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Financial Oversight for a Nonprofit Organization

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A short and simple reminder to those who assume the responsibility for an organization's finances: It's not your money! Others have made the contributions and investments, or they've paid dues, or they've helped with fundraisers to generate the money to operate the organization. It is critical that the finances are handled with the highest level of integrity. Few things are as quick to grab a headline as financial misconduct. It is a betrayal of trust with serious consequences ranging from loss of reputation to restitution or incarceration.

To be trusted with financial oversight suggests that the organization has confidence that the individual will manage the funds in a timely, transparent, and accurate manner. Openness in reporting receipts, expenditures, and financial status in a clear format and on a regular basis is vital. This practice keeps the organization informed and insures that financial integrity is maintained.

Basics of Financial Management

The basic functions of financial management are simple: budgeting, receiving funds, paying expenses and reporting results. The mechanics to perform those functions may not be so simple depending on the size and complexity of the organization. At some point in the growth of the organization the level of external support needs to be considered. Managing a few hundred dollars through a single account may be manageable for a volunteer worker. Managing multiple income streams, separate independent or interrelated accounts and payroll and tax issues may require the resources of a qualified bookkeeper or accountant.

At a minimum, there should be some basic practices, otherwise known as internal controls, in place to assure that more than one person is involved with financial matters. Having internal controls with two sets of eyes protects the organization and the person(s) involved in handling the finances.

The balance of this publication is a discussion of required or recommended financial management practices for nonprofit organizations. This discussion is by no means complete or exhaustive. References at the end of this publication can provide more detail. Attorneys or accountants also serve to meet these needs for the nonprofit sector.

Required Financial Processess

990s: Tax-exempt organizations must file the appropriate Internal Revenue Service Form 990, 990-EZ, or 990-N annually or risk losing their tax-exempt status. The size of the organization will generally determine the type of form to use.

Payroll: If the organization has paid employees, the required federal, state, and local withholdings must be collected and submitted to the appropriate agency. Filings and reporting must be carried out by specified deadlines.

1099s: If the organization pays for services that would require filing IRS Form 1099-MISC, these must be issued to the vendor. Seek advice from a qualified tax expert if you are uncertain about any of these issues.

Recommended Financial Processes

Some processes and reports are required by law; others are simply a product of good financial management.

Software: Financial software is so inexpensive and user-friendly that there is probably no reason not to have computerized records. Accuracy and reporting will certainly be enhanced.

Internal controls: No matter the size of the organization, more than one person should be involved with receiving and depositing funds, paying bills, and reconciling and reporting on financial affairs. Regular, independent examination of the financial records may also be a good idea, depending on the sizes and complexity of the organization. The objective should be to confirm honesty and safeguard against fraud thus protecting the organization and the individuals involved.

Annual operating budget: A budget is a forward looking plan. An account is a backward looking record. Budgets provide a roadmap for the financial future of the organization.

Financial reports: Periodic reports of the accounts should be prepared and presented to governing boards and members at least once a year. These should include actual receipts and expenditures with a comparison to the budget, and should include a balance sheet to determine the assets and liabilities of the organization.

Signature authority: Check signing authority should be clearly defined and limited to designated officers and/or employees. Some circumstances may require two signatures on checks or withdrawals, and under no circumstances should a person sign a check to one's self without another authorized signature.

Petty cash policy: Avoid if possible, but if not, retain minimum amounts of cash and use a log system to record receipts and expenditures.

Spending limits: Policies should be in place to designate types and levels of expenditures that require higher levels of authorization.

Credit cards: Types and levels of expenditures along with who can use the card should be clearly defined.

Expense reimbursement/documentation: If employees or members are to be reimbursed for expenses they incur, documentation should be required and maintained for an appropriate time period.

Financial records retention/destruction: Records should be filed and stored in a secure location for at least 10 years for most records. End-of-year financial statements, audits, legal correspondence, and tax returns should be kept permanently. When records are no longer needed they should be shredded and disposed in a secure manner

Receipts/reserves/investment policy: Receipts should be deposited in a timely fashion (at least weekly) in accounts maintained in federally insured institutions. The organization should establish polices to manage financial reserves or investments that offer an acceptable combination of safety and earnings.

No matter the size of the organization, more than one person should be involved with receiving and depositing funds, paying bills, and reconciling and reporting on financial affairs.

Summary

An invited speaker at a well-known organization's meeting once witnessed an example of financial accountability that surprised no one in the room. The long-time treasurer submitted an end-of-year financial statement with a balance reported to the penny of over $30,000. The title of the "bottom line" was Approximate Bank Balance. There was no suspicion of wrong-doing. The group trusted the treasurer with their funds. But, it was an amazingly candid confession of incompetence that could have led to loss of reputation and nonprofit status or even civil or criminal action. Funds can, and should, be tracked and reported exactly, not approximately.

When you accept the responsibility for the finances of an organization you are accountable to others. You must act in a timely manner. You must report all transactions clearly. You must maintain accurate records. After all, it's not your money.

References

Kentucky Nonprofit Network, Principles and Practices is a good general resource. https://kynonprofits.org/learn/principles-practices.

Kentucky Nonprofit Network, Financial Management offers more specific resources. https://kynonprofits.org/learn/principles-practices/resources/financial-management/.

Internal Revenue Service Compliance Guide for 501(c)(3) Public Charities. http://www.irs.gov/pub/irs-pdf/p4221pc.pdf.

Idealware, A Few Good Accounting Packages. http://www.idealware.org/articles/fgt_accounting.php.

Better Business Bureau Charity Accountability Standards. http://www.bbb.org/us/Standards-Charity/.

Nonprofits Assistance Fund financial Policy Guidelines. http://www.nonprofitsassistancefund.org/index.php?src=gendocs&ref=Resources_PolicyGuidelines&category=Healthy%20Financial%20Practices.

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