most suitable way to handle various situations
  - Billing/invoicing & processing
  - Check preparation/signing
  - Accounting for grant revenue/contributions
- Needed to protect the company legally
  - Investigation of charges of harassment
  - Non-discriminatory hiring and promotion



## When and Why Policies Are Necessary (cont.)

- To keep the company in compliance with governmental policies and laws
  - EEOC
  - OMB A-133
- To establish consistent work standards, rules and regulations
  - Business conduct
  - Record retention



## When and Why Policies Are Necessary (cont.)

- To provide consistent and fair treatment for employees
  - Benefits eligibility
  - Paid time off
  - Policy on suspected misconduct
  - Confidentiality





## Whose Responsibility Is It?

**Management** - A person or group of people intentionally organized to lead and direct all or part of an organization, business, program, etc. through the deployment and manipulation of resources (human, financial, material, intellectual or intangible).



## Management's Responsibilities

- Ensuring fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles
- Establishing and maintaining internal controls
- Selection and application of accounting principles



## Management's Responsibilities (cont.)

- Establishing an accounting and financial reporting process
- Monitoring financial and programmatic performance (financial reporting)
- Management decisions

## Board Members

- Trustees of the organization's assets; stewards of public trust
  - Objective, honest, efficient
  - Must exercise good decision-making, without placing organization at unnecessary risk



## Board Members' Responsibilities

- Designate individuals with suitable skills, knowledge or experience to oversee the programmatic, financial and tax needs of the organization



## Board Members' Responsibilities (cont.)

- Ensure adequate control mechanisms
  - Prevent fraud
  - Clarify job descriptions
  - Define accounting procedures (signing checks, handling cash, approving expenses)
  - Manage potential conflicts of interest



## Board Members' Responsibilities (cont.)

- Set up and monitor key financial indicators
  - Agree on general guidelines and standards to measure effectiveness
  - Use proper tools to monitor and policies to guide decision-making



## Board Members' Responsibilities (cont.)

- Approve the budget and compare actual figures to projected ones
- Oversee nonprofit's legal obligations





## Does $1+1 = 3$ ?

- Understand financial basics
  - Terminology
  - Read financial statements
    - Judge soundness
    - Recognize warning signs
- Need to be a financial inquisitor



## Accountability

“The state of being accountable, subject to the obligation to report, explain or justify something; responsible; answerable”

- Webster's Dictionary





## How Do You Develop A Policies and Procedures Manual?

- Gather information
- Know your target audience
- Review the policy
- Be prepared to change it



## Now What?

- Get it approved by those charged with governance
- If document has legal implications, get it reviewed by your attorney
- Implement the approved document





## Now What? (cont.)

- Decide How You Will Communicate the Policy in the Future
  - Include the policy in your employee handbook
  - You may also want the policy to become part of your “New Employee Orientation” program
  - Post on Intranet or in a policy folder on the computer network's common drive



## Now What? (cont.)

- Revisit regularly and change/revise when necessary
  - When practices differ from the written policy, it is time to review and rewrite the policy



## Three Basic Functions

- Enunciate clearly the organization's (and departments, if necessary) mission, philosophy and goals
- Delineate all ethical, strategic and organizational parameters within which the organization operates
- Provide a sound framework for logical and consistent management financial reporting and decision making



## Hot Area: Corporate Card Policy





## Hot Area: Travel and Expense Reimbursement

- Travel arrangements
- Expense guidelines
- Approval of charges



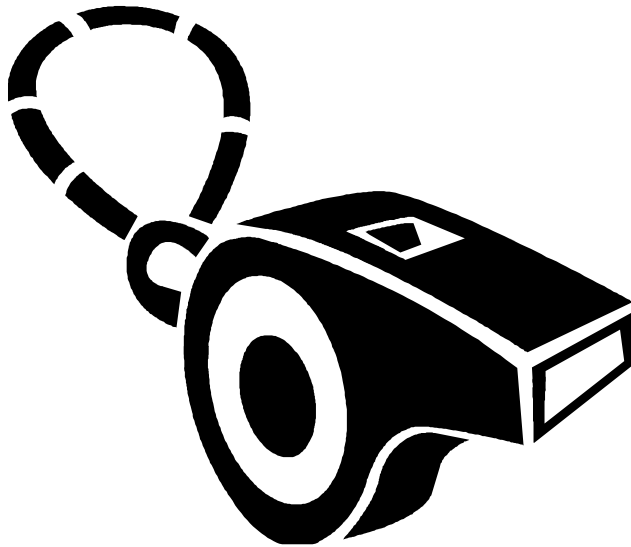


## Hot Area: Conflict of Interest Policy

- Outside employment policies
- Should be applicable to both employees and Board of Directors
- Should revisit annually



## Hot Area: Whistleblower Policy



“It is the responsibility of all employees at Company XYZ to comply with the Code of Ethics. All employees are encouraged to report violations or suspected violations of laws or Company XYZ policy in accordance with this Whistleblower Policy.”



## Hot Topic: Performance Appraisals

- Should be performed annually
- Signed by both employee and evaluator
- Copy retained in employee's personal file
- All disciplinary actions should be documented, signed and retained in employee's file





## Hot Topic: Pay and Payroll Matters

- Timesheets
- Payroll deductions, pay adjustments
- Advances, garnishments





## Hot Topic: Segregation of Duties

- No one employee, when possible, should have access to both physical assets and the related accounting records or all phases of a transaction
- If any one employee can control all stages of a transaction, material defalcations or irregularities may go undetected



## Journal Entries

- Should document review and approval by another member of management
  - Not responsible for the preparation of journal entries
- *Consistent* review of journal entries, by an appropriate member of management, is a key control to prevent and/or detect potential errors or fraud within the financial statements



## Hot Topic: Review of Outsourced Accounting Functions

- Lack of review by management of the deliverables upon receipt
  - Bank reconciliations
  - Trial balance
  - General ledger
  - Journal entries



## Hot Topic: Review of Outsourced Accounting Functions (cont.)

- Management should develop and implement a formal review process
  - Objective: Ensure the accurate recording and reporting of financial transactions and other information included in the financial statements

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