

# Accounting Department Overview

## Organization

The primary goal of the accounting department is to have a structure of segregated duties and a system of checks and balances. To have an understanding of the segregation of duties and delegation of authority, one must take a look at the management of the whole organization. The organization uses iMIS as their main database. It also acts as the accounts receivable module and is integrated into the accounting software. The accounting records are maintained in Solomon accounting software.

## Responsibilities

- The primary accounting functions are performed by the Chief Financial Officer, Staff Accountant, and Accounting Assistant. The Mail Room Coordinator provides an independent source to the department. The Chief Financial Officer's role is to provide the following:
  - Supervise the general ledger, accounts payable and accounts receivable
  - Assist in developing, monitoring and implementing the Strategic Plan
  - Develop and implement the annual budget
  - Provide financial reports to management team (Chief Executive Officer, directors and staff), Committees, the Board of Governors and government agencies
  - Coordinate and supervise the annual audit
  - Staff liaison to the Finance Committee and Audit Committee.
  - Provide investment management
  - Negotiate contracts related to the accounting division.

- Respond with financial information as directed by the Chief Executive Officer Work with the Chief Executive Officer and Board of Governors to assure that there are limitations on authority and that internal controls are in place.

Overall to instill and implement policies and procedures to maintain and protect XYZ assets.

The Staff Accountant maintains the general ledger and schedules for XYZ. In addition, provides assistance with the XYZ Foundation accounting functions. The Staff Accountant's major responsibilities include:

- Prepares and post accounts payable, inc. Chapter dues
- Provide research support to members, vendors and staff concerning G/L and A/P matters
- Works with Chief Technology Officer in processing /maintaining cafeteria plan payments
- Creating Monthly adjusting journal entries
- Generate and reconcile interface with iMIS
- Reconciles Balance Sheet accounts
- Provide monthly schedules
- File and organize posting journals
- Prepare monthly bank reconciliation
- Prepare & maintain Fixed Assets (tagging /inventory) and Depreciation schedule
- Prepare and file 1099 annual report. Maintain W9 request forms.

The Accounting Assistant performs the accounts receivable functions. Before inputting the receipts, the Accounting Assistant relies on individual staff members, in various departments, to register or generate the accounts receivable in iMIS. The Accounting Assistant duties are as follows:

1. Cash Receipts Processing-
  - \* creates batches and copies receipt documents and distributes originals as appropriate
  - \* assures miscellaneous receipts are coded properly
  - \* enters cash receipts; reconciles and post batches through iMIS, attaches yellow bank deposit ticket to batch
  - \* maintains cash receipts files
  - \* monitors accounts receivable. iMIS creates outstanding invoice based on transactions not paid in full. Monthly reviews iMIS trial balance of outstanding accounts receivable. Initiates collections by sending out second notices and when necessary, forwards aged accounts to a collection agency.
  
2. Credit Card Processing-
  - \* Input and transmit credit card sales
  - \* Contact declined credit cards for alternative payment or additional information
  - \* Contact NOVA (credit card server) to resolve transmitting problems
  
3. Generates invoices for reimbursements, exhibit contracts and advertising sales.  
Monitors accounts receivable and initiates collections by generating and sending account statements (second notices) on outstanding balances. When necessary, forwards aged outstanding accounts to the collection agency.
  
4. Provide research support to members, vendors and staff concerning A/R matters.
  
5. Files and keeps and keeps a log of all XYZ contracts.
  
6. Provides occasional phone support and phone training
  
7. May be assigned occasional special projects to complete

## **Chart of Accounts**

### *Overview*

#### **Structure**

The chart of accounts is a systematic numbering system for the accounting system. The structure of the accounts provides a means by which transactions can be categorized or collected. The chart of accounts is composed of natural function account numbers and subaccount numbers. There are two types of accounts: real and nominal accounts. Real accounts are assets, liabilities, and equity accounts which appear on the Change in Net Assets Statement (Balance Sheet). They are categorized by 1000's for assets, 2000 for liabilities, and 3000's for fund balance (retained earnings). Nominal or temporary accounts are accounts that are periodically closed or zeroed out. They appear on the Statement of Activities (Income Statement). The accounts are categorized by 4000's representing income accounts, 5000's for direct expenses and 6000's for allocated expenses.

In addition, sub accounts are used to identify specific programs while a sub account with 000 identifies the account as general administrative or overhead. There is further sub-grouping to identify advocacy and foundation activity.

### *Policy*

The Chief Financial Officer makes sure the chart of accounts meets the organizational structure and the needs of each division and department. The accounting department personnel are the only parties having access to alter the chart of accounts in the accounting system.

*Procedures*  
**Maintenance**

Each director is responsible in initiating the chart of accounting structure when they submit their budget each year. The accounting software provides a flexkey setup where only the natural and subaccounts need to be updated. The system is able to recognize any combination of the natural and subaccount numbers. The Staff Accountant is the primary person to maintain the accounting system. The natural account numbers can be accessed through the "General Ledger" module under "Chart of Accounts" screen. The subaccount can be accessed through the "Shared Information" module and selecting Field Type and segment number.

# Cash Receipts

## *Overview*

Cash is the most liquid asset an organization has, therefore, internal controls are the strongest in this area. Most products and services are paid in advance for an event or before an item is shipped. Advertising and exhibit revenues are the exception. Vendors generally commit months in advanced and then they are invoiced. Even though we are an international association, all payments for goods and services are expected to be paid in US dollars.

## *Policy*

Cash receipts will be monitored very closely including separation of duties, periodic inspections, and reconciliation to the general ledger. Upon opening of the mail, all checks will be immediately restrictively endorsed to XYZ. In addition, those handling cash receipts will periodically take vacations and have backup personnel perform their duties.

## *Procedures*

### **Regular Cash Receipts Processing**

Cash receipts are centralized to ensure that cash received is appropriately directed, recorded, and deposited on a timely basis.

#### 1. Checks

All checks will come to a person independent of the capability of being able to alter the accounting system (inc. iMIS). The Mail Room Clerk has been designated as that independent person. The Mail Room Clerk endorses and totals all incoming checks and credit cards in which the totals are logged onto a spreadsheet. Checks are reviewed for date and payee to ensure that checks are made payable to the proper organization and that the date will permit the check to be cashed. On the remittance copy, the Mail Room Clerk will date stamp the remittance copy paid, circle the amount paid, record the check number, and make copies of the checks. Then the bank deposit slip will be prepared and

deposited at the bank (by the Staff Accountant) The daily cash remittance receipts (or copy of the check if a remittance is not provided) will then be given to the Accounting Assistant who will setup a batch (by receipt date) in iMIS and apply the cash or distribute the backup to various division for items that need to be setup. The Accounting Assistant will attach the bank deposit receipt and copies of the checks to the posted batch and file by date.

a. Lock Box - Lock Box receipts are delivered by US postal service or express mail to XYZ (last 3 days of the month). XYZ receives the deposit slip with the remittance receipts. On each deposit slip it reflects the following : the deposit date, a numerical listing of the checks and the check amount. The remittance slip references the corresponding numerical sequence in the deposit listing. The Accounting Assistant will setup a batch (by receipt date) in iMIS and apply the cash or distribute the backup to various divisions for items that need to be setup.

## 2. Cash

If cash is received, the same procedures will be followed as for checks and the remittance or order form will be noted that it was "paid in cash". Cash is then included with other checks for deposit to the bank.

## 3. Credit Cards

We accept Visa, MasterCard, and American Express. Credit cards may be processed by the lockbox, in house, off site registration, and web (cybercash). Credit card transactions are protected by our own security certificate that has 128 bit encryption. The certificate is renewed annually. Credit cards can be received by the lock box, and will follow the same procedures as checks deposited through the lock box. Credit Card orders are phoned, faxed or received by mail. The mailroom clerk stamps the date received, logs in the total and then forwards them to the Accounting Assistant. Every charge will be processed electronically through the credit card/merchant software. Every order should have the type of charge, name or company of cardholder, card number, phone number, expiration date, zip code and the signature or the name of the person authorizing the charge. Once the charge has been transmitted, the authorization will be recorded on the order. The Accounting Assistant will setup a batch in iMIS and apply the cash or distribute the backup to various divisions for items that need to be setup.

## 4. Wire Transfers

Occasionally, wires will be received for payment. The CFO will give bank notifications to the Accounting Assistant, who will setup a batch in iMIS and apply the cash or create a remittance form (if needed) and distribute the backup to various divisions for items that need to be setup. Wire transfers among accounts are authorized by two signatures and recorded by a journal entry to the cash account.

## **Cash Management**

### *Overview*

Cash management consists of several elements including timely collection of receivables and strategic timing of payment of bills.

### *Policy*

The operating account by nature will have the greatest volume of activity, therefore, it will be supervised closely with a series of checks and balances and monthly reconciliation of the account.

### *Procedures*

General Operating Account- The purpose of the operating account is to provide routine business disbursements and all regular deposits from external sources. XYZ will maintain one operating account. Checks will have two signatures by Mr. A, Ms B, Mr C and Mr D. Bills will be paid within the limits granted by vendor, but not aged to the point where XYZ will develop a reputation for slow paying (usually within 60 days or less). Deposits should be made the next day of receipt, if possible. The Staff Accountant will monitor the cash flow on a regular basis and notify the Chief Financial Officer to eliminate idle funds and to ensure that payment obligations can be met.

Reconciliation- Daily deposits received will be reconciled with the bank receipt listing to determine that all items received were included in the total amount deposited. Bank receipts listing will be reconciled to the amount posted in the computerized accounting/batch system. Cash accounts will be reconciled with the bank statement on a monthly basis. See section on "Bank Reconciliation" for more details.



Off-Site Collection at Convention- Admission badges are required to attend the educational sessions and trade show. Badges are restricted to only properly registered attendees to be granted access to the convention. Cash, checks and credit card payments may be accepted at the convention for payment of registration fees. The cashiers transactions are balanced daily and documented by one of the two Registration supervisors (usually CTO and CFO) All documentation associated with these transactions will be turned into the accounting department immediately after the convention. This documentation should include description or receipts of the cash received, the actual checks and credit card orders. Check deposits are then made by the accounting department following the procedures as outlined above. Credit card transactions are transmitted via "swipe" terminals. The use of the credit card terminals are limited to the Registration supervisors and cashiers. At the end of each day, the credit card sales are balanced, transmitted and then the terminals are cleared. The terminals and other valuable equipment are then disconnected and stored in a secured area overnight (or under the care of a security guard) in order to prevent unauthorized transactions. Large amounts of cash received (i.e. convention) is deposited at the hotel and applied to the master account balance. In transporting the cash, staff should seek another staff member to accompany him/her in route of securing the funds.

Foreign Exchange-Lockbox will not deposit foreign checks. They are forwarded to XYZ to be deposited at the local branch. Foreign checks are made on a separate deposit slip. In the event that checks are drawn on a foreign bank, the bank will convert the money and send a notice to the Chief Financial Officer when the conversion is made. A copy of the notice is given to the Accounting Assistant who will adjust their account to the amount of US funds received. If the exchange rate difference is greater than \$25 they will be re-billed for the difference. The original notice will be filed with the other bank reconciliation documents. Foreign checks payable in US funds are held by the bank and deposited when collected. They are recorded as miscellaneous credits by the bank.

## **Investment Management**

### *Overview*

The Investment Policy Statement has been adopted by the Board of Governors of the XYZ to provide guidelines of funds held by the Institute. The Investment Policy is to provide for future financial health of the XYZ through sound management of financial resources.

### *Policy*

The Chief Financial Officer monitors the funds and works with the investment firm, Bank of Securities, who actually manages the funds through various investment managers. The funds are divided into operating funds, short-term reserve funds and long-term reserve funds to meet the organization's needs and future goals. The Chief Financial Officer will regularly report the status of these accounts to the CEO, Finance Committee and Board of Governors.

### *Procedures*

As outlined in the Investment Policy (See Investment Policy attached), the following procedures will be followed to ensure the investment policy is consistent with the current mission of XYZ and accurately reflects the current financial condition of the company:

- 1) This investment policy and the investment firm's performance shall be reviewed annually (at the budget meeting) by the Finance Committee for any necessary revisions.
- 2) Recommendations for any revisions or modifications will be made by the Finance Committee and forwarded to the Board of Governors for approval.

It is anticipated that from time to time the services of a registered investment manager may be sought to manage portions of XYZ funds. The following procedure shall be allowed to engage a new or replace a current registered investment manager. The same procedure shall apply for both individually managed accounts and mutual funds (with the exception of money market mutual funds)

- 1) The Chief Executive Officer will recommend the hiring or replacing of an investment manager to the Finance Committee.
- 2) The Finance Committee will review and approve the candidate(s) and will report results to the Board of Governors.

## **Bank Reconciliation**

### *Overview*

Cash is the organization's most liquid and sensitive asset. Therefore, it should be the object of utmost control. A bank reconciliation is an important control factor.

### *Policy*

XYZ has a requirement that each cash account (savings, payroll, accounts payable, accounts receivable or miscellaneous), which has any activity, will be reconciled to the books regularly. The cash account will be reconciled monthly along with highly active accounts such as accounts payable and accounts receivable. Relatively inactive accounts will be reconciled quarterly.

Ideally, the reconciliation should be performed by someone that does not have access to the accounting system. Since that is not possible, the Chief Executive Officer opens and reviews the bank statement prior to the Staff Accountant performing the reconciliation.

### *Procedure*

Bank reconciliation is a tedious, yet effective internal control device that should not be overlooked. It should not be treated as strictly a clerical process.

- The Chief Executive Officer receives the bank statement directly and it will be unopened. All documents will be reviewed. A sampling of original backup up will be requested to support checks that have cleared.
- The Staff Accountant will prepare the bank reconciliation by verifying deposits on the iMIS transaction report and performing the check reconciliation function through the accounts payable module. The Staff Accountant will also run the check register and outstanding check list (located in reports under check reconciliation) to prepare the bank reconciliation. Any long running reconciling items will also be investigated.
- The Chief Financial Officer will review and sign off the bank reconciliation monthly.

## **Accounts Receivable**

### *Overview*

Accounts receivable is critical to the cash flow of an organization and requires continuous follow-up and attention. Responsibilities are clearly assigned for billing, collecting and accounting for accounts receivable.

### *Policy*

For most member orders and registrations, products are not shipped or services are not rendered until payment is received. Each department generates their own invoices as they process transactions through iMIS. There are two exceptions. Advertising is not billed until after the ad is run so that tear sheets may accompany the invoice. Due to the large dollar amount for exhibit booth sales, exhibitors may pay in two installments. With the use of iMIS, the booth space sales/ contracts are recalculated to ensure that all booth space sales have been properly recorded and accounted for. For any partial payments, the system will automatically generate an invoice for the unpaid balance. The accounts receivable balances are reviewed monthly by the Staff Accountant and past due notices are sent. The Chief Financial Officer will be kept informed of the aging of these invoices. An agency is used to collect on balances older than 90 days. Credit memos are limited to the control of the Chief Financial Officer. Positions in the accounting area are required to take vacation as backup personnel is used to perform their tasks in their absence.

### *Procedures*

#### **Invoicing (Dues, Advertising, Exhibits, All other)**

Majority of invoicing is generated and pre-numbered by the iMIS database. Invoicing is broken down into two categories:

- Permanent: Automatic billing is a means to invoice all dues, subscriptions, etc. on a cycle billing. Usually billed 30-60 in advance. These invoices are not recognized in income or on the balance sheet until payment is received.
- One-time: This type is used for requesting invoices for items such as meetings registrations, miscellaneous publications, etc. that will be billed one-time only. These invoices are recognized in income and are recorded on the balance sheet.

Whether permanent or one time the following information will be supplied:

1. Identification number of vendor/ corporation or an individual
2. Name of company or individual
3. Mailing address
4. Brief description of what is to be invoiced
5. Product code or pseudo account reference
6. Amount and quantity for invoicing
7. For dues, subscriptions or other items on cycle billing, give renewal dates

### **Accounts Receivable entry**

All invoices are entered into the sub-ledger (iMIS) with an off-setting revenue account classification. The system is designed for someone with limited accounting knowledge and relies heavily on the original setup to operate accurately. The Staff Accountant will review the summary of entries prior to exporting into the accounting system to ensure the appropriate accounts are entered. The Staff Accountant and Chief Financial Officer review the accounts receivable balances and transactions monthly.

### **Collection Procedures**

1. Dues/ Subscriptions collection procedures

Dues are generated automatically by the iMIS system, which will generate based on an internal accounts receivable aging report. Customers with unpaid bills will receive statements every thirty days. After sixty days a second invoice will be issued, after 90 days a final notice will be sent notifying members that their membership will be terminated unless payment is received. If payment is still not received over the next 30 days, they will then be eligible to be placed in

"former member status". These procedures are under the direction of the CTO.

## 2. Other Receivables Collection procedures

XYZ will follow the same procedures as for dues collection. However, invoices not paid within 90 days will be reviewed with the department director or manager of sales of the account. At times a payment plan will be arranged. All others will be forwarded to a collection agency. When the item is determined to be uncollectible, the receivable will be taken off the books and corresponding income in the account or allowance for doubtful accounts adjusted appropriately. Write offs will be approved by the Chief Financial Officer in conjunction with approval from the CEO.

### **Reconciliation**

At month-end closing, an accounts receivable schedule is prepared and reviewed and reconciled with the balance of the general ledger. The iMIS trial balance report (a list of all outstanding invoices) is compared to the general ledger for accuracy.

### **Bad Debt Procedures**

An appropriate allowance for bad debt is budgeted for advertising each year. Every attempt is made for collection. Every six months and at year end it will be determined if items are uncollectible and written off under the Chief Financial Officer. The Chief Executive Officer and Board of Governors will be made aware any bad debt exceeding budget.

## **Purchasing**

### *Overview*

Purchases of small items are initiated by the individual departments. All capital purchases (more than \$1,000) are to be made in accordance with the capital budget and are purchased by the CTO and pre-approved by the CEO

### *Policy*

A purchasing system is in place to help facilitate the purchase of supplies, equipment and services at the lowest reasonable cost. In support of the Governance Policy, the Chief Executive Officer and Directors may not make any purchases or commit of the organization to any unbudgeted expenditure greater than \$5,000 or operate without prudent administrative controls on procurement. In addition, the organization is not allowed to acquire, encumber, or dispose of any real property. Furthermore, the Chief Executive Officer or Directors may not obligate the Association to expend funds in years beyond the current fiscal year, unless such funds have been approved by the Board for budgeting in a future year (with the exception of hotel contracts) or the current XYZ Budget includes the prorated annual portion of the obligation (a vehicle lease, computer consulting, etc)

### *Procedures*

#### **General Supplies and Expensed Equipment**

To maximize on discounts, the majority of the administrative supplies and equipment are centrally purchased by the CTO. Office supplies are replenished weekly based on an order request form. Upon delivery, all orders are verified for proper contents. The CTO determines when new equipment is to be purchased and coordinates any additional help in installation or setup.



**Furniture and Equipment**

All capital purchases for XYZ will be made from a board approved budget. The CTO determines when new equipment is to be purchased and coordinates any additional help to installation or setup. Upon delivery, all orders are verified. When furniture and equipment are received (for both capitalized and expensed items), the Chief Technology Officer (CTO) will see that it is tagged and that tag number is referenced on the invoice. All capital equipment purchases over budget will be approved by the CEO. The Chief Financial Officer will be advised of all capital purchases.

**Contract Review**

Staff with the appropriate authority may negotiate contracts for lease or purchase of capital equipment provided funds are available in the budget. The Chief Executive Officer or Directors are authorized to sign contracts and will determine if they should be reviewed by general counsel before signing. Accounting will receive a copy of all contracts and letters of agreement.

**Consulting / Professional Service Agreements**

Staff with the appropriate authority may negotiate contracts for consulting and professional services provided funds are available in the budget. The CEO will sign all contracts and will determine if they should be reviewed by general counsel before signing. In the case of hotel contracts for future budgets, the CEO, Chief Financial Officer and the Finance Committee will be advised. Accounting will receive a copy of all contracts and letter agreements.

## **Asset Management**

### *Overview*

To ensure the viability and continued operations of XYZ, it is essential that the association protect and maintain its assets. It is prudent to have an active risk management program that includes a confidentiality agreement, inventory procedures, comprehensive insurance coverage, record retention guidelines and a disaster recovery plan.

### *Policy*

Upon hire, all employees are required to sign a confidentiality agreement as a condition of employment. There are two agreements: one for director level and one for all other staff. Employees who improperly use or disclose confidential information are subject to disciplinary action up to and including termination of employment and legal action, even if they do not personally benefit from the disclosed information. Inventory of furniture and equipment is tagged and maintained through out the year. XYZ maintains adequate insurance for its staff, volunteers and Board of governors against general liability as well as coverage for recovery of damages to building, furniture and equipment.

### *Procedures*

#### **Information**

The CTO will see that each employee has signed a confidentiality agreement and will update the agreement as necessary. The CTO is responsible for purchasing, installing and coordinating training of software affecting the network. The Administrative division is also responsible for maintaining and providing access or reports through the central database. In addition, he will also see that information is protected through anti-virus software, power surge protection, firewalls and that backups are performed each day and the most current copy of data is

kept offsite (at the MIS coordinator's home). The last thirty days worth of backup data will be kept onsite in a fireproof safe. XYZ will also keep an inventory of authorized software and see that it is stored in a secured location. Likewise, XYZ will monitor any unauthorized installation to the local systems.

### **Inventory**

Physical assets acquired in excess of \$1,000.00 will be capitalized as fixed assets on the financial statements and depreciated over the life of the asset. Fixed assets are physical or tangible assets that are used in the normal operations of the business, that are not held for resale, and that have a useful life of more than one year. These assets are accounted for at a historical cost and all assets, except land are subject to depreciation.

Establishment of a Fixed Asset Listing All purchased equipment and furniture having a useful life of more than one year and an acquisition cost of \$1,000.00 or more come under the definition of non-expendable property. A record of all non-expendable property is to be maintained in a property log showing date of purchase, purchase value, a complete description of the item (including color, size, model and serial number), tag number and specific department location. All XYZ property will be tagged upon receipt and the assigned numbers recorded on all applicable documents pertaining to the property control system. When a fixed asset is purchased, the fixed asset account is debited and the cash account is credited. The backup documentation will include amount of value of the asset, date purchased, date delivered, inventory tag and chart of account number.

### Depreciation

For financial purposes, all tangible personal property with a useful life span of more than one year and a unit acquisition cost of \$1,000.00 or more shall be capitalized and depreciated over its useful life using the straight-line method of depreciation. All computer software with an aggregate or "whole package" purchased cost of \$1,000.00 or more will be capitalized and depreciated as well. All capitalized assets shall be maintained in the special fixed assets account group and are not to be included as an operating expense. Computer equipment (inc. printers and copiers) will be depreciated over 3 years, furniture will be depreciated over 10 years and all other assets will be depreciated over 5 years.

Dispositions In the event a non-expendable asset is sold, scraped, donated or stolen, adjustments need to be made to the fixed asset listing and property log. If money is received for the asset then the difference between the money received and the "book value" (purchase price, less depreciation) of the asset needs to be entered in the financial statement as a gain if the money received is more than the book value.

Annual Inventory Every year (usually in Jan) XYZ will conduct a review of all capitalized assets. The accounting department will generate reports of the previous year's capital assets and current year procurement. Assigned staff will create an inventory list of all items located in the XYZ facilities. The list will note the inventory numbers on each piece of equipment and furniture or lacking an inventory number, a description of the item and the purchase date. In addition, the list will specify the room in which the items are located and the unit using it. Furniture or equipment that is not accounted for in the inventory shall be deleted from the inventory records.

Once the inventory is completed it will be compared with the asset listing from the accounting records (i.e., the property log or the fixed asset ledger). If discrepancies are noted, the Staff Accountant will investigate and report the differences in the two lists to Chief Financial Officer.

Reconciliation The items from the physical count should be reconciled to the fixed assets sub-ledger which should be reconciled to the general ledger. Adjustments will be recorded as appropriate.

Write Offs The CTO will approve the disposal of all inventoried items that may be worn out or obsolete. At the time of disposal, the tag will be removed and given to accounting to be taken off the books.

Property that is discovered to be missing or stolen will be reported immediately to the CTO who will then determine if a claim needs to be filed with the insurance company. If not located, this property will be written off the books with the proper notation specifying the reason.

### **Insurance**

The CTO will ensure the insurance policies for XYZ are current and are effective in limiting the exposure to losses due to theft, casualty losses or against liability losses to the board members, staff or the organization its self. In addition, the CTO will annually review the event cancellation for the major convention / trade show event to minimize exposure to losses based on projected revenue and location. The CTO will select and renegotiate policies as necessary with the consensus of the CEO.

As a guideline, XYZ will consider the following types and levels of insurance as a minimum, either for themselves and/or their subguarantees or subcontractors in their risk management program. (See actual schedule attached)

<u>Type of Coverage</u>	<u>Amount of Coverage</u>
Commercial Umbrella	\$5,000,000
General Liability	\$2,000,000 (aggregate)
Event Cancellation	\$1,650,000
Automobile for Employees, or Volunteers/Travel	\$1,000,000
Fire or Water Damage	\$300,000 \$347,000 (contents)
Assn. Professional Liability	\$2,000,000 (with an adequate deductible level)
Fiduciary Liability	\$1,000,000
Crime	\$140,000 (employee dishonesty)
Workers Compensation	\$100,000 per accident

**Record Retention**

XYZ creates a wide variety of records for both internal office use and external uses, such as Board, Committee and task force meetings and communication with members. This policy identifies key records and describes the retention periods for hard copy and electronic forms of these records. This policy will help ensure that XYZ maintains essential records for tax, audit, and historical purposes, while providing for the systematic destruction of documents based on government record keeping requirements and business needs. Retention of records that are not otherwise necessary to conduct business is both expensive and inefficient and could expose the Association to legal challenges based on outdated or irrelevant materials.

Generally, documents should be retained only so long as they are 1) necessary to conduct XYZ business; 2) required to be kept by statute or government regulation; 3) Relevant to pending or foreseeable investigations or litigation. Generally, drafts of documents should be destroyed after the document is in final form.

Courts make no distinction between electronic (e.g., email) and paper documents when ordering the production of discovery. Therefore, this Policy applies to all documents records, in whatever form, unless otherwise specified. In the event of an official or suspected investigation, employees need to stop any document purging order to avoid criminal obstruction.

All records should be written with the expectation that they may be read by persons other than the intended recipient. Thus, all documents should be drafted in a courteous and professional manner.

This Policy also provides that confidential or privileged documents remain protected from disclosure. Confidential records should be distributed on a “need to know” or “as needed” basis. Communication containing legal advice should be marked “Confidential and Privileged” and clearly identify the authors or recipients as lawyers. Employees, officers, or directors should not redistribute documents containing privileged attorney-client information without specific authorization from the attorney.

Documents should not be retained past the designated times set forth in this Policy. In addition, all paper and electronic files should undergo periodic review by staff annually to ensure compliance with the Policy. Therefore, the Policy should be distributed to staff annually as a reminder.

### XYZ Records Retention Schedule

	<u>Retention Period</u>		<u>Retention Period</u>
Accident reports/Claims (settled Cases)	Permanently- (7 yr after settled)	Internal Monthly Financial Reports	7 Years
Accounts payable ledgers and schedules	7 Years	Invoices (to customers, from vendors)	7 years
Accounts receivable ledgers and schedules	7 Years		
Audit reports	Permanently	Minute books of directors (regular /executive sessions)	Permanently
Bank reconciliations/ Bank Stmts/Deposit Receipts	7 Years	Mission Statement/ Organizational charts	Permanently
Board Policies/ Books	Permanently	Payroll records and summaries	10 Years
Checks (canceled*)	7 Years	Personnel records active (terminated)	Permanently (7 Years)
		Physical inventory tags	Permanently
*Canceled for important payments, i.e., taxes, purchases of property, special contracts, etc. Checks should be filed with the papers pertaining to the underlying transaction	Permanently	Property records, including costs, depreciation reserves, year end trial balances, depreciation schedules, blueprint and plans	Permanently
Contracts, mortgages, noted and leases		Retirement and pension records	Permanently
Expired	7 years	Sales Records.	7 Years
Still in effect	Permanently	Task Force minutes/ correspondence	3 years (after Task Force is terminated)
Corporate Documents: Certificate of Incorporation/ Bylaws / charters/ Articles of Inc.	Permanently	Tax returns and worksheets, revenue agents reports and other documents relating to determination of income tax liability	Permanently
Correspondence General (public)	1 year	Time books/cards	7 Years
Legal and important matters only	Permanently	Trademark registrations and copyrights	Permanently
Routine with customers/ Members/prospective mbrs	2 years	Training manuals	Permanently
Deeds, Mortgages and bills of sales	Permanently	Voucher registration and schedules	7 Years
Depreciation Schedules (purchases/disposals)	Permanently	W2	Permanently
		Workers Compensation documents	10 Years
Employment applications/resumes hired (not hired)	Permanently (3 years)	Budgets	7 Years
Expense analyses/expense distribution schedule	7 Years	Committee membership lists	10 Years
Financial Statements Year End	Permanently	Committee minutes/correspondence	3 Years
Garnishments	6 Years		
General ledgers/year end trial balance	Permanently		
Insurance Policies Active (expired)	Permanently (10 years)		
Insurance records, current accident reports, claims, policies, etc	Permanently		

## Disaster Recovery Plan

In the event of a disaster, such as a fire or tornado, that would prohibit XYZ from operating at its present headquarters the following plan would be implemented:

1) The Chief Executive Officer would maintain an information channel by contacting the directors who would in turn contact their immediate staff.

2) The Chief Technology Officer would report the incident to the Insurance Company. In addition he would coordinate with the Chief Executive Officer and Chief Financial Officer a temporary location and required equipment.

3) If possible, the Chief Technology Officer would install the database structure that is secured in a fireproof safe on site. Otherwise, through insurance coverage, he would repurchase the necessary software to rebuild the database structure. The offsite backup of information would then be installed.

4) Members would be notified of temporary arrangements through a Broadcast fax. Phones would be redirected to the temporary location.

5) Each director would be responsible in obtaining copies of key records (i.e. contracts, bank reconciliation's) to rebuild their departments.



## Accounts Payable / Disbursements

### *Overview*

XYZ strives to maintain efficient business practices and good cost control. A well managed accounts payable function can assist in accomplishing this goal from the purchasing decision through payment and reconciliation.

The primary objective for accounts payable and disbursements is to ensure that:

- 1) Disbursements are properly authorized
- 2) Invoices are paid in a timely manner
- 3) Vendor credit terms and operating cash are managed for maximum benefits

### *Policy*

Accounts payable are processed weekly. Information is entered into the financial accounting system from approved invoice vouchers/check request with all appropriate documentation attached. Disbursements are reviewed for accuracy by the Chief Financial Officer prior to processing. Reports are produced and reviewed by the Accounting Assistant. Outstanding balances are reviewed monthly by the Staff Accountant in preparation of the monthly schedules. All checks require two signatures and authorized check signers will never sign blank checks.

### *Procedures:*

#### **Processing Vendor Invoices**

Invoice Flow: Invoices are opened by the Mail Room Clerk., stamped with the date, and then forwarded to the director or manager that ordered the product or service. Once authorized, it is forwarded to the Staff Accountant for payment. All vendor statements are distributed and investigated by the Staff Accountant.

Voucher Preparation: In order to be processed, invoices will be examined for a reference date, proper authorization, and appropriate account coding. If applicable, the purchase order is attached to the invoice. Invoices are checked for accuracy and duplication. The accounting system will issue a warning for duplicate invoice number and amounts for a vendor. Only original invoices (not statements) will be processed unless duplicated copies have been verified as unpaid by researching the vendor records. For check request, appropriate documentation must be attached to support the amount requested as well as having supervisor's approval. Refunds are generated by each individual department and are processed on a check request form indicating the reason for refund and the original payment information. Travel and expense reimbursements are processed on a XYZ Expense Report or Leadership/ Volunteer reimbursement form in accordance with XYZ's travel reimbursement guidelines. There are no corporate charge cards, each individual is responsible for submitting their own expenses. Expense reports are to be submitted within 30 days upon return of travel. A prior travel advance must be settled before a new advance can be obtained. Expense reports are inspected for correct calculations, authorizations, receipts, appropriate/reasonable reimbursements and for account coding. All Director expenses are approved by their supervisor, likewise, all Chief Executive Officer expenses are approved by the XYZ President. All Leadership/Volunteer expense reports are approved by the Director hosting the meeting or event. In the absence of an immediate supervisor, the Chief Executive Officer. Director may approve expense reports.

Accounting System Input: Invoices are batched for accounting input by fiscal period (the previous period must be closed before proceeding to the current period).The following information will be entered as prompted by the system:

- a. Batch number (system generated)
- b. Batch Handling (Release later)
- c. Batch Control Total
- d. Period to Post
- e. Vendor ID
- f. Invoice Number
- g. Invoice Date
- h. Invoice Amount

- i. Invoice Paydate
- j. Taxes, if applicable

Once the batch edit has been reviewed, the batch is then released and is posted to the general ledger.

### **Check Preparation**

Invoices are aged and selected for payment. Invoices due dates are entered into the accounts payable system and a batch is prepared for a range of due dates. The accounts payable system will then generate the appropriate check. For multiple invoices with a single vendor, only one check will be generated. The Chief Financial Officer is made aware of any unusually large check batches that may require a transfer of funds to the operating account. The checks are matched with the appropriate documentation before presenting checks to authorized signers for a signature. All checks and wire transactions require two signatures. It is the preference to have Ms B and Mr. C sign all checks. In the absence of one of the signers, Mr. A may sign as the second signer. All check stock is controlled by the accounting department and is stored in a secured location. All checks are pre-numbered and are in multiple parts. The bottom portion of the check is separated and attached to the documentation to cancel the invoice.

#### Payment Terms:

Checks are processed weekly in 30 day payment cycles from invoice date or date received. Payment may be made within a shorter period when cash discounts are taken for prepayment or vendors require shorter credit terms.

#### Rush/Special Handling

Rush check requests should be kept to a minimum and should be reasonable.

## **Void/Stop Payment**

### Voided Checks:

Checks may be voided for processing errors by making proper notation in the cash

disbursement journal, check register and defacing the check by writing "Void" and filed.

The voided check should be processed through the accounts payable module under "Void

Check" to automatically reinstate the original voucher. Use "Voucher and Adjustment Entry" to

void the voucher if necessary.

### Stop Payments:

Stop payment orders may be made for checks lost in the mail or other valid reasons. Stop

payments are processed by electronic authorization to the bank by the Staff Accountant or Chief

Financial Officer. An entry is made through accounts payable to record the stop payment and

any bank fees are recorded in the general ledger.

## **Petty Cash**

Disbursements of small amount of cash may be made from the petty cash fund for minor

expenses such as metro fare or photo development. A petty cash voucher is completed and signed

by the individual requesting the funds. Vouchers will be initialed by the CTO. The voucher and

supporting documentation will remain in the petty cash box until the cash is replenished.

Periodically the CTO will submit a reconciliation/ check request to replenish the balance to \$200.

Petty cash is used primarily for expenses of \$40 or less. All greater expenditures should be

submitted on a expense reimbursement form and through the normal accounts payable process.

On occasion, the Chief Financial Officer will audit the petty cash box to determine if receipts paid

out plus cash on hand equal the amount in the petty cash fund.

**1099's**

Consultants (independent contractors) and freelancers receive payment through the 1099 system within the accounts payable processing. Vendors that need to receive a 1099 are noted when setting up a vendor. A W9 form will be mailed to request vendor identification number. 1099 forms will be processed by the Staff Accountant and will be mailed to the vendors no later than January 31st as directed by the IRS.

## **PAYROLL**

### *Overview*

Payroll is the compensation given to individuals at XYZ for work or services provided to the organization. Compensation is based on the individual's position and the contribution to the achievement of the organizational goals and objectives. Employees are identified as to exempt and non-exempt and are paid in accordance with applicable law. All employees are paid semi-monthly on the last day of the pay period (the 15th and the last day of each month). The Chief Executive Officer is the only employee under contract.

The Chief Technology Officer transmits payroll information electronically to an outside payroll service. Furthermore, the Director ensures that employees are compensated as approved and that applicable federal, state and local withholdings are deducted from gross wages. Additionally, detailed records are maintained to support tax deposits required for the withholdings mentioned above plus FICA (Social Security), FUTA (Federal Unemployment), and SUI (State Unemployment Insurance). The Chief Financial Officer reviews, on a quarterly basis, the year to date information presented on the wage reports prepared by the outside payroll service.

### *Policy*

All new employees are to be hired by the Chief Executive Officer. The Chief Technology Officer will see that a "New Employee/ Payroll Change Form" is submitted as well as W-4, state withholdings and proper identification are filed. All Payroll Change Forms will be approved by the Chief Executive Officer before being processed in payroll and the Chief Financial Officer will receive notice of any changes. Time sheets are expected to be turned in on the first day after the end of the pay period. The appropriate withholdings and other related payroll tax forms will be prepared and paid in accordance with guidelines established by federal, state, and local taxing authorities by the payroll service. All changes in any employee's payroll status will be reported on a timely basis

along with the appropriate approval signatures. Payroll advances are at the discretion of the CEO. Payroll advances may be given under the following conditions: 1) it is for extreme need 2) the amount is paid in full by the next pay period, 3) the amount is not to exceed one pay period. No other personal loans will be granted to employees.

#### *Procedures*

#### **Authorization/Processing**

1) New employees and payroll changes will be entered into the system once a "New Employee/Payroll Change Form" has been authorized for payment. In addition, all check request for commissions and bonuses will also have proper authorization of the Chief Executive Officer, Department Director, and the Chief Financial Officer. The W-4 forms and state withholding forms on file will support what is reported in payroll. In the event that an employee claims more than 10 exemptions on the W-4 form, a notice from the payroll service will be sent to the IRS.

2) All XYZ employees are required to maintain and submit time sheets on a semi monthly basis. Time sheets are used to allocate payroll expenses to the appropriate departments, determine the number of hours for which a part-time employee is paid, validate a nonexempt employee's eligibility for overtime pay, and to record leave and other absences.

Time sheets for managers, nonexempt and part-time employees are signed by the employee and their supervisor, and submitted to the CTO within three days after the end of the pay period. The CEO/ Directors sign and submit time sheets to the CTO for review of appropriate leave and for time allocation input.

3) Overtime compensation is paid to all non-exempt employees in accordance with applicable law. Overtime pay is based on actual hours worked over 40 hours at base rates plus amounts required by law. Time off for sick leave, vacation leave, holidays, or any leave of absence will not be considered hours worked for purposes of performing

overtime calculations. A work week begins on Sunday and ends the following Saturday.

Overtime must be authorized in advance by the employee's supervisor and approved by the Chief Executive Officer or Chief Financial Officer before any overtime hours may be worked. Employees may be disciplined for working overtime without receiving prior authorization.

4) The day after the information is transmitted to the payroll service, the payroll service will provide detail reports and the checks with signature or direct deposit receipts. CTO will review the accuracy of the payroll and will reports any inaccuracies to the payroll service to rectify.

5) Upon completion of the established payroll cycle for the appropriate time periods, the person in charge of payroll will ensure that all withholdings tax liabilities have been satisfied and all of the appropriate tax reports are filed within the guidelines for all federal, state and local taxing authorities. Generally, the following will be completed at the appropriate time period and provided by the payroll service:

- Complete and file a Form 940 once every quarter. Send payment for any tax deficiencies.
- Complete and file a Form 941 once a year (as specified by governing laws). Send payment for any tax deficiencies.
- Complete proper tax deposit forms for appropriate taxing agencies and forward with payments depending on the payroll period (semi-monthly, quarterly, and /or annually)
- Complete the proper unemployment insurance forms and submit to the appropriate taxing authorities. Send payment for appropriate amount with the completed forms within the guidelines prescribed by proper taxing authorities.
- W-2 forms will be prepared each year and distributed to employees by January 31st.



**Internal Controls**

Once the payroll is prepared, it will be reviewed and approved by the appropriate management to ensure its accuracy and validity. The CTO oversees the following:

- Payroll software is limited to one work station and requires a password to access.
- Payroll registers are kept in a secured file and is made available to appropriate management to ensure payroll validity. Payroll variances will be reviewed by the appropriate level of management on a monthly or quarterly basis.
- Payroll checks will be delivered in person to each employee by the CEO or CFO. Any checks not delivered will be held in safe keeping until they can be delivered. Individual payroll checks will be mailed only if the employee requests it or if the employee is terminated.

**Reconciling**

Each payroll is verified for accuracy before the checks/ receipts are distributed. Monthly, payroll is reconciled to the general ledger through the bank reconciliation process. All records are maintained by the CTO.

**Allocation**

At year end, all the time sheets are consolidated to determine the distribution of overhead expenses and to be used as a factor in the unrelated business income tax liability calculation.

## Statements Processing

### *Overview*

Preparing financial statements and communicating key financial information is a necessary accounting function. Statements are management tools used in making decisions. In monitoring the success of financial objectives and as a standard method for providing information to interested parties internal/external to the organization. Monthly statements are prepared for internal use only. While annual audited statements are provided to the membership, and also may be used by outside creditors or governing bodies.

The "Statement of Activities" (commonly known as the income statement) is represented, according to program revenue and cost centers for a particular period. XYZ takes another view of financial activities through its "Statement of Activities by Function." It provides a detail of each revenue and cost center by line item as compare to the budget. A "Statement of Financial Position" (commonly known as the balance sheet) presents the assets, liabilities and surplus, (net assets) as a financial "picture" of an organization as of a particular date.

In designing and distributing statements and reports some items to consider are:

- Confidentiality
- Provide clear, accurate information
- Identify an audience to determine the level of detail
- Frequency of distribution
- Usage of variances, foot notes and graphics

### *Policy*

The objective of DHI is to prepare accurate financial statements according to GAAP and distribute them on a timely basis in the most cost effective manner

*Procedure*

The following is a linear responsibility chart. Symbols are used to indicate who performs the initial work, supervises and approves.

	<u>Accounting Assistant</u>	<u>Accountant</u>	<u>CFO</u>
Establish Chart of Accounts			F
Prepare Statements			F
Prepare Journal Entries		F	R
Close Books	F (A/R)	F (G/L)(A/P)	S
Prepare Trial Balance		F	R
Reconcile Accts/Batches	F (A/R)	F (G/L)(A/P)	R
Prepares Budget Variance Highlights/ Summary Rept.			F
Distribute Final Statements			F
Function Responsibility (F)	Supervises (S)	Reviews (R)	

All subsidiary accounts are to be reconciled to the general ledger. If any material errors are detected, adjustments are required.

**Journal Entries**

Journal entries will occur in three methods: 1) Some transactions will be generated by iMIS (or Accounts Receivable) and imported into the General Ledger module. 2) Other transactions will occur through the Solomon Accounts Payable module and will automatically post to the General Ledger. 3) Lastly, journal entries will be made directly to the general ledger at the end of the month to properly reflect expenses and income according to GAAP.

**Accrual Processing**

In order to match expenses and income appropriately, XYZ will recognize these items as

they are incurred and earned. Therefore, according to the appropriate schedule, income and expenses are recognized and recorded through journal entries on a monthly basis (depreciation, vacation, accrual, audit fees).

### **Closing**

After the subsidiaries ledgers have been reconciled to the general ledger and the statements have been distributed, the general ledger will be closed for the month. At year end, the general ledger will not be closed until all Directors have had the opportunity to review their division from a financial draft. After all adjusting auditing entries (including tax entries) have been entered and final reports have been issued, then the Staff Accountant will close the general ledger for the year. A new year may be opened and beginning balances will be updated once the previous year has been closed.

### **Preparation of Statements/ Reporting**

After statements are prepared and reviewed, the Chief Financial Officer will forward a copy to the Chief Executive Officer for review. Monthly, XYZ Management Team and Finance Committee will receive the financial reports. Quarterly the Board of Governor's will receive financial reports. The financial reports will include a memorandum of financial highlights, the Statement of Financial Position, Statement of Activities, Statement of Activities by Function, and a report of Allocated Expenses. In general, members may request to have a copy of the last three year's of the association's 990's and/or a copy of the audited financial statements. A member may be given access to further information depending on the nature of the information requested and in compliance with state and Federal regulations.

## **Strategic Planning**

### *Overview*

The strategic plan is to provide XYZ with long-term direction (3 to 5 years) and to provide the basis for the current year's budget. The strategic planning process involves XYZ management, a Strategic Planning Committee and the Board of Governors. Strategic Planning involves a three-step process:

- 1) Developing the organization's mission and goals by defining the business and establishing major goals
- 2) Formulating strategy to achieve those goals by analyzing current situations and identify any threats and future opportunities to the industry
- 3) Implementing a strategic plan by allocating resources and responsibilities to achieve the goals and objectives of the organization

### *Policy*

The Chief Executive Officer will initiate the Strategic Planning process, will monitor it throughout the year and will give periodic progress reports to the Board of Governors. The Strategic Planning Committee will be appointed by the XYZ president and will be chaired by the XYZ vice president. It will be comprised of a minimum of seven members with three year staggered terms.

### *Procedures*

#### **Research**

Research will be performed throughout the year by the use of subgroups and XYZ staff to identify strengths and weaknesses in the industry as well as new business challenges. The groups will look at influencing factors to the industry such as the changes in technology, regulations and the economy. The information will be compiled and presented to the Strategic Committee.

**Plan Development**

The Strategic Committee will determine if XYS's vision, purpose, and mission statements are appropriate. In addition, the Strategic Committee will establish a set of goals and objectives with the aid of XYZ staff, the Board of Governors and the possible use of an outside strategic planning facilitator. The Board of Governors will give final approval of the plan.

**Implementation**

XYZ staff will implement the plan under the direction of the CEO. XYZ Staff will develop strategies and tactics to achieve the goals within a reasonable time line. The final plan will be submitted to the Board of Governors. The Chief Executive Officer will report the progress or any delays that may occur though out the year, to the Strategic Committee and Board of Directors.

## **Budgeting**

### *Overview*

Budgeting is an integral part of any organization in that it is concerned with the translation of organizational goals and objectives into financial and human resource terms. Although accounting and budgeting both relate to sources and uses of funds, accounting is concerned with the current and past fiscal events while budgeting focuses on future events.

The budget is designed and prepared to direct the most efficient and prudent use of the organization's financial and human resources. A budget is a management commitment of a plan for present and future organizational activities that will ensure survival. It provides an opportunity to examine the composition and profitability of organization's programs and activities simultaneously in light of the available resources.

The budget is prepared on an accrual basis, recognizing only the income earned and expenses expected to incur for a given fiscal period. The budget is prepared to support the strategic plan. The Chief Financial Officer coordinates the budgeting process and the investment performance drives the annual contribution to reserves. Input is provided by the CEO, Directors and Managers. The budget is developed annually and is presented to the Finance Committee and then to the Board of Governors for approval.

### *Policy*

The budget will be designed to meet the organizational goals and objectives as well as meeting the required reserve policy as set forth in the Board of Governor's manual. The reserve policy requires the Association to strive to maintain cash reserves equivalent to twelve months operating expenses. To maintain the level of reserves the yearly contribution will be driven by the result of the investment performance. The investment income will not be incorporated into the current operating budget. Under the guidance of the Board, XYZ is not to commit or expend beyond the current year's approved budget (with the exception of booking meeting space and

lease commitments). Simultaneously to the operating budget, a capital budget will also be prepared for the acquisition of fixed assets that will benefit the organization beyond the current year. The budget will be compared to actual performance throughout the year and the Board of Governor will be kept informed of significant variances.

#### *Procedures*

- 1) The Chief Executive Officer and Chief Financial Officer will establish guidelines, priorities and assumptions (based on the Strategic Plan and reserve guidelines) for preparation of the budget. These assumptions will be communicated to all Directors. In addition, procedures, budgeting formats and a time table will be developed.
  
- 2) Each Director will prepare their projections of revenues and expenditures for planned services, projects, and programs. The person responsible for the budget preparation will also consider historical data along with future growth plans. The director will also factor in any shifts or adjustments to staffing levels (including salaries, fringe benefits, equipment and space) to meet the required activities. The activities can be ongoing or new. Each dollar must be justified and broken down by account numbers in which the dollars will be allocated. The divisional programs are then submitted to the Chief Financial Officer.
  
- 3) The Chief Financial Officer and Chief Executive Officer will meet with all Directors on an individual basis and review their divisional budget.
  
- 4) The CFO will consolidate and incorporate all the divisional budgets into a total organizational budget. The CEO and CFO will meet with the management team to make revisions based on priorities.



- 5) The CEO and CFO will present the proposed budget to the Finance Committee for any revision. Revisions will be made for a final budget to be presented to the Board of Governors.
  
- 6) The Finance Committee chairman, with assistance of the CEO and CFO, will submit the organizational budget for approval. Once approved, it will be distributed to all Board of Governors and XYZ management team.
  
- 7) Once approved, budget revisions should be infrequent. In the event an unforeseen event or material activity was to occur, the revisions would be communicated to all parties involved. The Board would need to approve the revision and a new budget would be distributed.

#### Internal Controls

Once the budget is approved, XYZ management is to implement the budget plan. Monthly variance reports will be prepared and submitted to the XYZ management team as well as the Finance Committee. Explanation of budget variances will accompany the analysis. Once a quarter or at midyear review an account analysis will be prepared to analyze and predict the future course compared to the budget.

## **Government Returns/Due Dates**

### *Overview*

To legitimately conduct business, XYZ is aware of its obligations and will comply with the requirements of the federal, state and local jurisdictions. These may include, but are not limited to, filling annual reports for corporations, income and sales tax returns, information reports for retirement benefits, personal property, and payroll withholding tax returns.

### *Policy*

XYZ will file the required reports, filings and the payment of taxes on a timely basis. If necessary, XYZ will take the appropriate steps to file an extension of the due date.

### *Procedure*

The following page is a current list of required reports and their respective due dates.

## **Annual Audit**

### *Overview*

An audit is a review of the company's financial condition by an independent organization to render an opinion on the integrity of the organization's finances. The audit is conducted on an annual basis. XYZ management will determine if all or parts of the audited report will be reported to the membership in the annual report.

### *Policy*

The role of the Audit Committee is to 1) receive the audit report for submission to the Board of Governors and 2) be available to receive reports of fraud or financial misconduct from anyone in the organization and 3) to independently oversee the financial activities as set out in the governance policies of the Association and 4) to select an audit firm and receive a copy of the audited financial statements. In addition, the committee will request the auditors to concentrate on specific areas and provide a written report back to them. Once the audit is completed, the Audit Committee is to meet with the audit manager and staff and then report to the Board of Governors. A copy of the special concentration report and minutes of the Audit Committee will be kept with the XYZ attorney. When selecting a new auditor, as per the Governance Policies, XYZ shall not enter into a contract for more than three (3) years in length. At the completion of each audit the Chief Executive Officer and Chief Financial Officer will certify the audited financial statements as a matter of practice.

### *Procedures*

#### **Selecting an Auditor**

In selecting an auditor, XYZ's CEO, Chief Financial Officer and the Audit Committee will:

1. Talk to peers for recommendations
2. Seek one that understands and has experience with not for profit organizations
3. Seek one that can provide the services DHI requires.
4. Seek one that has open communication to DHI staff throughout the year

5. If XYZ decides to prepare a written Request for Proposal (RFP) to be sent to prospective audit firms, the following information will be included:

a. Determine firms to be sent RFP

b. Minimum informational requirements XYZ will give to proposing firms:

- Period of services required.
- Type of contract to be awarded (fixed fee, cost basis, etc)
- Possibility of receiving off season rates for the audit
- Work to be performed such as:
  - Audit of financial statements
  - Preparation of management letter including the firm's willingness to discuss the letter in draft form so any misconceptions can be clarified
  - Prepare of tax documents (such as 990)
  - Meetings requiring their attendance such as audit committee meetings, Board of Directors meetings
  - Assist in development of special area of concentration
- Organization Chart
- Chart of account information
- Financial information about the organization
- Copy of prior year reports (financial statements, management letters and other relevant documents)
- Other information as appropriate

c. Minimum Proposal Requirements

- Maximum length of proposal and due date
- Biographical information
- Client references
- Information about the firm's capabilities
- Firm's approach to performing an audit
- Identification of the engagement team
- Other resources available with the firm
- Expected timing and completion of the audit
- Expected delivery of reports
- Cost estimate including estimated number of hours to be spent by the engagement team on the job
- Rate per hour of each auditor
- Other information as appropriate

- d. Review proposals. When RFP's are narrowed down to the top selections, DHI and the Audit Committee will interview several (2-3) engagement teams to discuss their proposals.
- e. Evaluate top proposals and determine firm to be selected. A letter will be sent to all firms informing them of the decision.

**How Often to Review the selection of the Auditor**

XYZ will review the selection of the auditor:

1. Anytime there is dissatisfaction with service of the current firm.
2. After 3 years when the contract has expired.

**Preparation for the Annual Audit**

The Chief Financial Officer will work with the supervisor/manager of the engagement in preparing for the annual audit:

1. Planning

Determine who does what when

2. Involvement

Have XYZ staff to do as much work as possible in order to reduce the cost of the audit

3. Year End Procedures

The Chief Financial Officer will supervise the following:

- a. A list will be received from the auditors of schedules XYZ can prepare and other items they will need in order to conduct the audit. Examples include:
  1. Working trial balance and working P&L
  2. Lead Schedules
  3. Organization's Financial reports
  4. Balance sheet schedules including cash, accounts receivable, investments, notes receivable, inventory, prepaid expenses, accounts payable and deferred revenue
  5. Reconciliation of fund balance
  6. Copies of Board of Directors minutes
  7. Preparation of confirmation letters
- b. Determine cut off for accounts receivable and accounts payable.
- c. Make a schedule of all deferrals and accruals.
- d. Write off or reserve bad balances

## **Appendix**

1. XYZ Organizational Chart
2. XYZ Staff Job Summaries
3. Role of the Audit and Finance Committees
4. Whistleblower Policy (also published in the Employee Handbook)
5. Solomon IV- General Ledger Training Guide
6. Solomon IV- Accounts payable Training Guide