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Risk Management/Financial Policies

Webinar

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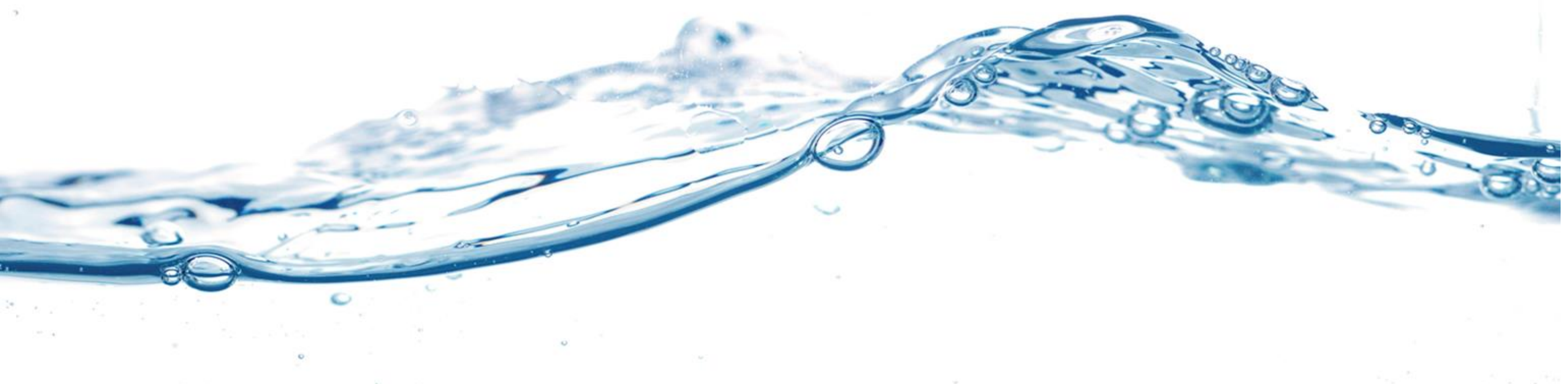
Presenter : Penny Young, CPA, WEF Deputy Executive Director/CFO



Today's Objectives

- Discuss basic risk management
- Review the steps in the risk management process, including using risk management tools and charts
- Discuss financial policies as a risk management mitigation strategy
- Review essential financial policies for nonprofits

Basic Risk Management

- What is Risk?
- Risk is “the effect of uncertainty of an object”
  - Can be internal (within your control)
    - Good internal financial controls, ***financial policies!***
    - Qualified Staff/Volunteers in key positions
  - Can be external (outside your control)
    - Natural Disasters
    - Competition

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What is the Risk Management Process?

- Step 1 – Identify your risks
- Step 2 – Analyze your risks
- Step 3 – Evaluate your risks
- Step 4 – Treat your risks
- Step 5 – Monitor and review the risks

Step 1 - Identify Your Risks

- Brainstorming session with leaders and/or staff with operational responsibility
- Compile list, step back and categorize into groups
  - Operational: day to day operations, usually internal to organization
  - Strategic: competition, trends, forward thinking, usually external to organization

Step 1 - Identify Your Risks (cont.)

Identify your risk

External Risks

Financial
Accounting Standards
Interest rates
Taxation & Government
Donor health
Board Experience / skills

Infrastructure Risks
Natural Disasters
Pandemic & terrorism
Suppliers
Communications
Legal / regulations

Marketplace Risks
Economic Environment
Opposing Parties
Competition
Technology / Marketing

Brand & Reputation Risks
Community Perception
Competitor action
Regulatory
Major event failure

Internal Risks

Financial
Accounting Standards
Debt / Credit
Expense management
Tax & Govt

Infrastructure
People – Volunteers & staff
Health & Safety
Property
IT Systems

Marketplace
Accountability Controls
Intellectual Property
Contracts / legal
Alliances

Brand & Reputation
Sub Brands
Board Composition
Accountability Controls
Risk tolerance

Step 2 – Analyze Your Risk

Systemically determine the importance of each risk once your list of risks have been created

- Assists in ranking the risks based on likelihood of occurrence
- Assists in determining the impact the event would have on your organization

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Step 2 – Analyze Your Risk (cont.)

	Insignifcant	Minor	Moderate	Major	Catastrophic
Almost Certain	H	H	ER	ER	ER
Likely	M	H	H	ER	ER
Possible	L	M	H	ER	ER
Unlikely	L	L	M	H	ER
Rare	L	L	M	H	H

RISK RATING	
ER = Extreme	Immediate action required to eliminate or reduce risk
H = High	Senior management attention needed
M = Moderate	Action must be taken to eliminate or reduce the risk
L = Low	Managed by routine procedures

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Step 3 – Evaluate Your Risk

- Step 3A – Once you have compiled your list of analyzed risks, prioritize them. Rank from highest risk to lowest. If you have an extensive list, take the 6 to 10 highest and most important risks to start
- Step 3B – Evaluate each risk by simplifying asking – "Are we comfortable with the way this risk is being handled/managed?"

Step 3 – Evaluate Your Risk (cont.)

- Step 3C – Complete a simple summary document (sample below) of your risk management finds. This summary is commonly referred to as a risk register

RISK REGISTER (Example)								
Priority	Risk	Details	Likelihood	Consequence	Risk Rating	Treatment	By whom	By when
1	Damage to reputation	Allegation of impropriety	Possible	Major	ER	Develop HR protocols Appoint PR agency	HR Manager	15-Dec-10
2	Employment issue	Staff member unfair dismissal	Unlikely	Moderate	Moderate	Develop HR protocols	HR Manager	30-Jan-11
3	Major building fire	Fire causing complete loss of building	Unlikely	Major	High	Create continuity plan. Review fire safety procedures	MD	30-Jan-11
4	Loss of major donor	Donor withdraws annual support	Likely	Major	ER	Develop major donor strategy.	MD	15-Dec-11
5	Board change	Key board member retires	Likely	Minor	High	Create board succession plan	Board	20-Mar-11

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Step 4 – Treat Your Risk

There are 4 things you can do about the risk:

1. Avoid the risk – do something to remove it such as end an activity
2. Transfer the risk – appropriate insurance coverage is a risk transfer strategy
3. Mitigate the risk. Take actions to minimize the impact and/or the chance of it occurring
4. Accept the risk – calculate and decide that whether or not it is worth taking on

Step 5 – Monitor and Review Your Risks, Develop a Communication Strategy

- Every organization, regardless of size, should assign at least one individual to champion and manage the risk management process. They should provide regular reports to the board as well as coordinate the assessment of any new activities.
- It is appropriate to conduct a comprehensive review annually and looking at any incident and near miss trends.
- Schedule with another risk activity – the annual budget!
- Develop a communications strategy to accompany each identified risk and outcome

Risk Mitigation – Financial Policies

Essentially, Financial Policies are a Fiscal Risk Mitigation Plan and should be evaluated accordingly. Identify those areas at risk and develop policies to mitigate the risks.

General rules to follow in creating policies:

- Keep Controls Simple
- Follow the Three-Touch Rule
- In God We Trust, all others must document and verify!

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Risk Mitigation – Financial Policies (cont.)

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Keep Controls Simple

Financial Policies should be written as an operations manual on a high level and involve those who actually do the work.

- Provide a step-by-step process and title of individual to perform the work
- Have a schedule for each activity/procedure
- Review and update annually

The Three-Touch Rule

Controls should focus on three elements of a financial transaction and they should:

1. The person or party from which the transaction emanates
2. The person who approves the transaction for payment, posting and so on
3. The person who does the payment or posting of the transaction

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The Three Touch Rule (cont.)

Easy when you have a department with 15 staff, but you have to be inventive when you have a small staff or are all volunteers. For example:

- Use a bank lockbox for cash receipts 

- Have a receptionist or non-financial individual prepare the deposit
- Have another staff member safeguard and distribute preprinted check stock
- Follow the established approval sequences

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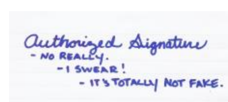
Essential Financial Policies

- Update passwords at least every 90 days, make it mandatory and do not use default passwords!
- Cash receipts cycle (revenue)
  - Bank lockbox if possible, electronic access to download detail
  - All checks endorsed when received, kept in locked cabinet until taken to bank
  - Two individuals count cash
  - Analytics – does the math work?
  - Credit card PCI compliance (if credit cards accepted)
  - Ensure security of credit card information

Essential Financial Policies (cont.)

- Cash disbursements cycle (expense)
  - Supporting documentation, invoices not statements, get the W-9 if a service vendor (know 1099 rules)
  - Software that prevents duplicate payments to a vendor
  - Avoid manual check disbursements
  - Annually review and update all signature cards/other banking forms; require two signatures on checks over a certain amount 

  - Require complete names, addresses of all vendors
  - Positive pay by bank for checks
  - Outside payroll service (reputable!)

Essential Financial Policies (cont.)

- Account reconciliations (assets, revenue, expense) on a regular basis; bank statements at least monthly
- Physical security of organizational assets – inventory, computers, databases, periodic independent inventory to verify

- Timely monthly financial statements – internal and external,
  - balance sheet (point in time)
  - income statement (over a period of time)
  - do the numbers match?
  - utilize a dashboard for important metrics

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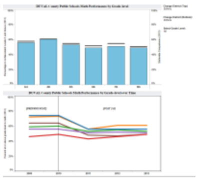
Essential Financial Policies (cont.)

- Budget development, approval and comparison to financial activity, variances are important and must be explained, use analytics!



- Use dashboards to communicate
- Determination of accounting method (cash, accrual or combination)
- Whistleblower policy

- Conflict of Interest policy
- Travel and expense reimbursement policy

Essential Financial Policies (cont.)

- Have a schedule of all tax returns due and who files them – not filing your 990 and lack of IRS communication can have your tax-exemption revoked (smaller nonprofits can file 990N, 990-EZ)
  - 990, 990T – IRS entity returns, public information
  - 941, 940, W2s, W3s – federal payroll returns
  - 1099/1096 – independent contractors
  - 1094, 1095 – health insurance report for federal

- Have an annual independent financial audit
- Investment policy for cash reserves

Essential Financial Policies (cont.)

- Contracts – who signs and who has custody
- Prohibit loans to/from staff/volunteers
- Bid requirements
- Corporate credit cards

- Confidentiality of data
- Mailing list sales

- Insurance as warranted for organization
  - D&O, general liability, workers compensation, others depending upon size and complexity of organization.

Essential Financial Policies (cont.)

Unique to 501(c) organizations

- Public record and must provide copies/review of 990 tax return upon request – Guidestar.org
- 501(c)(3)s must also provide copies of 990T tax return
- Tax-exempt does not mean sales & use, real estate or personal property tax, those must be applied for separately at the state/local level
- UBIT (Unrelated Business Income Tax) activity is important to track, based on gross revenue, not net

Wrapping it up

- Risk assessment and mitigation is an essential part of fiduciary duties of both staff and volunteers of a non-profit
- Financial policies are an important component of a risk mitigation strategy and should be an integral part of non-profit management

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Proposed Future Webcasts

- Business insurances – how do you know what you need?
- HR policies and procedures/employee manual (new health insurance reporting requirements)
- Financial statements, budgets, projections, tax returns and audits
- 501(c)(3) status, how to get it, how to keep it and what it means

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Thank You!!

Questions/Comments?