

EXAMPLE NPO

Accounting & Financial Policies and Procedures Manual

Note to Users: The sample policies and procedures included herein should only be used as a guide in developing policies and procedures applicable to your particular organization. Users should carefully read the accompanying instructions and eliminate, add to, or modify these policies and procedures as necessary to customize them for your organization. These sample policies and procedures are copyrighted materials of Nonprofit Resource Center, Inc. Purchasers are authorized to use these materials only for one particular not-for-profit organization. Additional uses for multiple organizations or any other copying, reselling or redistribution of these policies and procedures without the permission of Nonprofit Resource Center in the form of a multi-user license agreement are expressly prohibited.

Version 5.0

Copyright © 2009 Nonprofit Resource Center, Inc.

TABLE OF CONTENTS

Page Number

<u>Introduction</u>	12
----------------------------------	----

GENERAL POLICIES

<u>Organizational Structure</u>	13
The Role of the Board of Directors.....	13
Committee Structure.....	13
Finance Committee Responsibilities.....	14
Audit Committee Responsibilities.....	14
The Roles of the <u>[Executive Director]</u> and Staff.....	14

<u>Accounting Department Overview</u>	16
Organization.....	16
Responsibilities.....	16
Standards for Financial Management Systems (Government Grants).....	17

<u>Business Conduct</u>	18
Practice of Ethical Behavior.....	18
Compliance with Laws, Regulations, and Organization Policies.....	18

<u>Conflicts of Interest</u>	19
Introduction.....	19
What Constitutes a Conflict of Interest?.....	19
Disclosure Requirements.....	20
Resolution of Conflicts of Interest.....	21
Disciplinary Action for Violations of This Policy.....	21

<u>Policy on Suspected Misconduct</u>	23
Introduction.....	23
Definitions.....	23
Reporting Responsibilities.....	24
Whistleblower Protection.....	24
Investigative Responsibilities.....	25
Protection of Records – Federal Matters.....	25
Disciplinary Action.....	26
Confidentiality.....	26
Disclosure to Outside Parties.....	27

<u>Security</u>	28
Accounting Department.....	28
Access to Electronically Stored Accounting Data.....	28
Storage of Back-up Files.....	28
Storage of Sensitive Data.....	28
Destruction of Consumer Information.....	29
General Office Security.....	29

<u>Technology and Electronic Communications</u>	30
Purpose and Scope.....	30
Acceptable Use of Organization Property	30
Password Security	30
Confidentiality.....	31
E-Mail Communications	31
Anti-Virus Controls	31
Disposal of Computer Equipment	31
Copyrighted Information.....	32
Installation of Software.....	32
Other Prohibited Uses.....	32
Disciplinary Action for Violations	33
Reporting of Suspected Violations	33
<u>General Ledger and Chart of Accounts</u>	34
Chart of Accounts Overview	34
Distribution of Chart of Accounts.....	34
Control of Chart of Accounts	35
Account Definitions	35
Changes to the Chart of Accounts	37
Fiscal Year of Organization.....	37
Accounting Estimates.....	37
Journal Entries	37

POLICIES ASSOCIATED WITH REVENUES AND CASH RECEIPTS

<u>Revenue</u>	39
Revenue Recognition Policies	39
Revenue From Multiple Deliverable Arrangements	40
Refunds of Revenue Received	40
<u>Gift Acceptance</u>	42
Overview of Gift Acceptance Policies	42
Categories of Gifts	42
Gift Acceptance Procedures	43
<u>Contribution Accounting</u>	44
Definitions	44
Distinguishing Contributions from Exchange Transactions.....	44
Recognition of Contribution Income	45
Valuation of Non-Cash Contributions.....	46
Unconditional Promises to Give	46
Conditional Promises to Give.....	47
Receipts and Disclosures	47
IRS Form 8283.....	48
IRS Form 8282.....	49
Disclosures of Promises to Give	49
Endowment Funds	49
Fund-Raising Events.....	51
State Registrations.....	52
<u>Administration of Federal Awards</u>	54
Definitions	54
Preparation and Review of Proposals.....	54

Post-Award Procedures	54
Compliance with Laws, Regulations and Provisions of Awards	55
Document Administration	56
Close Out of Federal Awards	57
<u>Cost Sharing and Matching (In-Kind)</u>	58
Overview	58
Valuation and Accounting Treatment	61
<u>Billing/Invoicing Policies</u>	63
Overview	63
Responsibilities for Billing and Collection	63
Membership Billing	63
Customer Invoicing (Non-Membership)	63
Billing and Financial Reporting (Government Grants)	64
Cash Drawdowns Under Letters of Credit (Grants)	65
Accounts Receivable Entry Policies	65
Classification of Income and Net Assets	65
<u>Cash Receipts</u>	67
Overview	67
Processing of Checks and Cash Received in the Mail	67
Endorsement of Checks	68
Timeliness of Bank Deposits	68
Reconciliation of Deposits	68
Use of Lockbox	68
Processing of Lockbox Receipts	69
Processing of Credit Cards	69
On-Site Collections at Conferences and Seminars	69
<u>Accounts Receivable Management</u>	71
Monitoring and Reconciliations	71
Collections	71
Monitoring and Recognition – Government Grants	71
Credits and Other Adjustments to Accounts Receivable	72
Accounts Receivable Write-Off Authorization Procedures	72
Reserve for Uncollectible Accounts	72
<u>Segregation of Duties</u>	74
Control Grid – Revenue and Cash Receipts	74

POLICIES ASSOCIATED WITH PURCHASING AND DISBURSEMENTS

<u>Purchasing Policies and Procedures</u>	76
Overview	76
Responsibility for Purchasing	76
Code of Conduct in Purchasing	76
Competition (Government Grants)	77
Non-Discrimination Policy	77
Procurement Procedures (Government Grants)	77
Use of Purchase Orders	78
Authorizations and Purchasing Limits	80
Required Solicitation of Quotations from Vendors (Government Grants)	80
Extension of Due Dates and Receipt of Late Proposals	81

Evaluation of Alternative Vendors	81
Affirmative Consideration of Minority, Small & Women-Owned Business	82
Availability of Procurement Records (Government Grants)	82
Provisions Included in All Contracts (Government Grants).....	83
Special Purchasing Conditions	84
Right to Audit Clause	85
Vendor Files and Required Documentation	85
Procurement Under Federal Regulations Flowchart (Government Grants)	86
Receipt and Acceptance of Goods.....	87
<u>Political Intervention</u>	88
Prohibited Expenditures	88
Endorsements of Candidates.....	89
Individual vs. Organizational Intervention	89
Prohibited Use of Organization Assets and Resources	89
<u>Lobbying</u>	90
Introduction	90
Definition of Lobbying Activities	90
Segregation of Lobbying Expenditures	90
Lobbying Election.....	90
<u>Charging of Costs to Federal Awards</u>	92
Overview	92
Segregating Unallowable from Allowable Costs	92
Criteria for Allowability.....	92
Direct Costs.....	93
Indirect and Joint Costs	94
Indirect Cost Rate	94
Cost Pools.....	95
Accounting for Specific Elements of Costs	95
<u>Accounts Payable Management</u>	99
Overview	99
Recording of Accounts Payable	99
Accounts Payable Cut-Off.....	99
Establishment of Control Devices	99
Preparation of a Voucher Package	100
Processing of Voucher Packages	100
Payment Discounts	100
Employee Expense Reports.....	100
Reconciliation of A/P Subsidiary Ledger to General Ledger.....	101
Management of Accounts Payable Vendor Master File	101
OFAC Database Searches.....	102
Verification of New Vendors.....	102
<u>Travel and Business Entertainment</u>	104
Travel Advances	104
Employee and Director Business Travel	104
Reasonableness of Travel Costs	105
Special Rules Pertaining to Air Travel.....	105
Spouse/Partner Travel	106
<u>Cash Disbursement (Check-Writing) Policies</u>	107
Check Preparation	107

Check Signing.....	108
Use of Positive Pay System.....	109
Mailing of Checks.....	109
Voided Checks and Stop Payments.....	109
Recordkeeping Associated with Independent Contractors.....	109
<u>Segregation of Duties</u>	110
Control Grid – Purchasing and Cash Disbursements.....	110
<u>Credit Cards</u>	112
Issuance of Corporate Credit Cards.....	112
Cardholder Responsibilities.....	112
Revocation of Corporate Credit Cards.....	113
Employee Credit Cards.....	113
<u>Payroll and Related Policies</u>	114
Classification of Workers as Independent Contractors or Employees.....	114
Wage Comparability Study.....	115
Review and Approval of Senior Management Compensation.....	115
Payroll Administration.....	115
Changes in Payroll Data.....	117
Payroll Taxes.....	118
Personnel Activity Reports (Government Grants).....	118
Preparation of Timesheets.....	118
Processing of Timesheets.....	119
Review of Payroll.....	119
Distribution of Payroll.....	119
Internal Audit of Payroll Data.....	120
<u>Segregation of Duties</u>	121
Control Grid – Payroll and Human Resources.....	121

POLICIES PERTAINING TO SPECIFIC ASSET ACCOUNTS

<u>Cash and Cash Management</u>	123
Cash Accounts.....	123
Authorized Signers.....	123
Bank Reconciliations.....	124
Cash Flow Management.....	125
Stale Checks.....	125
Petty Cash.....	125
Wire Transfers.....	126
<u>Inventory of Materials</u>	127
Description of Inventory.....	127
Accounting for Inventory.....	127
Physical Counts.....	127
Contributed Inventory.....	127
<u>Prepaid Expenses</u>	128
Accounting Treatment.....	128
Procedures.....	128
Direct Response Advertising Costs.....	128

<u>Investment Policies</u>	129
Introduction	129
Delegation of Authority.....	129
Investment Objectives.....	129
Allowable Investments	129
Diversification.....	130
Accounting Treatment.....	130
Procedures and Reporting	130
Accounting for Investments in Other Entities	131
<u>Property and Equipment</u>	132
Capitalization Policy	132
Contributed Assets.....	132
Equipment and Furniture Purchased with Federal Funds (Government Grants).....	132
Establishment and Maintenance of a Fixed Asset Listing (Government Grants).....	133
Receipt of Newly-Purchased Equipment and Furniture	134
Depreciation and Useful Lives	134
Changes in Estimated Useful Lives	134
Repairs of Fixed Assets	135
Dispositions of Fixed Assets	135
Write-Offs of Fixed Assets	135
Impairment Losses.....	135
<u>Leases</u>	137
Classification of Leases	137
Reasonableness of Leases (Government Grants).....	137
Accounting for Leases	137
Scheduled Increases in Rent Payments	138
Rent Abatements and Other Lease Incentives	138
Changes in Lease Terms.....	138
<u>Software Acquisition and Development Costs</u>	139
Costs to Be Capitalized.....	139
Costs to Be Expensed as Incurred.....	139
<u>Web Site Costs</u>	140
Costs to Be Capitalized.....	140
Costs to Be Expensed As Incurred	140
<u>Intangible Assets</u>	142
Acquisition of Intangible Assets	142
Accounting for Intangible Assets.....	142
Amortization	142
<u>Asset Impairments</u>	144
Policy.....	144
<u>Fair Value Accounting</u>	145
Scope	145
Disclosures	145

POLICIES PERTAINING TO SPECIFIC LIABILITY AND NET ASSET ACCOUNTS

<u>Accrued Liabilities</u>	146
Identification of Liabilities	146
Accrued Leave	146
<u>Income Taxes Payable</u>	147
Accrual of Income Taxes	147
Income Tax Positions	147
<u>Notes Payable</u>	149
General Policy	149
Recordkeeping	149
Accounting and Classification	149
Non-Interest-Bearing Notes Payable	150
<u>Conditional Asset Retirement Obligations</u>	151
Scope and Application	151
Accounting Treatment	151
<u>Net Assets</u>	153
Classification of Net Assets	153
Reclassifications from Restricted to Unrestricted Net Assets	153
Reclassifications from Unrestricted to Restricted Net Assets	154
Disclosures	154

POLICIES ASSOCIATED WITH FINANCIAL AND TAX REPORTING

<u>Financial Statements</u>	155
Standard Financial Statements of the Organization	155
Frequency of Preparation	155
Review and Distribution	156
Budget Variance Analysis and Projections	156
Monthly Distribution	156
Special Quarterly [Semi-Annual] Distribution	156
Annual Financial Statements	157
Trend Analysis	157
<u>Preparation of Consolidated Financial Statements</u>	158
Consolidation Policy	158
<u>Government Returns</u>	160
Overview	160
Filing of Returns	160
Review of Form 990 by Board of Directors	161
Public Access to Information Returns	161
<u>Transactions With Interested Persons</u>	164
Identification of Interested Persons	164
Record of Transactions With Interested Persons	164
<u>Unrelated Business Activities</u>	165
Identification and Classification	165
Allocation of Expenses to Unrelated Activities	165
Reporting	165

FINANCIAL MANAGEMENT POLICIES

<u>Budgeting</u>	166
Overview	166
Preparation and Adoption	166
Monitoring Performance.....	167
Budget and Program Revisions (Government Grants)	167
Budget Modifications.....	168
<u>Annual Audit</u>	169
Role of the Independent Auditor	169
Auditor Independence	169
How Often to Review the Selection of the Auditor	170
Selecting an Auditor.....	170
Preparation for the Annual Audit.....	171
Concluding the Audit.....	172
Audit Adjustments	172
Internal Control Deficiencies Noted During the Audit.....	172
Audit Committee Responsibilities.....	173
Audit Committee Communications With the Auditors	173
<u>Insurance</u>	175
Overview	175
Coverage Guidelines.....	175
Insurance Definitions	176
<u>Record Retention</u>	177
Policy.....	177
Exception for Investigations	178
<u>Functional Expense Allocations</u>	179
Overview	179
Direct Charging of Costs	179
Allocation of Overhead Costs.....	180
Accounting for Joint Activities that Include Fund-Raising	180
<u>Subrecipients</u>	182
Making of Subawards.....	182
Monitoring of Subrecipients.....	182

BOARD GOVERNANCE

<u>Audit Committee</u>	185
Purpose.....	185
Authority	185
Membership	186
Responsibilities	186
<u>Finance Committee</u>	189
Purpose.....	189
Authority	189
Membership	189
Responsibilities	189