

# **Regional Economic Development Boards**

## **Internal Control Policies**

**August 07, 2009**

## **Introduction**

Financial reporting and internal control are major areas of concern in the governance of all not-for-profit organizations. While certain key differences exist, however the management and reporting activities of a not-for-profit organization are similar to the commercial sector in many respects. Budgeting, cash management and financial reporting are areas of financial management that are extremely important for not-for-profit organizations as well as commercial enterprises..

*Any not-for-profit organization must pay close attention to whether it has enough cash to continue to provide its intended services. It is sometimes difficult to predict revenue in a reliable manner from year to year. For that reason, budgeting and control of revenue and expenses are areas of increased emphasis.*

*The board of directors of a not-for-profit organization is ultimately responsible for the organization. Each director has a legal duty and responsibility to assure that the organization is run well and in compliance with all federal, provincial and local municipal requirements. Each member of a not-for-profit board must be aware of their duties and responsibilities as well as their potential personal liability.*

For these reasons adequate controls are needed to handle cash receipts, disbursements and overall financial management in a business-like fashion. ACOA engaged Barry Sheppard Management Consulting to review the internal control policies and procedures of regional economic development boards and make recommendations to continue to improve the protection of assets, staff and board of directors within these organizations.

This report summarizes basic policies and procedures that Regional Economic Development Boards and other not-for-profit organizations should have in place to protect the organization, its financial assets, employees and the board. It does not cover issues like bonding and insurance, which are also important parts of an organization's risk management strategy.

## **Independent Financial Reviews**

The Corporation is required to have its financial statements audited annually by an independent accounting firm. A financial review completed by a professional accountant/firm will provide the organization with a credible opinion about the accuracy of the financial statements, how fairly the statements reflect the financial position of the organization and the degree to which the organization has complied with generally accepted accounting principles.

Any concerns about the financial health of the organization or the financial practices of the organization should be brought to the attention of the board. This type of review provides the board with assurance that the assets of the organization are being managed properly and that the financial records and supporting documents are accurate and complete.

In keeping with the annual audit it is very important that boards have the financial record keeping, internal controls and reporting systems to support the independent audit process.

## **Annual Budget**

The spending authority for a board should be provided in the annual budget of the organization. The Executive Director, the chief staff person, functions according to the authority delegated by the board, and is therefore accountable to the board. The board of directors delegates authority to the Executive Director for the day to day operating revenues and expenses outlined in the budget.

With proper internal controls and an operating budget, the Executive Director and the board must work together to fulfill the mandate of the organization.

## **Need for Written Policies & Procedures**

Some people may feel that implementing strict administrative and financial procedures is an insult to the integrity and honesty of staff and volunteer boards who manage the funds of not-for-profit organizations. In reality, procedures are as much for the protection of staff and the board as they are for the protection of the organization. Proper procedures helps protect anyone involved in managing the assets of the organization.

Volunteer organizations normally experience a regular turnover of directors and officers. A written "Policies and Procedures" document is a useful guide for both new and experienced directors and will be especially helpful in years where a large percentage of the board is new. This document can also be used to clearly communicate with the membership if there are ever questions about how the board is dealing with the financial affairs of the organization.

Each board has an existing Policies and Procedures Manual and this review is intended to simply strengthen and enhance the policies and procedures that are already in place.

The following sections contain recommended procedures designed to implant effective internal controls.

<b>Cash Receipts</b>
The Executive Assistant receives all incoming mail. All receipts/checks received should be immediately stamped 'for deposit only' and record in the financial accounting system at the time of receipt.
The Executive Assistant then prepares a deposit slip and deposits the funds into the bank account the same day where practical.

Any funds not deposited at the bank should be locked in the filing cabinet until the next day. No funds should remain un-deposited for more than 24 hours. Where possible, funds should not remain on the premises on weekends and statutory holidays.
The Executive Director should, on a random basis at least once per month, collect the mail from the post office and open the mail. The Executive Assistant should keep a file record of these dates
Any refunds, credit notes or return of grants and contributions must be approved in writing by both the Executive Director and any one of the board executive.
Prior board approval is required before post-dated checks can be accepted; and if accepted, should be secured in a secure, locked location. (If applicable)
Sequentially pre-numbered receipts must be used for miscellaneous receipts and for collections in the field

<b>Purchasing &amp; Invoice/Payment Processing</b>
Controls are needed for disbursements to ensure that the proper funds and accounts are charged; that funds are available to make payments; that disbursements are made in accordance with approved purchase orders issued; and, that disbursements are used only for authorized purposes.
All purchases of goods and services (in excess of \$100.00) should be initiated on a pre-numbered purchase order form. The completed PO requires the signature/ authorization of the Executive Director. No purchase should be made without a PO being issued
All purchases greater than \$1,000 not approved in the annual budget requires the approval of both the Executive Director and any one of the Executive.
All supplier invoices should be matched with the PO and signed evidence that the goods/services were received before approval for payment
Supplier invoice calculations and pricing must be verified before approval for payment. The actual invoice quantities received, unit pricing and invoice extensions must be verified and indicated on the invoice.
Invoices being presented for check signing must be marked 'paid' to prevent duplicate payment.
The expense or asset account to be charged must be indicated on the invoice before the check is signed.
All invoices should be paid in a timely manner and any discounts should be taken
Reconcile vendor statements (for those vendors that issue statements) on a regular monthly basis.

All checks require manual signature, and not machine generated signature.
Under no circumstances should blank checks be signed.
Drawing checks payable to 'cash' is strictly prohibited.
Signed checks are to be mailed as soon as possible after signing
Claims for short-shipped or goods damaged in shipment must be filed promptly
Blank checks should be kept in a locked storage container with access only by the Executive Assistant and the Executive Director.
Signed cancelled checks together with the bank statement that are returned from the bank should be kept in a secure and preferably locked location.

<b>Bank Accounts</b>
All bank accounts and authorized signers are to be approved by the board of directors by the way of board resolution.
Authorized signing officers are prohibited from delegating check signing authority to others.
The bank(s) should be notified immediately in writing when there is a change in the signing officers when an authorized check signer leaves and notification should be signed by two remaining signing officers.
Bank reconciliations are to be performed monthly on all accounts, regardless of the volume of monthly activity
Bank reconciliations should be prepared by Administrative Assistant and reviewed by the Executive Director.
Spoiled or voided checks must be retained and the signature blocks on the checks voided out.

## **Bank Reconciliations**

The reconciliation should be prepared promptly upon receipt of the bank statements, and in any case not later than ten days after receipt of the monthly bank statement.

The following should be included when reconciling the bank account:

- A comparison of dates and amounts of daily deposits as shown on the bank statement with the cash receipts journal
- A comparison of cancelled checks with the cash disbursements journal as to check number, payee and amount
- An accounting for the numerical sequence of checks both from month to month and within a month
- An examination of cancelled checks for authorized signatures, irregular endorsements, and alterations
- Investigate and write off checks which have been outstanding for more than six months

The completed bank reconciliation should be reviewed by the Executive Director and initialed and dated.

The Executive Assistant will prepare and the Executive Director will approve all journal entries as part of the Bank Reconciliation process.

The Treasurer should periodically review the completed reconciliation statements.

## **Borrowing & Lines of Credit**

All borrowings, without exception, are to be approved by the board of directors by way of board resolution.

Copies of all borrowing documents are to be maintained by the Executive Assistant in a secured location as determined by the board.

The board should, on an annual basis, review and ensure that the Corporation is in compliance with its borrowing agreements and covenants with the bank and document in writing that this review has taken place.

## **Signing Authority**

One risk with checks is the possibility of forgery. While this risk may be considered relatively small, the increasing popularity of ATM's makes it possible to pass forged checks

A standard safeguard is to require two authorized signatures to all checks. Four persons should be authorized to provide the two signatures. It is recommended that the Executive Director and three members of the board Executive Committee (Chair, Vice-Chair, and Treasurer) be authorized signatures.

Signing officers and the entire board should always insist on all checks being completely filled in before anyone signs

Officers with signing authority should verify the checks against the corresponding supporting documentation and review and initial the same prior to signing checks.

## **Investments**

The Corporation needs a formal investment policy addressing which types of investments the organization may hold in regard to deposits for severance and surplus funds and identified authorized signing officers.

All investments should be held in the custody of a reputable investment trustee and be held in the name of the Corporation.

Investment balances are to be presented to the Treasurer on a regular quarterly basis and reported to the board at the next board meeting.

Any disbursements from investment funds must first be authorized by the board.

- Unopened investment statements should be routed directly to the Executive Director for review.

The maturity date of all investments must be reported by the Executive Assistant to the Executive Director and the Treasurer at the beginning of each month, regardless of whether or not there has been any change in dates.

## **Petty Cash Fund**

The petty cash fund should not exceed \$500.00.

Responsibility for petty cash should be assigned to one person, the Executive Assistant.
A single disbursement from petty cash should never exceed \$100.00
The petty cash fund shall be operated on an imprest basis. This means that when it is time to replenish the petty cash fund, the Executive Assistant shall total the expenses made and identify those expenses by general ledger account number. When the check request is submitted for payment it should indicate the total amount needed to bring the fund back up to \$500.00. The check request should breakdown the various expense accounts being charged and the amount charged to each.
When someone makes a request for petty cash reimbursement, the item should be listed on a Petty Cash Reconciliation Sheet. A description of the item charged should be recorded together with the amount. A vendor receipt must be presented as proof of the expenditure in order for the amount of the request to be disbursed.
Each person receiving the petty cash must sign the sheet for receipt of the funds.
All paid receipts/slips should remain in a locked petty cash box until it is time to replenish the fund. At that time the Petty Cash Reconciliation Sheet and associated receipts should be attached to the check for review by the authorized signor.
The petty cash box is to be locked at all times when the Executive Assistant is not disbursing or replenishing the fund. The locked petty cash box is to be kept in a locked filing cabinet within the accounting office.
Checks of any kind should not be cashed through petty cash and no IOUs be issued through the fund.

## Payroll

The Executive Assistant has responsibility of maintaining personnel files on all staff persons
Each personnel file should contain the following information, at a minimum <ul style="list-style-type: none"> <li>-Employment application and/or resume</li> <li>-Date of employment</li> <li>-Position</li> <li>-Pay rate and any changes</li> <li>-TD1 form</li> <li>-Termination information, where applicable</li> <li>-Employee authorized RSP contributions</li> </ul>
All personnel records are to be kept in a locked file cabinet.

Timesheets (if applicable) are to be prepared by all board employees, signed by the employee, and approved in writing
The Executive Director should sign/approve timesheets (if applicable) for all staff persons and project related personnel.
The Executive Director should submit his/her timesheet to the Board Chair for approval. Since the Chair will likely be located in another community, the Executive Director should submit his/her timesheet via fax or e-mail and the approval should be forwarded back from the Chair directly to the Executive Assistant via fax or e-mail. In the absence of the Chair, the Executive Director's time sheets should be signed by any member of the board Executive.
For direct deposit, identification of banking information and employee signatures and is required. The authorizations must be securely stored.
Any changes in pay rates, approval of bonuses and special pay requests must be approved in writing by the board.
The Executive Director should review all T4's and year end documentation submitted to CRA (Canada Revenue Agency)
Signed TD1 forms should be obtained from all employees at the beginning of each calendar year.
Without exception, payment of wages in cash is prohibited.
In order to support the objectives of the Corporation employees may be required to work extra hours beyond the normal workweek. In accordance with the Corporation's overtime policy, employees should be compensated based on this policy.
When requesting to work overtime to complete their work, employees must notify the Executive Director and obtain prior approval in writing, when practically possible. The authorization must be given in advance and in writing (e-mail is sufficient). In circumstances when advance authorization is not possible, the Executive Director will provide written confirmation at the earliest opportunity.
In the case of the Executive Director, he/she must request prior approval in writing from the Chair, when practically possible. In circumstances when advance authorization is not possible, the Chair will provide written confirmation (fax or e-mail) at the earliest opportunity.
Overtime worked must be included on the employee's weekly time sheet.
Employees requesting banked overtime hours to be taken as time off must provide a written request/notice. The Executive Director should approve banked time off for all staff and the Chair should approve banked time off for the Executive Director.
Time off in lieu of overtime hours worked must be taken, with mutual agreement, prior to the calendar year end.

Accurate record keeping of approved overtime hours worked and compensatory time taken off is mandatory.
The Executive Assistant should maintain a “Banked Overtime Record” form for each employee of Corporation. The form should contain, at a minimum: –Date of overtime –Reason for overtime –Authorized overtime hours worked –Year to date total banked hours earned –Number of banked hours taken off –Balance of banked hours
Under no circumstances should overtime be tracked “off the record”
Vacation, sick leave, bereavement and family leave are permitted. In each case the Executive Director must approve employee’s leave and in the case of the Executive Director his/her leave must be approved by the board Chair, or in the Chair’s absence by a member of the board Executive.
The board should perform an annual performance review of the Executive Director and set goals for the coming year. The Executive Director shall complete performance evaluations of all other staff and the Board’s Executive Committee should review them.
The board should require, on a quarterly basis, a statement signed by the Executive Director, stating that all statutory remittances (income taxes, CPP, EI) have been file and paid.

<b>Accounts Receivable</b>
Revenue should be recorded in the accounting system when billed or when a claim (to government) is made, not just when the check/cash is received.
Billings and claims should be reviewed by the Executive Director, who should be knowledgeable of the contract terms and/or applicable compliance requirements
An accounts receivable sub ledger should separately track individual customer/contract balances
The Executive Director should be made aware of any communications to/from customers or government departments concerning billing/claims problems
Customer/claims complaints and billing questions should be followed up and resolved on a timely basis.
At every board meeting the Executive Director should report on the status of billings/claims and comment on any related questions or issues.

Any credits, credit memos or reductions in claims must first be approved by the Executive Director and any one of the Executive.
Accounts receivable balances should be reviewed monthly by the Executive Director and reported to the board in the next board meeting.
An aged account receivable report shall be prepared and presented at every board meeting.

<b>Fixed Assets</b>
Responsibility for the custody of fixed assets lies with the board of directors and the board is responsible for the adequacy of physical safeguards over fixed assets. Controls are required to ensure that procedures are followed in the sale or disposition of assets or in reporting the loss or theft of assets.
For all fixed assets, three quotes should be obtained before a purchasing decision is made. All quotes, including phone quotes, must be recorded and kept on file.
All fixed asset purchases must be approved by the board.
A permanent fixed asset register should be maintained
The fixed asset register should contain the following information: –Description of the item –Date of purchase (if known) –Cost or fair market value –Identification / serial number –An identification plate/sticker with a specific identification number should be affixed to all fixed assets (all assets should be tagged with a unique identifying number)
The board must ensure that the organization has adequate insurance coverage on its assets.
Any write off or disposition of a fixed asset requires the prior approval of the board and requires a capital asset disposition form to be signed by the Executive Director and the board executive
An annual physical inventory of property and equipment should be taken and reconciled to the detailed fixed asset register, prior to the year end audit. The reconciliation must be approved by the Executive Director and presented to the board at the next board meeting

## **Periodic Reporting**

The financial records of the Corporation are the property of the organization and should be open for examination at any reasonable time by the board of directors.

Monthly financial statements should be available no later than the end of the 20<sup>th</sup> of the following month.

At a minimum, the financial report should include a balance sheet, a statement of income and expenses, a budget-to-actual report for all accounts included in the annual operating budget, the current cash position and aged accounts receivable and payable.

Budgets for contributions/grants should be compared to actual contributions to date on a monthly basis

If the Corporation has more than one source of funding/project, separate statements of revenue and expenses are to be prepared for each

The Executive Assistant should prepare a set of monthly financial reports for distribution to the Executive Director and the board executive. In addition, the monthly reports for the quarterly periods should be submitted to the full board of directors in advance, for their review and acceptance at the following board meeting.

It is the duty of the board to make sure they review and understand the financial reports provided.

## **Year End Audit**

At fiscal year-end, and in time for Corporation's annual general meeting, a year end audit shall be completed.

The audit process should be completed no later than ninety (90) days after the end of the fiscal year.

The audited report should be reviewed by the Executive Director and the board executive prior to distribution to the board and should be reviewed by the board prior to distribution at the annual general meeting

The board must review the auditor's report, including the management letter, report on internal controls and compliance with government law and regulation.

Bids for an independent auditor to conduct this review should be solicited at least every three years and the auditor shall be requested to present audited statements at a board meeting.

## **Computer System Backup Procedures**

The Executive Assistant is responsible for backing up the hard drive of the accounting system at the close of business each day.

It is recommended to use a five-day rotation and back up system.

The back-up CDs should be locked up in a fire proof safe overnight.

At month end a backup should be made and stored off premises for safeguarding.

Back-ups of the complete accounting data should be stored off-site on a monthly basis. Preferably this would be in a safety deposit box at the bank.

Annual backups should be compressed and stored in (a safety deposit box)

Computer and program passwords should be changed every three (3) months (maximum).

## **Credit Card Usage**

The Executive Director shall be the custodian of the Corporation's credit card with credit limits (reasonable for to conduct regular board business) established and approved by the board.

Use of credit cards for cash advances or personal use is prohibited

The cardholder must enter the purchase made/receipt on a credit card purchasing transaction log/summary sheet on a regular daily/weekly basis.

Any lost or stolen credit card must be reported immediately and the Executive Director must be notified immediately. In the case of the Executive Director, the Treasurer must be notified.

All credit card balances must be reconciled and submitted for reimbursement on a regular monthly basis using a transaction summary sheet by the Administrative Assistant.

Monthly credit card statements and the cardholder's charges are to be reconciled to the individual's transaction log/summary sheet and submitted by the individual cardholder. The Treasurer or the board Chair shall review and approve monthly statements.

## **Annual Budget**

The budget is the foundation of Corporation's operating plan for the fiscal period. The budget charts a direction for allocating and maximizing the use of resources. Ideally, it also identifies any financial problems that could arise in the coming year.

The Board is required to prepare an annual operating budget which includes all forecasted sources and uses of funds for all aspects of the organization.

All grants or other contract agreements with funders must be incorporated into the comprehensive annual budget.

The Executive Director has the overall responsibility for the preparation of the budget.

The board should establish a finance committee whose mandate it is to oversee the development and preparation of the operating budget for submission to the board.

The Board should also prepare and submit a capital budget for replacement of fixed assets as required.

The board must formally authorize the annual operating budget and any revisions to the budget.

The actual year to date revenue and expenses with a comparison to budget must be reported on a monthly basis at the time of the preparation of the monthly financial statements

A sample budget to actual reporting sheet is attached.

## **GENERAL**

The Board should fully utilize the integrated electronic accounting software (CA Simply Accounting) and minimize the use manual record keeping spreadsheets, etc.

Accounting records must be kept current and monthly financial statements produced by the 20<sup>th</sup> of the following month.

All adjusting journal entries must be approved by the Executive Director.

The board must be presented with and review the monthly financial statements.
The board should establish a formal gift acceptance policy addressing which types of gifts will be accepted and the types of restrictions on gifts that employees and board will accept.
The board and the Executive Director must be aware of Canada Revenue Agency (CRA) requirements for maintaining Corporations's not-for-profit status and continually evaluate the organization's activities, use of funds, record keeping and reporting to CRA to assure compliance with all statutory requirements.
Requires specific board approval: <ul style="list-style-type: none"> <li>-Opening or closing of accounts with banks or financial institutions</li> <li>-Changes in signing authority on any bank or financial account</li> <li>-Signing of any lease</li> <li>-Employment of any staff</li> <li>-Entering into of any contract or agreement</li> </ul>

<b>DISBURSEMENTS - TRAVEL</b>
Boards must have a written travel policy outlining approvals, per diem rates, mileage rates and other legitimate travel expenses.
Travel Authorization Forms should be used to authorize travel.
All Travel Expense Forms must be signed by the employee and approved by the Executive Director.
The Travel Expense form for the Executive Director must be signed by the Executive Director and approved by the Chairperson.