Chapter Finance Guidelines

This section on chapter finance is designed to offer clear guidelines to chapter officers in the key area of chapter finance. The information included here is designed to outline essential financial decision-making as well as to offer detail of special significance to the development and management of financial systems. All officers will benefit from a review of this document. The chapter president, treasurer and committees with fiscal responsibility – the finance, audit and investment committees – will find their areas of function addressed. The treasurer will benefit further from the *Chapter Treasurer's Manual* designed to serve as a handbook detailing "how-to" information. It is available from headquarters.

FINANCIAL RESPONSIBILITY, ROLES AND SYSTEMS

I. Chapter Board of Directors, Officers and Committees

A. Chapter Board of Directors

The board of directors is ultimately responsible for the wise and effective management of the chapter's financial resources. To meet these responsibilities, the board performs the following functions:

1. Adopts an annual budget consistent with the chapter's goals and its financial resources.
2. Establishes written financial policies and procedures and reviews them at least once a year.
3. Monitors the income and disbursement of funds on a regular schedule.
4. Makes investment decisions.
5. Assures an annual audit/review with an external audit commissioned at least biennially.
6. Provides for annual financial reports to chapter members.

B. Treasurer

The treasurer manages the chapter's financial affairs in accordance with the chapter's established financial policies and procedures.

1. Assumes responsibility in conjunction with the Finance Committee for budget preparation.
2. Manages the chapter's financial records and financial information systems and recommends system changes when indicated.
3. Recommends financial policy and procedure to the board.
4. Presents a written financial report to the board at least quarterly and to the membership annually.
5. Works closely with the external auditor and/or an internal audit committee in the examination of the chapter's financial policies, procedures, records and status.
6. Initiates and prepares all chapter financial reports required by headquarters.
7. Prepares and submits all tax forms required by the state and federal governments. As of 15 November 2008, this includes the IRS Form 990, 990N, or 990EZ.
8. Serves as an ex-officio member of the Finance Committee.

C. The Finance Committee

The Finance Committee advises the treasurer and the board of directors in financial matters and is responsible for budgeting and monitoring the chapter's financial procedures and status.

1. Plans the budget in conjunction with the chapter treasurer based on chapter financial resources and chapter goals.
2. Recommends the proposed budget to the board for action.
3. Monitors budget performance on a regular basis and analyzes

variances in expense and revenue from expected performance.

4. Reviews chapter investment policy on an annual basis and recommends desired changes in policy and procedure.
5. Participates in the selection of an auditor, reviews the audit report and recommends any corrective action required.
6. May function as an internal audit committee at the discretion of the board.
7. Provides direct assistance to the chapter treasurer in financial management functions when needed.

II. Financial Management

A. Financial Management and Information System

The chapter's financial management and information system provides a means of identifying sources of income and justifying and tracking expenditures in accordance with the approved budget. It permits reporting of the current financial state of the chapter, supports economic decisions, facilitates budget projections and provides evidence of responsible financial management. All records of income and expense and support documents comprise this system.

1. <u>Deposits and Deposit Receipts</u>
   Deposits should be made promptly to protect funds and take advantage of interest accrual. Bank deposit records should be filed, retained and checked against monthly bank statements.
2. <u>Disbursements</u>
   All disbursements, except those from petty cash, should be made by check. Supporting vouchers for each disbursement indicating the payee, the check number and the date of reimbursement should be issued and retained.
3. <u>Checkbook Ledger</u>
   All bank deposits should be correctly and promptly recorded. The ledger must agree with (i.e., be reconciled with) the bank account statement each month. Having a chapter officer or Finance Committee member, in addition to the treasurer, check the reconciliation and sign to that effect provides a double check of the accounts and is a safeguard for officers and the Finance Committee.
4. <u>General Ledger</u>
   A general ledger lists all the chapter accounts – checking, savings, all investment accounts, review and disbursements – by sources and account number. It provides an organized way to record all receipts, disbursements and transfer of funds, which should be entered in a timely fashion, in chronological order, and itemized by each individual transaction. Ledgers should be summarized monthly and all bank investment balances must be reconciled (agree) with bank and investment statements.
5. <u>Financial Management System</u>
   There is no specific format required for a chapter's financial management system. Formats for recording and summarizing income and expense by category are available in business supply shops along with forms for supporting documents like vouchers and receipts. Headquarters recommends the use of an automated accounting system. A growing number of chapters currently have an automated financial system providing them with a budget format; a tracking system for checking, savings and money market accounts; quarterly and year-end actual versus budgeted expense and income statements; a year-end balance sheet; and a year-end performance report of investments. Advantages of automated systems are many including ease of record

keeping, ease of transfer to incoming treasurers and uniformity of the system over time. There are a number of automated accounting systems that have been identified as user-friendly and comprehensive.

B. Protecting Chapter Assets

Financial trust is a major chapter leadership responsibility. This trust requires careful attention to policies and procedures designed to protect the chapter's assets. It requires that board members become conversant with the chapter's system along with the methods for safeguarding funds. Regular reports from the treasurer along with the opportunity to monitor budget performance are basic to reasonable understanding. In general, good business practices should guide the board of directors.

1. Internal Accounting Safeguards
   Certain financial policies and procedures must be in place to ensure that chapter funds are secure. Among financial safeguards requiring board direction through policy and procedure are: signatory authority for those persons authorized to accept money; approve disbursements and sign checks; approval of those persons authorized to place an order or purchase goods and services; how a petty cash fund is to be handled; which financial transactions require dual signatures; provisions for a fidelity bond, if desired; and acceptable and unacceptable investment instruments. (*See Policy Development Section*)
2. Fidelity Bonds
   It is recommended, but not required by Sigma Theta Tau International that the treasurer and other chapter officers be bonded. Fidelity bonds, however, are designed to protect the chapter against unwarranted financial loss through the actions of a person authorized to handle chapter funds. In considering a fidelity bond, it is generally true that the greater the assets that the chapter holds, the greater the need might be for such insurance. If bond is desired, all officers with the power to manage the chapter's money – sign checks, withdraw money, make investments– should be bonded. Fidelity bonds can be obtained from insurance agencies and brokers. Note that costs can vary widely. More information is available from headquarters if needed.
3. Financial Reporting and Budgetary Control
   The Finance Committee should review the status of the budget on a regular basis, examining actual versus budgeted income and expense and analyzing significant variances as well as ensuring that IRS Form 990, 990N, or 990EZ is submitted by the chapter treasurer each year on 15 November. The board of directors should also review budget performance on a regular schedule, taking into account the Finance Committee analysis and initiating corrective action when indicated. Quarterly reviews are recommended as a minimum for both the Finance Committee and the board of directors. Many chapters schedule a financial report at each board meeting. Appending written financial reports to minutes of the board is a wise plan. Further, an annual financial report to the membership is essential in fulfilling the chapter's financial trust.
4. Record Safekeeping
   Certificates of deposit, treasury bills and other official records of investment documents should be retained in a safe place. All financial records must be retained in chapter files for seven years. In addition to ledgers and reports, registration lists, vouchers and receipts must be saved.

C. Budget Preparation

The budget is a financial management tool of many uses. It serves as a financial plan for carrying out the goals and programs of the chapter and is the basis on which actual financial performance can be measured against planned performance. Regular review over the course of each year provides opportunities to control costs and/or expand programs.

1. Biennial Budget

   It is suggested that chapters construct a biennial budget. A two-year budget plan offers greater continuity in support of chapter program goals and program development. Ideally, a chapter budget should begin in the first term of the chapter president's two-year term of office. *Chapter Bylaws* recommend staggered terms of offices and suggests that the treasurer's term begin the second year of the president's term. Such a plan allows time for orientation to the role of treasurer and time for adequate planning for the next biennium.

2. Annual Budget

   If a biennial budget is not prepared, an annual budget should be prepared prior to the start of each new fiscal year. If a biennial budget is in place, the second year plan should receive a thorough review, updating and board approval prior to the beginning of the second year.

3. Revenue Considerations

   Addition of new programs requires thorough identification of anticipated costs and the income necessary to cover these costs. The main source of chapter income is typically provided by membership fees. New member and renewing member projections are essential in determining anticipated revenue.

D. The Audit

Financial audits are performed primarily to determine if accounting procedures are fair, complete, objective and accurate. In addition to the audit trail – a detailed examination of the recording of each financial transaction and support documentation like vouchers and invoices – the auditor looks for clear lines of decision making. The auditor provides a written report of the audit process and renders an opinion about the soundness of chapter procedures as well as offering suggestions for improvements, if indicated.

1. Audit Frequency

   It is recommended that an external audit be performed at the end of each fiscal year. If once every two years is elected by a chapter, an internal audit (or review) is recommended in the alternate year with the external audit scheduled at the end of the treasurer's second year in office. In the event of an every-two-year schedule for external audit, the audit should cover the two-year period.

2. External Audit

   An audit is only performed by a certified public accountant (CPA) who is completely independent of the chapter. These individuals or firms are licensed and qualified to issue official opinions regarding the fairness of the financial statements.

3. Internal Audit/Review

   An internal audit/review may be performed by chapter members appointed by the board. They may be members of the Finance Committee or a special audit committee appointed by the Board. Internal audit procedures are designed to look at the same variables as an outside reviewer would examine. They include:

   a. Evidence of clear lines of responsibility for decision-making regarding the recording and monitoring of income and expense.

b. A system in place that facilitates the prompt and accurate classification and recording of revenue received and expenses distributed.
c. Evidence that all disbursements of money are supported by documentation such as invoices.
d. Evidence that those persons receiving and depositing income and distributing chapter funds are authorized by chapter policy to do so.
e. Evidence that bank account balances are reconciled with bank statements on a regular and timely basis.
f. Evidence that chapter cash is handled by authorized persons. An internal audit/review group should submit a brief report of their review and their findings to the board along with any recommendations they might have for improving financial systems.
g. Evidence that federally required Form 990, 990N, or 990EZ is completed by chapter each year.

4. Audit Cost

The cost of an external audit is related to the scope of the audit, the amount and intensity of financial activity, ease of date retrieval, and overall time required. Therefore, audits will vary in cost so it may be a good idea to shop around.

E. Transitions in Office

The chapter finance function is greatly facilitated by a planned transition from treasurer to treasurer at the time of office turn over. Chapters with successful transition programs include such arrangements as a meeting between incoming and outgoing board members, individual meetings for officers and a commitment from outgoing officers to remain available for any desired consultation. Transition information for incoming treasurers should include a joint review of the budget and budget performance, a review of the financial information system, a review of the latest audit and the identification of any outstanding financial problems.

F. Consultation

It is not unusual that treasurers come into their responsibilities with little preparation for the role and modest experience with budgets and financial record keeping. The role of treasurer is full and time consuming, and experience has shown that the need for expert assistance is felt by the majority. The financial staff at headquarters is more than pleased to offer assistance directly and through referral to others who can help.

III. Policy Development

The board of directors holds both legal and ethical responsibility for the chapter's financial management. Fulfilling this responsibility is central to effective management of nonprofit organizations. The laws of both federal and state governments speak to many aspects of nonprofit organizations, granting both privileges and restrictions in the protecting of these organizations committed to the public good. As guardians of the honor society's mission, the board works to assure the stability and growth of the chapter as well as meeting its legal responsibilities for controlling and safeguarding the chapter's assets. The board's primary mechanism for fulfilling this fiduciary trust is through policy development and the monitoring of procedures and practices designed to implement policy.

A. Financial Operations Policy and Procedure

There are several key areas in financial operations management in which board policy is recommended. They are in areas that deserve clear direction from the board and, in turn, serve to protect members of the board and committees as they carry out financial functions. Major recommended policy and/or procedure areas are identified here.

1. Bank Accounts
   Bank accounts the chapter requires to do business should be identified by type and function. For example, the board could state where bank accounts would be established by safety standards. A policy might read "All chapter checking and savings accounts will be established only in banks and savings institutions insured by the FDIC/FSLIC."
2. Bank Account Limits
   Setting bank account limits helps to make decisions about when accumulating revenue should be redistributed to additional accounts and, especially to accounts earning higher than usual checking or savings account interest. Examples of policies might be "Only the amount of monies necessary to operate the business of the chapter for a specified period of time will be kept in a checking account. Other unrestricted income will be kept in savings accounts for redistribution to other accounts as indicated and approved."
3. Checking and Savings Accounts Signatory Authority
   It is important to define who can sign checks, who can withdraw and transfer funds from checking and savings accounts, under what circumstances dual signatures may be required and total amounts permitted to be deposited or withdrawn. This authority usually resides with the president and the treasurer of the chapter.
4. Purchase Authority
   It is important to define who holds the authority to make or commit the purchase of goods or services on behalf of the chapter. This authority usually resides with the president and the treasurer of the chapter.
5. Reporting Requirements
   Expectations for reporting to the board of directors by the president or treasurer should be outlined in terms of the content, frequency and format for the reports. Usually it is recommended that there be a written report provided for each board meeting.
6. Chapter Audit Procedures
   Chapter audits serve a very important safeguarding function and external audits are recommended by headquarters at least every two years. A policy statement by the chapter makes the commitment clear and establishes both a calendar for audits and a mechanism.
7. Other Areas for Operations Policy Development
   The board should address policy development with the principles of clarifying and safeguarding the intention and direction of the board. There is not an absolute list so that board judgment and discretion drive these decisions. Other areas for consideration are controls for: handling petty cash; bonding and bonding levels; and budget calendars.

B. Investment Decisions and Policy Development

Investing chapter funds is the second major financial responsibility. The board of directors holds the accountability for sound decision making in this important aspect of financial development. Chapters experience a wide range of financial opportunity to build a financial base beyond the promise of chapter membership fees as the major source of income. Size of the chapter, membership fee level, program and fundraising activity, gifts and grants all play a role. For chapters fortunate enough to accumulate cash surpluses from their operating budgets and gifts or grants of money for general or dedicated purposes, it is essential to develop clear policies to guide the investment function. Because this area is often less familiar than the operating area, it is frequently wise to seek consultation from persons with specialized knowledge. Headquarters staff can serve as a first line of contact for general assistance and referral. The information that follows is presented as an aid in investment policy development.

1. <u>Authority to Invest</u>
   Generally, the board of directors is assigned the overall authority to invest the funds of the chapter, with delegation of authority for depositing, withdrawing and transferring specific fund amounts to the treasurer, president or combination thereof. A policy should clarify who holds this authority and be written in specific terms. It should include such safeguards as when single or dual signatures are required, total amounts to be invested in any one investment instrument, and proof of signature procedures.
2. <u>Purchase and Review</u>
   Where investments may be purchased and place at what automatic review procedures are to be used should be guided by policy. Sample policies might be:
   a. Investment instruments may be purchased through local banks or insured certificate of deposit pools.
   b. Each $5,000 that accumulates in a money market fund is to be reassessed for investment in a higher interest yielding instrument.
   c. Any investment coming to maturity should be reassessed for potential investment in a higher yielding instrument.
   d. For dedicated funds restricted to interest use alone, expert consultation in investment strategy is required.
3. <u>Acceptable Investment Instruments</u>
   This policy should specifically state which investment instruments are acceptable to the board of directors. Acceptable instruments might include:
   a. Certificates of deposit offered by banks and savings and loans insured by FDIC/FSLIC.
   b. Government-backed issues (treasury bills, bonds, GNMAs)
   c. Money market funds offered by banks
   d. High interest money market funds
   e. Commercial papers A-1 rated
4. <u>Unacceptable Investment Instruments</u>
   This policy should indicate which investments are not to be used. This will depend on the chapter's investment strategy. Generally, stocks and/or utilities, real estate, junk bonds, instruments not backed by the government, or rated "A" by Moody's are excluded.
5. <u>Investment Strategies</u>
   In developing investment strategies, the major focus should be on what is in the best interest of the chapter. There is not one formula that would answer this question for all chapters. There are, however, some principles that generally serve well.
   a. <u>Putting Surplus Cash to Work</u>
   Surplus cash results from revenue exceeding expense. This results from a variety of reasons – good management of financial resources, program and fundraising revenue exceeding projection, and gifts of discretionary funds to the chapter, among others. It is wise to put this money to work.
   b. <u>Liquidity and Risk</u>

For surplus cash, high liquidity (immediate maturity) and very low risk accounts (NOW accounts and money market funds purchased from insured banks) are recommended. The Board might choose to have part of this cash placed in a fund restricted for use at its discretion only. In addition, some organizations elect to provide a reserve fund equal to six months of operating expense invested with the same safeguards discussed above. Chapters have generally not determined a need for such a fund. Discretionary funds, just discussed, would serve the need for emergent financial problems.

c. Less Liquidity and Higher Interest
Beyond the need for discretionary funds that can be retrieved immediately, funds might be invested in instruments yielding higher interest, but with longer maturity rates. If this is elected, it is wise to stagger maturity dates. Relatively short-term instruments mature in 30, 60 or 90 days. Examples of these instruments are: repurchase agreements, certificates of deposit, treasury bills and commercial paper.

d. Acceptable Instruments, Higher Interest, Longer Maturity
For funds not needed for discretionary use on a rapid turnaround schedule, investment instruments yielding higher interest than shorter-term securities are available but with substantially longer maturity rates. These should be evaluated for the level of risk verses benefit. Safeguards exist like rating scales by Standard and Poor as well as Moody's, which are guides to determine the investment quality of bonds, commercial paper, municipal notes and stocks. Examples of these instruments are treasury notes, treasury bonds (30-year maturity), GNMA, A-1 Rated Commercial Paper.

e. Using Investment Consultants
It is recommended that chapters seek expert consultation and assistance when considering any investment beyond low risk, highly liquid investments through worthy and insured banks. Chapter financial goals and policies guide the investment function.