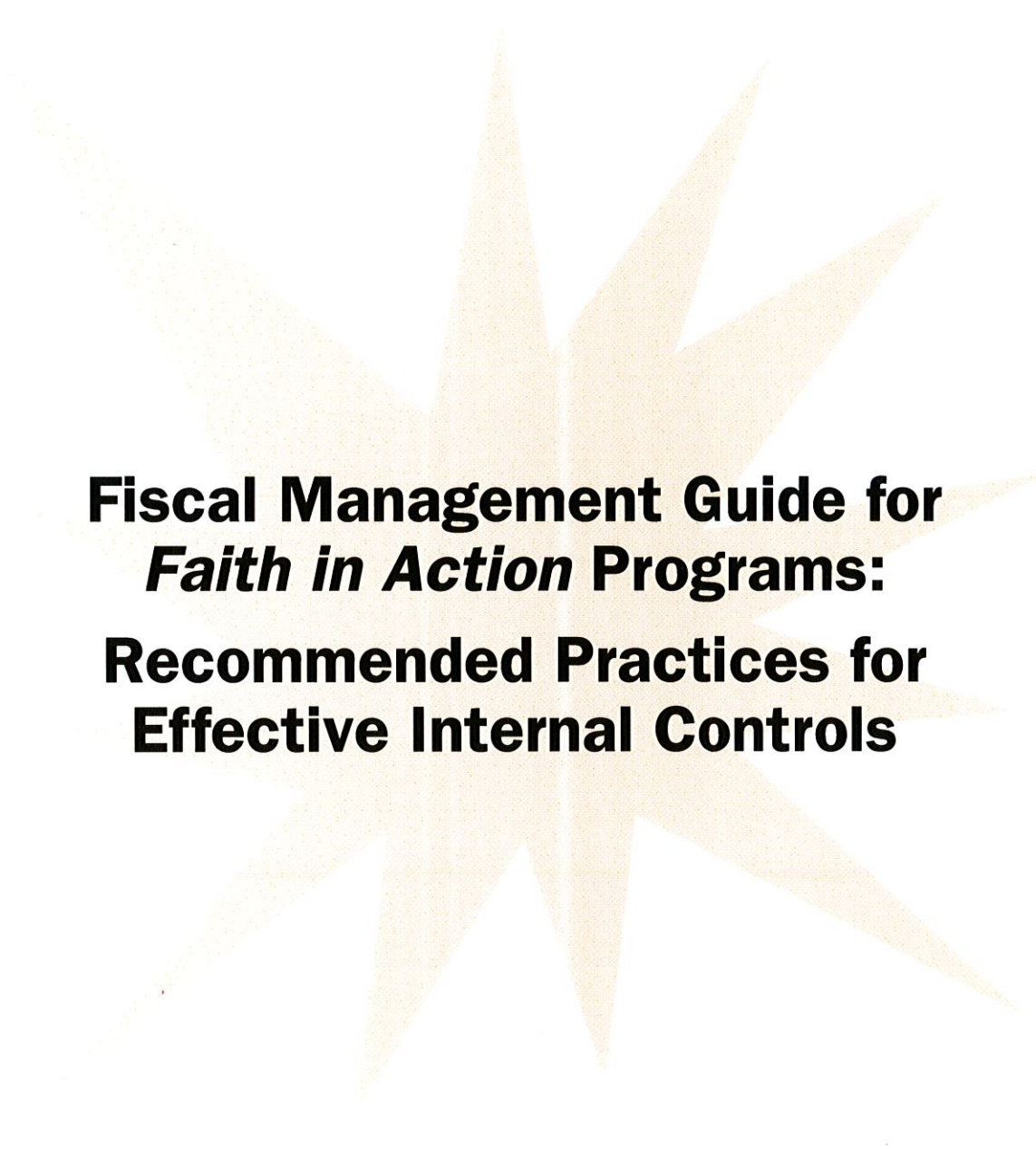


**Fiscal Management Guide  
for *Faith in Action* Programs**

**RECOMMENDED PRACTICES FOR  
EFFECTIVE INTERNAL CONTROLS**



**FAITH  
IN ACTION**



**Fiscal Management Guide for  
*Faith in Action* Programs:  
Recommended Practices for  
Effective Internal Controls**

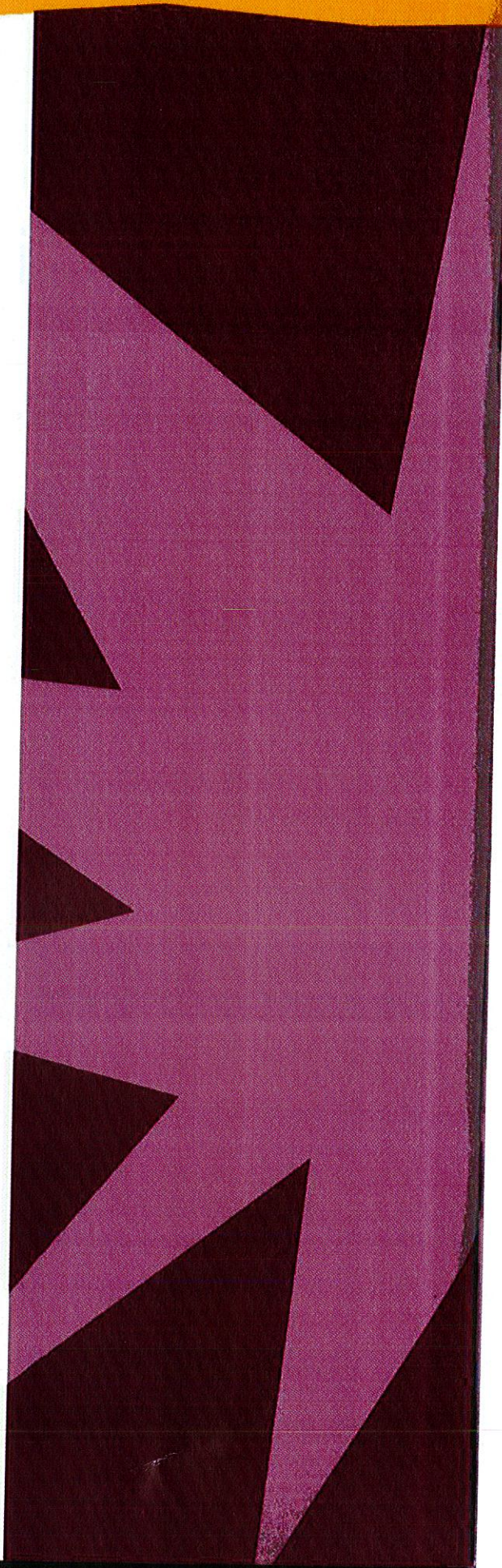


"Quality organizations and funders and foundations want to do business with other quality organizations and nonprofits. One way to differentiate yourself is to demonstrate that not only are you focused on your mission, but have internal controls in place."

Executive Session  
April 15, 2002  
*The NonProfit Times*

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**Faith In Action® is a national program supported by  
The Robert Wood Johnson Foundation® with  
direction and technical assistance provided by  
Wake Forest University School of Medicine.**







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*Faith in Action*, a nationwide interfaith volunteer caregiving program of The Robert Wood Johnson Foundation, fosters caring relationships between volunteers of all faiths and their neighbors with long-term health needs. Since 1983, the Foundation has been supporting community volunteer efforts. The original pilot initiative, the Interfaith Volunteer Caregivers Program, provided funding for 25 sites (Generation I). It proved successful, and in the 1990s RWJF funded an additional 1,091 sites (Generation II) for the first time under the name *Faith in Action*. In the current initiative, an additional 2,000 sites (Generation III) will be funded. These projects have made it possible for houses of worship of all faiths, volunteer organizations and social service and health agencies to form effective coalitions that provide informal volunteer services, care and companionship to individuals with chronic illnesses or disabilities.

The National Office of *Faith in Action* is located at Wake Forest University School of Medicine, Department of Psychiatry and Behavioral Medicine. The *Faith in Action* national office provides technical assistance and grant support to help local *Faith in Action* programs develop and achieve sustainability. The five essential elements of a *Faith in Action* program include an **interfaith** coalition that mobilizes **volunteers** to serve people with **long-term health** needs in their **home** through informal **caregiving**.

### **Faith in Action**

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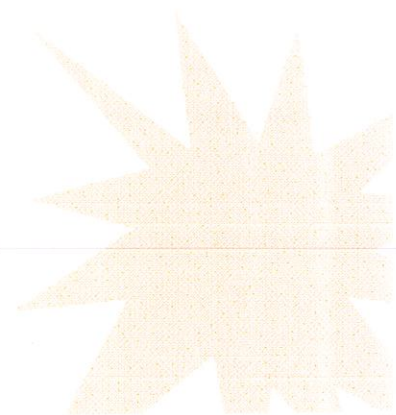




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## PREFACE

Internal control structure consists of policies and procedures designed to provide reasonable assurance of sound fiscal management practices. Many nonprofit organizations lack large staffs; therefore, the traditional and desirable checks and balances are not always in place. This guide is designed for managers, board members or advisory boards who want to have financially healthy organizations through adopting the better practices of internal accounting controls.

Our goal as we developed this guide was to make it useful for all *Faith in Action* board members or advisory boards, program directors and staff. If you are a small to mid-sized organization, this guide is designed to ensure that your *Faith in Action* program has the necessary accounting controls in place, and should be used as a resource for establishing, assessing or reviewing your internal control structures. If you are part of a larger organization, this guide is useful in helping the program director and advisory boards for your *Faith in Action* program learn of the organization's internal controls, and should be used as a resource to assess ways to enhance the current internal controls.

The public trust of a nonprofit organization is as important as a for-profit organization, especially in today's business environment. The responsibility of establishing a *Faith in Action* program with solid public trust lies with the board members and management. We hope all *Faith in Action* programs, regardless of the size of your organizations, will monitor financial activities closely and use resources wisely through effective internal controls.

*Kim Yates and the Staff of the National Office*



## ACKNOWLEDGMENTS

We would like to express our appreciation to the many *Faith in Action* programs who have graciously opened their financial records to share with us some of the better practices for fiscal management. We learn much from you about the realities of every day operations of a volunteer caregiving program. The *Faith in Action* National Office wants to especially thank Jeannette Wojcik, *Faith in Action* Mentor of West Virginia, for her guidance, suggestions and generosity in sharing materials from her *Faith in Action* program, which are included in this publication as samples and recommended forms.

In addition, several individuals representing a variety of perspectives related to *Faith in Action* programs gave of their time for an in-depth review of drafts of this publication. For their guidance and recommendations, we are indebted to the following:

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## INTRODUCTION TO INTERNAL ACCOUNTING CONTROL

Internal accounting control is an integral component of sound financial management. It affords boards of directors and management of *Faith in Action* programs greater assurance that resources are used exclusively for intended purposes—a key ingredient of maintaining public trust and goodwill in the nonprofit sector.

Internal accounting control usually presents special problems for small nonprofit organizations, such as *Faith in Action* programs. The staff of a *Faith in Action* program is often limited in size, reducing the likelihood of achieving control through the traditional technique of delegating financial tasks among several employees. Internal accounting control in *Faith in Action* organizations is, however, achievable.

### Definition

Internal control is broadly defined as a process, affected by an organization's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

The first objective addresses a nonprofit's basic business objectives including financial performance and the safeguarding of assets and resources. The second relates to the preparation of accurate and meaningful financial reports and analysis. The third deals with complying with laws and regulations to which the organization is subject. For specific accounting terms and definitions, please refer to the accounting glossary in Appendix A, page 20.

### Benefits to *Faith in Action* Organizations

Internal accounting control provides important benefits to *Faith in Action* programs. It improves the quality of information and reduces the possibility of:

- Error
- Mismanagement
- Fraud

An accounting control system increases the probability that the organization will be able to provide effective services to the community while operating the organization in an efficient manner. It also reduces the possibility that an organization will incur a loss of public trust.

"We shouldn't tolerate mismanagement and fraud, not only because it's wrong to tolerate it, but because it goes to the reputational damage to the broader field. It goes to the issue of mission. It goes to the issue of the vast majority of people who are working hard to try to make the world better . . ."

Executive Session of the April 15, 2002 issue of *The NonProfit Times*



### **Role of the Board of Directors and Management**

The board of directors and management has ultimate responsibility for internal accounting control. This responsibility is particularly important in *Faith in Action* programs for which resources are often scarce. The continuous monitoring of accounting records and procedures, and the overall review of operations by directors and management, enhance the internal accounting control in *Faith in Action* organizations.

#### **Exhibit 1.1**

### **The Board of Directors' Responsibility on Fiscal Management**

The roles of the Board are to support and to govern, but they also need to be questioners and monitors of the organization, especially when it relates to the financial health of the *Faith in Action* program. It should be communicated to the Board that they will review monthly financial statements in order to identify errors, trends and unusual transactions. They should consider the following samples, but are not limited to these:

- Examine the cash balance to ensure that balances maintained in checking accounts are adequate but not excessive.
- Note the investment balance and identify any significant changes from month to month.
- Examine the payroll liability accounts for unusual increases.
- Examine major sources of income to determine if actual results are in line with the budget. Obtain explanations for significant variances.
- Examine all expenses for costs that exceed the budget. Obtain explanations for significant variances.
- Review the listing of unusual payees and identify those payees that are not familiar.



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## ELEMENTS OF AN EFFECTIVE INTERNAL ACCOUNTING SYSTEM

Effective internal accounting control is achieved through an integrated system of personnel, records and procedures. The key elements of an effective system include:

- Control environment
- Director and management involvement
- Control objectives
- Key policies and procedures manuals
- Segregation of duties
- Financial reporting
- Budgets

### **Control Environment**

All program and administrative staff of your *Faith in Action* program must understand the importance of internal controls, which is to ensure the effective use of resources in order to increase the program's sustainability and capacity to provide volunteer caregiving services for your community. The control environment "tone" must be communicated to the employees, volunteers and coalition members by management. It must be clear from the message and attitude of the board of directors and management that effective controls are a high priority in the *Faith in Action* program.


### **Director and Management Involvement**

If an organization's internal control systems are ineffective, its financial health may be jeopardized. Control processes for all *Faith in Action* programs can be more effective, regardless the size of the organization, if management is involved in day-to-day operations. Management plays a vital role in the control process by expressing interest in the daily accounting and financial routines through inquiries and observation. Board members with financial experience can play a key role in monitoring an organization's overall system and determining whether or not it is operating satisfactorily. Well-phrased questions from board and management are important elements in a control system and are often as important as formal procedures. For example, the board may periodically ask, "How effective are our internal controls? What might we do to strengthen them?"

*"For organizations without a strong internal control environment and strong leadership, the need for effective oversight from the board is critical."*

Executive Session of  
the April 15, 2002  
issue of *The NonProfit  
Times*





### **Control Objectives**

Overall internal accounting control objectives should be established for every *Faith in Action* program and for the entire organization, if your *Faith in Action* program is part of a larger agency. Internal accounting control objectives generally include control over **authorization** of transactions, **recording** of transactions, and **access** to assets. Internal accounting controls should reflect the unique environment of each *Faith in Action* program and be identified and set forth in written procedures.

### **Key Policies and Procedures Manuals**

The operating policies of your *Faith in Action* program and the accounting procedures for executing transactions should be clearly documented and enforced. These policies and procedures should be readily accessible to appropriate personnel and should serve as the primary source of reference for resolving operating and procedural questions. Effective communication is often achieved by collecting and codifying policies and procedures in reference manuals. This is particularly helpful when part-time and volunteer personnel and coalition members control certain aspects of operations. See Appendix B (page 22) for a sample employee manual and Appendix C (page 26) for sample financial policies and procedures.

---

### **Segregation of Duties**

Responsibilities should be assigned to personnel in such a manner that no one individual, including managers and directors, controls all aspects of processing a transaction. Segregation of duties is a system of checks and balances in which tasks necessary to complete a transaction either are performed by different individuals, two or more individuals working in tandem or are independently reviewed. Division of work assignments along these lines reduces the probability that error, mismanagement or fraud will be undetected. This system of checks and balances also serves as protection for each individual, including managers, directors and members of the board.

Segregation of duties is the cornerstone of internal accounting control. Often *Faith in Action* programs do not have sufficient personnel to achieve a traditional segregation of duties. In such instances, active involvement of directors and management in monitoring the course of activities and the flow of resources into and out of an organization is essential. In the next section, “Basic Internal Accounting Control System,” the control procedures for many areas of an accounting system are outlined as a checklist for review and assessment.

## Financial Reporting

A concise, comprehensible and timely report detailing the financial activity of the *Faith in Action* program should be prepared and presented to the board monthly. Ideally, financial reports are prepared by the Treasurer or Executive Director, if you are a small to mid-size organization. If you are part of a larger organization, financial reports are usually prepared by a financial officer. Such reports provide assurance concerning the propriety and accuracy of reported transactions. Since nonprofit personnel may not be familiar with technical accounting conventions, functional financial reporting will be an effective control only to the extent it is simple and straightforward. Effective financial reports often contain the following attributes:

- Highlights of important transactions and trends (e.g., increased payroll expenses)
- Written analysis of operations
- Non-technical terminology
- Comparison of actual results to expected results (e.g., budget)

## Budgets

Budgets are an important element of an internal accounting control system. They allow effective monitoring of the flow of resources in and out of an organization. For *Faith in Action* programs, comparison of actual results to budget estimates often provides the first indication of operating problems or weaknesses as well as the indication of your strength in generating funds if your revenue support exceeds the projection.

Management should review significant variances between actual results and budget. Variances should be investigated and explained to management and the board promptly. For example, in the Budget Variance Report presented in Exhibit 2.1, the total personnel line item reflects a variance of \$13,800. Upon review of the items in this section, it is noted that the actual for salaried staff and hourly staff are under the projected budget. It is important to explain the reason for this variance since it is more than 13%. For instance, the explanation may be that the program director worked reduced hours during the summer months, and an hourly staff member was not brought on as early as anticipated and thus did not work as many hours as budgeted.

“ . . . basic rules to keep in mind when creating and using a budget:

1. Every organization needs a budget, no matter how small or how uncomplicated its operations may be;
2. Avoid needless detail;
3. Establish a process for comparing budget amounts to actual results;
4. Be flexible when applying the budget during the year; and,
5. Be prepared to look beyond the current year.”

April 15, 2002 issue of  
*The NonProfit Times*



Exhibit 2.1

**Sample Budget Variance Report**  
*Faith in Action* Mission Center  
 For the Twelve Months Ended June 30, 200X

	Annual Budget	Year-to-Date Actual	Year-to-Date Variance
<b>Revenue</b>			
Individual gifts	\$40,000	\$35,000	\$(5,000)
Corporate gifts	15,000	12,500	(2,500)
Memorials	27,500	20,000	(7,500)
Area Agency on Aging	5,000	3,500	(1,500)
United Way	<u>5,000</u>	<u>4,000</u>	<u>(1,000)</u>
<b>Total Revenue</b>	<b>92,500</b>	<b>75,000</b>	<b>(17,500)</b>
<b>Expenses</b>			
<i>Personnel</i>			
Salaried Staff	55,000	45,000	(10,000)
Hourly Staff	12,000	10,000	(2,000)
Fringe Benefits	<u>10,050</u>	<u>8,250</u>	<u>(1,800)</u>
<b>Total Personnel</b>	<b>77,050</b>	<b>63,250</b>	<b>(13,800)</b>
<i>Office and Other Expenses</i>			
Office Supplies	1,200	1,000	(200)
Rent	1,500	1,500	
Insurance	1,500	1,200	(300)
Printing	2,200	1,700	(500)
Travel (annual, regional and local)	2,700	2,200	(500)
Volunteer Recognition	600	500	(100)
Utilities	1,400	1,100	(300)
Depreciation	400	400	
Telephone	<u>1,000</u>	<u>800</u>	<u>(200)</u>
<b>Total Office Expenses</b>	<b>13,500</b>	<b>10,900</b>	<b>(2,600)</b>
<b>Total Expenses</b>	<b>90,550</b>	<b>74,150</b>	<b>(16,400)</b>
<b>Surplus (Deficit)</b>	<b><u>\$1,950</u></b>	<b><u>\$850</u></b>	<b><u>\$(1,100)</u></b>

Two types of budgets generally prepared are the operating budget and cash flow budget. Operating budgets project revenue and expenditures for one or more future periods. Most nonprofits, including *Faith in Action* programs, prepare an annual operating budget. Some also prepare a two-or-three year strategic plan, which includes an operating budget covering a longer time period. Such long-range budget projections are useful in ascertaining program sustainability and capacity for growth and are recommended practice for your *Faith in Action* program. The sample operating budget, Exhibit 2.2, using the fictitious program, *Faith in Action* Mission Center, is provided to illustrate that board and management may need to examine the source of funding each year and determine if any adjustments need to be made. For example, the board and management for this program decided to focus on their own grass roots fund raising. They also added a new line item after they received commitments from coalition members to provide financial support.

**Sample Operating Budget with Justifications**

*Faith in Action Mission Center*

For the period July 1, 200X – June 30, 200X

**I. Revenue**

Individual Donations	\$38,500
Memorials	22,000
Coalition Members	3,000
Corporate Donations	13,125
Fund Raising	15,000
Area Agency on Aging	<u>5,000</u>
Total	\$96,625

**Justifications**

Estimated 10% increase from last year.  
 Estimated 10% increase from last year.  
 A new line item. Members signed agreements to provide financial support.  
 Estimated 5% increase from last year.  
 A new line item. Several fund-raising events planned for the coming year.  
 Same amount budgeted for last year.

**II. Personnel Cost**

A. Salaries	
Executive Director	\$47,250
Volunteer Coordinator	15,600
Clerical Staff	<u>5,200</u>
B. Fringe Benefits	
Full-time staff (20%)	9,450
Part-time staff (10%)	<u>1,560</u>
Total Personnel Cost	\$79,060

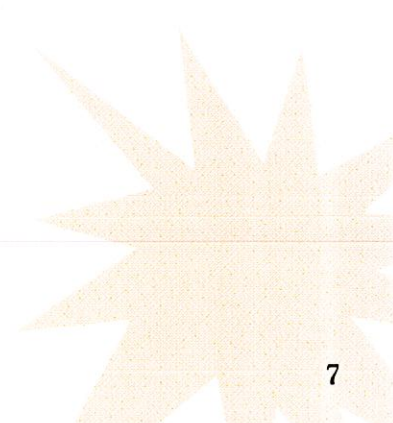
1 FTE. Estimated 5% increase from last year.  
 Increase from 10 hours to 20 hours a week.  
 A new position. Estimated at 10 hours a week.

**III. Other Direct Expenses**

Rent/Utilities	\$ 4,200
Office Supplies	1,500
Postage	750
Printing/Copying	2,500
Telephone	920
Travel	2,200
Volunteer Insurance	780
Volunteer Recognition	750
Volunteer Training	450
Other – Fund Raising	<u>1,500</u>
Total Other Direct Expenses	15,550
Depreciation	<u>500</u>

To expand the office space.  
 50% increase. Change from quarterly newsletter to monthly.  
 50% increase. Increase mailing for newsletters.  
 48% increase – newsletters.  
 15% increase. Adding a new phone line.  
 Staff to attend national conference, regional meetings and local travel.  
 A new line item.  
 50% increase. To have 3-4 times a year.  
 A new line item. It was an inkind support in previous year.  
 A new line item. To cover expenses for special fund-raising events.

**IV. Surplus (Deficit) \$ 1,515**





Cash flow budgets estimate cash receipts and cash disbursements. They forecast cash balances at different intervals in the operating cycle and aid management in understanding whether they will experience cash shortages and thus encounter difficulty paying bills. Exhibit 2.3 provides an example of a cash flow budget that estimates the cash receipts and cash disbursements for the first six months of the fiscal year; it also shows the cash balance at the end of each month. It may help you to identify those months that additional fund-raising efforts may be needed. The sample cash flow budget shows a negative cash balance at the end of the first half of the year. The program director and the board may need to focus on generating more revenue support or reduce expenses in the second half of the year to either balance the budget or have a surplus.

**Exhibit 2.3**

**Sample Cash Flow Budget**

*Faith in Action Mission Center*

For a Six-Month Period (July 200X – December 200X)

**I. Cash Receipts**

	<b>Annual Budget</b>	<b>July 200X</b>	<b>Aug 200X</b>	<b>Sept 200X</b>	<b>Oct 200X</b>	<b>Nov 200X</b>	<b>Dec 200X</b>
<i>Individual Donations</i>	\$38,500	\$1,850	\$2,500	\$2,050	\$3,125	\$3,350	\$3,180
<i>Memorials</i>	22,000	1,325	1,980	820	1,550	1,405	2,175
<i>Coalition Members</i>	3,000	500	500	500	500	500	500
<i>Corporate Donations</i>	13,125	1,300	950	750	875	1,070	1,250
<i>Fund Raising</i>	15,000	—	3,000	—	—	—	3,500
<i>Grants</i>	5,000	3,000	—	—	—	—	—
<b>Total Receipts</b>	<b>\$96,625</b>	<b>7,975</b>	<b>8,930</b>	<b>4,120</b>	<b>6,050</b>	<b>6,325</b>	<b>10,605</b>

**II. Disbursements**

	<b>Annual Budget</b>	<b>July 200X</b>	<b>Aug 200X</b>	<b>Sept 200X</b>	<b>Oct 200X</b>	<b>Nov 200X</b>	<b>Dec 200X</b>
<i>Salaries</i>	\$68,050	\$5,585	\$5,260	\$5,260	\$5,585	\$4,981	\$4,731
<i>Fringe Benefits</i>	11,010	788	788	788	788	788	788
<i>Rent/Utilities</i>	4,200	350	350	350	350	350	350
<i>Office Supplies</i>	1,500	255	105	75	90	140	100
<i>Postage</i>	750	95	50	55	60	65	70
<i>Printing/Copying</i>	2,500	435	205	95	140	110	165
<i>Telephone</i>	920	95	80	85	80	106	83
<i>Travel/Mileage</i>	2,200	200	150	105	300	195	120
<i>Volunteer Insurance</i>	780	350	—	—	350	—	—
<i>Volunteer Recognition</i>	750	—	—	—	—	—	350
<i>Volunteer Training</i>	450	—	100	—	75	—	90
<i>Other - Fund Raising</i>	1,500	750	150	—	—	350	120
<b>Total Expenses</b>	<b>\$94,610</b>	<b>8,903</b>	<b>7,238</b>	<b>6,813</b>	<b>7,818</b>	<b>7,085</b>	<b>6,967</b>

**III. Cash**

**Surplus/(deficit)** \$ 2,015 ( 928) 1,692 (2,693) (1,768) ( 760) 3,638

**IV. Cash Balances**

**at end of month** ( 928) 764 (1,929) (3,697) (4,457) (819)



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## BASIC INTERNAL ACCOUNTING CONTROL SYSTEM

The following section sets forth a framework for a basic internal accounting control system surrounding cash receipts, cash disbursements, payroll, payables, petty cash, endowments and grants. In each section, control objectives and control procedures are identified. The questions in the control procedures serve as a checklist to help *Faith in Action* programs in reviewing and evaluating their internal accounting controls, to determine if internal controls are in place or new ones are required. A sample checklist is provided at the end of this section. You may want to create a checklist for your *Faith in Action* Program.

### RECEIPT OF CASH

**Control objective:** To ensure that all cash intended for the organization is received, promptly deposited, properly recorded, reconciled and safeguarded.

#### Control procedures:

##### Segregation of duties

- Are the cash receiving, processing, recording and bank reconciliation functions clearly segregated? Exhibit 3.1 provides a sample of segregated duties for small *Faith in Action* programs. Exhibit 3.2 provides a sample of segregated duties for mid-size *Faith in Action* programs or a program within a larger organization.

##### Initial receipt of cash

- Are cash receipts/donations recorded in a log when received and are checks restrictively endorsed for depositing into the organization's bank account?
- Are receipts for cash donations issued?
- Are physical safeguards over cash donations maintained if not deposited within the same day? For instance, are cash donations kept in a fire-resistant lock box?

##### Deposit of cash

- Is cash deposited in a bank account intact, and on a timely basis, by a person independent of receiving and general ledger/recording functions?

##### Recording of cash

- Is the initial log of receipts compared with bank deposit slips?
- Is the cash receipts journal posted by a person independent of the receiving and cash deposit functions?

*"Quality organizations and funders and foundations want to do business with other quality organizations and nonprofits. One way to differentiate yourself is to demonstrate that not only are you focused on your mission, but have internal controls in place."*

Executive Session, April 15, 2002 issue of *The NonProfit Times*



## Bank reconciliation

- Are bank reconciliations prepared by a person independent of the cash receiving, processing and recording functions? If the organization is unable to segregate these functions, are bank reconciliations reviewed by someone independent of the cash processing function?

Exhibit 3.1

### Example of Segregated Duties – Receipt of Cash *For Programs with One Paid Staff*

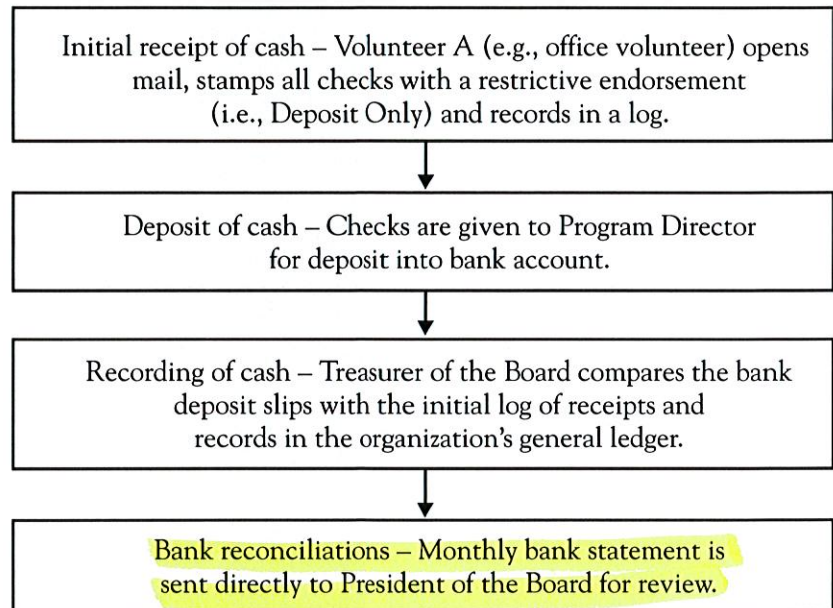
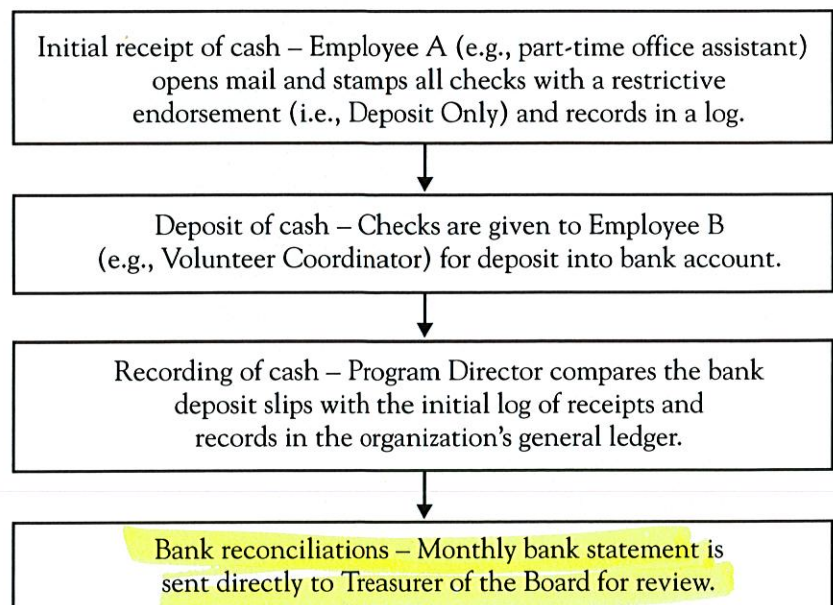


Exhibit 3.2

### Example of Segregated Duties – Receipt of Cash *For Programs with Two or More Paid Staff*



## **DISBURSEMENT OF CASH**

**Control objective:** To ensure that cash is disbursed only upon proper authorization of management, for valid business purposes, and that all disbursements are properly recorded.

### **Control procedures:**

#### **Segregation of duties**

- Are the authorization, processing, check signing, recording and bank reconciliation functions clearly segregated? Exhibit 3.3 provides an example of segregated duties for Disbursement of Cash for small *Faith in Action* programs. (Similar procedures should be followed for larger programs.)

#### **Authorization and processing of disbursements**

- Are persons authorized to approve expenditures clearly identified, and are all expenditures approved in advance by authorized persons? For example, who authorizes/approves \$500 payment for rental of function space for the special event fund raising auction? Who processes the check? (See Appendix D, page 34, for a sample check request form.)
- Are invoices or requests for expense reimbursements supported by appropriate receipts and/or approval indicating receipt of goods or services? Is this policy effectively communicated to all appropriate persons, including volunteers, in writing?
- Are all disbursements made by pre-numbered checks?
- Is a record of cash disbursements (e.g., check stubs, check copies, cash disbursements record) kept by the person processing checks? Does a listing of disbursement amounts accompany the checks for signature?

#### **Check signing**

- Is check-signing authority vested in persons at appropriately high levels in the organization? Do larger checks require a higher level of authority? Is the number of authorized signatures limited to the minimum practical number? For instance, are two signatures, the Program Director and Treasurer of the Board, required for all checks over the amount of \$500?
- Are signed checks mailed promptly under the control of the check signer?
- Does the check signer (1) review and initial documentation supporting checks indicating completeness and appropriate approval, and (2) compare check amounts, on a test basis, to the listing of disbursements accompanying checks?



### Recording of cash

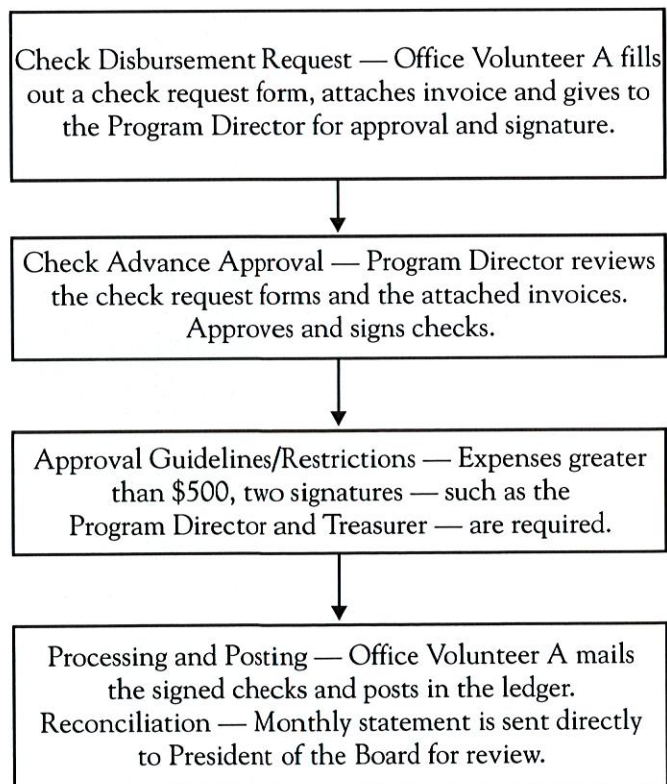
- Is the cash disbursements journal posted by a person independent of the authorization check-processing and check-signing functions?

### Bank reconciliation

- Are bank statements and canceled checks received directly and reconciled with disbursement records by a person independent of the cash authorization, check processing and check-signing functions? Exhibit 3.4 provides a sample of bank account reconciliation.

### Exhibit 3.3

### Example of Segregated Duties – Disbursement of Cash *For Programs with One Paid Staff*



**Exhibit 3.4****Sample Bank Account Reconciliation**

*Faith in Action Mission Center*  
For Month Ended June 200X

**Reconciliation of Bank Balance**

Ending balance per bank statement dated X		\$15,000
Add:		
Deposit in transit		2,500
Deduct:		
Outstanding Checks		
# 110	1,000	
# 111	2,500	
# 113	1,500	
		<u>(5,000)</u>

<b>Adjusted Bank Balance</b>	<b>\$12,500</b>
------------------------------	-----------------

**Reconciliation of Book Balance**

Ending balance per books		\$12,375
Add:		
Interest income on checking balance		155
Deduct:		
Bank charges	15	
Wire transfer fee	15	
		<u>(30)</u>

<b>Adjusted Book Balance</b>	<b>\$12,500</b>
------------------------------	-----------------



## **PAYROLL**

**Control objective:** To ensure that payroll disbursements are made only upon proper authorization of management to bona fide employees, payroll disbursements are properly recorded, and the organization complies with related legal requirements (such as payroll tax deposits).

### **Control procedures:**

#### **Segregation of duties**

- Are the personnel authorization, payroll preparation and approval, payroll check distribution, record keeping and bank reconciliation functions clearly segregated?

#### **Personnel authorization**

- Are changes in employment (additions and terminations), salaries, wage rates and payroll deductions authorized by proper non-accounting personnel? Do policies and procedures exist for accounting of vacations, holidays and sick leave?
- Are changes in employment status recorded in employee personnel files that are maintained by a person independent of the payroll processing function?

#### **Timekeeping**

- Are time and attendance records, including hours worked, overtime, and special benefits, reviewed and approved by authorized non-accounting personnel?

#### **Payroll preparation**

- Is the payroll register kept by person(s) processing payroll checks? Does the register accompany the checks for signature?

#### **Payroll approval and disbursement**

- Is a separate imprest basis payroll bank account maintained? Is this account periodically reconciled? Is a maximum dollar amount set that can be drawn on this account?
- Are all disbursements made by pre-numbered checks?
- Is check-signing authority consistent with that for general disbursements?
- Are signed checks distributed promptly under the control of the check signer?

## **ACCOUNTS PAYABLE**

**Control objectives:** To ensure that accounts payable are supported by appropriate documentation, are promptly paid and properly recorded. See also Disbursement of Cash (page 11).

### **Control procedures:**

#### **Segregation of duties**

- Are the authorization, processing, recording and payment functions clearly segregated?

#### **Authorization**

- Are persons authorized to approve accounts payable clearly identified? The same procedures for authorization of disbursement of cash apply to authorization of accounts payable. See page 11.

#### **Recording of payables**

- Are all approved invoices promptly recorded in the voucher (accounts payable) register to establish control for payment?
- Are unpaid invoices maintained in a distinct unpaid open invoice file?
- Are statements from vendors regularly compared with open invoice files?
- Are invoices from unfamiliar or unusual vendors reviewed and approved for payment by authorized personnel who are independent of the invoice processing function?

#### **Payment**

- Are payments promptly recorded in the accounts payable register to avoid double payment?
- Is the accounts payable register, if one is utilized, periodically reconciled with the general ledger by a person independent of the invoice processing function?
- Is a listing of unpaid invoices regularly prepared and periodically reconciled with the general ledger by a person independent of the invoice processing function?

## **PETTY CASH AND OTHER WORKING FUNDS**

**Control objective:** To ensure that petty cash and other working funds are disbursed only for proper purposes, are adequately safeguarded and are properly recorded.

### **Control procedures:**

- Are petty cash and other working funds maintained on an imprest basis?
- Is the responsibility of each fund vested in a single custodian? It is recommended by auditors that only one person has access to the petty cash fund.



- Are the types and amounts of petty cash disbursements limited? For example, has the Board set a policy to have a petty cash fund of \$50, with any item under \$10 covered by the fund and any item over \$10 reimbursed by checks?
- Are advances to employees from the petty cash fund authorized by appropriate personnel?
- Are petty cash transactions periodically monitored, and are increased levels of activity investigated?
- Are petty cash reimbursement checks payable only to the custodian? Once the fund is reimbursed, are vouchers and receipts marked to prevent reuse?
- Are unannounced counts of petty cash funds made by an individual other than the custodian?
- Are physical safeguards over petty cash funds, including fire-resistant boxes, vaults and overnight depositories, maintained?

*See Appendix E, page 35, for a sample petty cash voucher.*

## **ENDOWMENTS AND INVESTMENT INCOME**

**Control objective:** To ensure that endowment assets are properly recorded, adequately safeguarded and managed in accordance with any related restrictions and prudent investment management practices, and all investment income due is promptly collected, deposited and properly recorded.

### **Control procedures:**

- Are the receipt, recording, custody, transaction authorization and performance monitoring functions clearly segregated?
- Are endowments recorded in separate accounts, and are restrictions on investment principal and investment income documented?
- Are endowments recorded in the accounting records by a person independent of initial receipt or custody of endowment funds?
- Are endowment securities (if applicable) deposited with an independent custodian or in a bank safe deposit box?
- If deposited in a bank safe deposit box, is access limited to one or two authorized persons, and are all investments recorded?
- Is the disbursement of restricted investment income reviewed by appropriate non-accounting personnel to determine whether the disbursement is in conformity with donor or board imposed restrictions? Are restrictions on and proposed uses of investment income reviewed prior to disbursement?
- Is investment income received periodically compared with investment revenue estimates in the operating budget? For example, if you have interest-bearing investments, you may need to compare on a quarterly basis; your investment income from dividend schedules may occur on an annual basis.

## **GRANTS, GIFTS AND BEQUESTS RECEIVED**

**Control Objective:** To ensure that all grants, gifts and bequests are received and properly recorded, and that compliance with the terms of any related restrictions is adequately monitored.

### **Control Procedures:**

- Is the receipt and recording of grants, gifts and bequests segregated from expenditure and monitoring of amounts expended?
- Once notified of grant, gift or bequest award, is the amount expected to be received recorded in a separate receivable account?
- If award is not received on a timely basis, is the awarding party promptly notified?
- Once the award is received, is the amount received recorded by an individual who is independent of the cash receipts function?
- Are awards contingent upon future events periodically monitored?
- If possible, are budget estimates prepared for grants and gifts? Are award receipts periodically compared with award estimates in the operating budget?
- Are restrictions on use of awards documented? Is compliance with restrictions verified before the initial and all subsequent disbursements? Assign a staff or a board member to ensure monies are used for the purpose specified. Properly segregate restricted revenues from unrestricted revenues.
- In the case of grants, are accounts periodically monitored for unexpended funds, and are they promptly returned to the awarding party, if necessary?

*See Appendix G, page 37, for sample of thank you letter to donors.  
A recommended practice is to thank all donors promptly.*



## Sample Internal Control Checklist/Self-Assessment

*This checklist is a summary of control procedures identified in the previous section. This should be used as an assessment and planning tool to assist your organization in reviewing and evaluating your internal control structures to determine if controls need to be implemented or if new controls are required. Also, this checklist is designed to help you gain a better understanding of your management needs and make improvements as needed.*

	Checklist	Meet	Needs Work	Notes
1.	Are the cash receiving, processing, recording and bank reconciliation functions clearly segregated?			
2.	Is the initial log of receipts compared with bank deposit slips?			
3.	Are the authorization, processing, check signing, recording and bank reconciliation functions clearly segregated?			
4.	Are two signatures required for checks over the amount of \$500?			
5.	Are time and attendance records, including hours worked, overtime and special benefits, reviewed and approved by authorized personnel?			
6.	Are all disbursements made by pre-numbered checks?			
7.	Are payments promptly recorded in the accounts payable register to avoid double payment?			
8.	Are physical safeguards over petty cash funds maintained?			
9.	Do you prepare and present the financial statements to the Board?			
10.	Do you compare the actual to budget to achieve a better understanding of your finances?			
11.	Is payroll prepared following appropriate State and Federal regulations and organizational policy?			
12.	Are the taxes (i.e., Social Security, Medicare) paid on the wages of each employee monitored? Are all such taxes paid when due?			
13.	Do you prepare a multi-year budget for long-range planning purposes?			
14.	Do you have written policies and procedures?			
15.	Is the budget reviewed and approved by the Board annually?			
16.	Have you established, or are actively trying to develop, a reserve of funds to cover at least 2-3 months of operating expenses?			
17.	Do you deposit cash donations and other funds in a timely matter?			
18.	Thank you letter to donor is sent promptly?			



## APPENDICES

The sample financial statements, forms and policies in these appendices are for illustrative purposes. They are presented here to provide ideas for the development of budgets, forms and policies for your *Faith in Action* program.

- Appendix A Accounting Glossary
- Appendix B Sample Employee Manual
- Appendix C Sample Financial Policies and Procedures
  - a. A statement of activities (income statement)
  - b. A statement of functional expenses
  - c. A statement of financial position (balance sheet)
  - d. A statement of cash flows
- Appendix D Sample Check Request Form
- Appendix E Sample Petty Cash Voucher
- Appendix F Sample Mileage and Travel Expense Report Form
- Appendix G Sample Donor Thank You Letters
- Appendix H Bibliography



## Accounting Glossary

1. Accrual Basis of Accounting – A method of recording revenues when earned and expenses when incurred, not necessarily when the cash is received or the bill is paid. Accrual accounting is the most common method of accounting used by organizations.
2. Assets – These are things your organization owns. Current assets often include cash, prepaid rent and prepaid insurance. Fixed assets often include your building, equipment and furniture.
3. Balance Sheet (Statement of Financial Position) – A statement indicating your financial position at a particular point in time. The accounting equation for nonprofit is “assets = liabilities + net assets.”
4. Bequest – A gift that is made through a donor’s will.
5. Budget Variance – The purpose is to compare the budgeted revenue and expenses to the year-to-date actual revenue and expenses on a monthly or quarterly basis.
  - Unfavorable Variance – When the actual revenue is less than the budgeted revenue, or when the actual expenses are more than the budgeted expenses.
  - Favorable Variance – When the actual revenue is more than budgeted revenue, or when the actual expenses are less than the budgeted expenses.
6. Cash Basis of Accounting – A method of accounting that recognizes transactions only when cash is received and expenses are paid.
7. Cash Flow Management – The purpose is to ensure that you have enough cash to pay current bills on a month-to-month basis.
8. Deficit – If actual expenses are greater than revenue within a fiscal year, a deficit has occurred.
9. Depreciation – An allocated portion of the cost of your fixed assets (i.e., equipment, furniture and building) over the estimated useful life. For example, a computer cost of \$2,000 with an estimated useful life of four years has a depreciation expense of \$500 to be incurred each year over the period of the useful life ( $\$2,000 / 4 \text{ years} = \$500$ ).
10. Direct Costs – Expenses such as postage and program personnel that are clearly and easily attributable to a specific program.
11. Endowment – A fund in which the donor has stipulated that the principal must remain and be invested, and that only interest and dividend earnings may be expended.
12. Fiscal Year – Any 12-month accounting period used by an entity. Many for-profit companies use the calendar year, ending on December 31, for their fiscal year. Many government, educational or nonprofit units use a fiscal year that ends on June 30 or September 30.

13. Imprest – An account with a fixed nominal amount established for the purpose of making minor disbursements for goods and services that are needed immediately.
14. Indirect Costs (Overhead or Administrative Costs) – Expenses that are not easily identifiable to a specific program, but are necessary to the operation of the program. These expenses are shared among many programs, for example, rent, telephone, utilities and so forth.
15. Liabilities – These are debts such as accounts payable, wages, taxes and so forth.
16. Net Assets – This equals the assets after deducting the liabilities, “net assets = assets – liabilities.”
17. Operating Budget – A budget is a financial plan for achieving the financial and operational goals of an organization. An operating budget identifies all the income and expenses that will be needed during the coming year.
18. Statement of Revenue and Expenses (Statement of Activities) – This statement includes your revenue and subtracts your expenses resulting in your surplus or your deficit over a period of time.
19. Surplus – If actual revenue is greater than expenses within a fiscal year, a surplus is generated.

Adapted from the Nonprofit Genie with permission. Source: The Nonprofit Genie web site [www.genie.org](http://www.genie.org). The Nonprofit Genie is supported by the *California Management Assistance Partnership and CompassPoint Nonprofit Services* ([www.compasspoint.org](http://www.compasspoint.org)).



**Sample Employee Manual**  
*Faith in Action Mission Center*

This manual is intended to provide general information about the *Faith in Action* Mission Center (FIAMC), its plans and policies.

***Hiring Procedures***

It is the policy of FIAMC to administer all employment activities without discrimination because of race, sex, age, religion, national origin or disability in accordance with all local, state and federal laws. Decisions to hire must be based on individual merit and qualifications.

Your employment at FIAMC is on an “at-will” basis. “At-will” employment is for an indefinite, unspecified term and may be terminated by either you or FIAMC at any time for any reason.

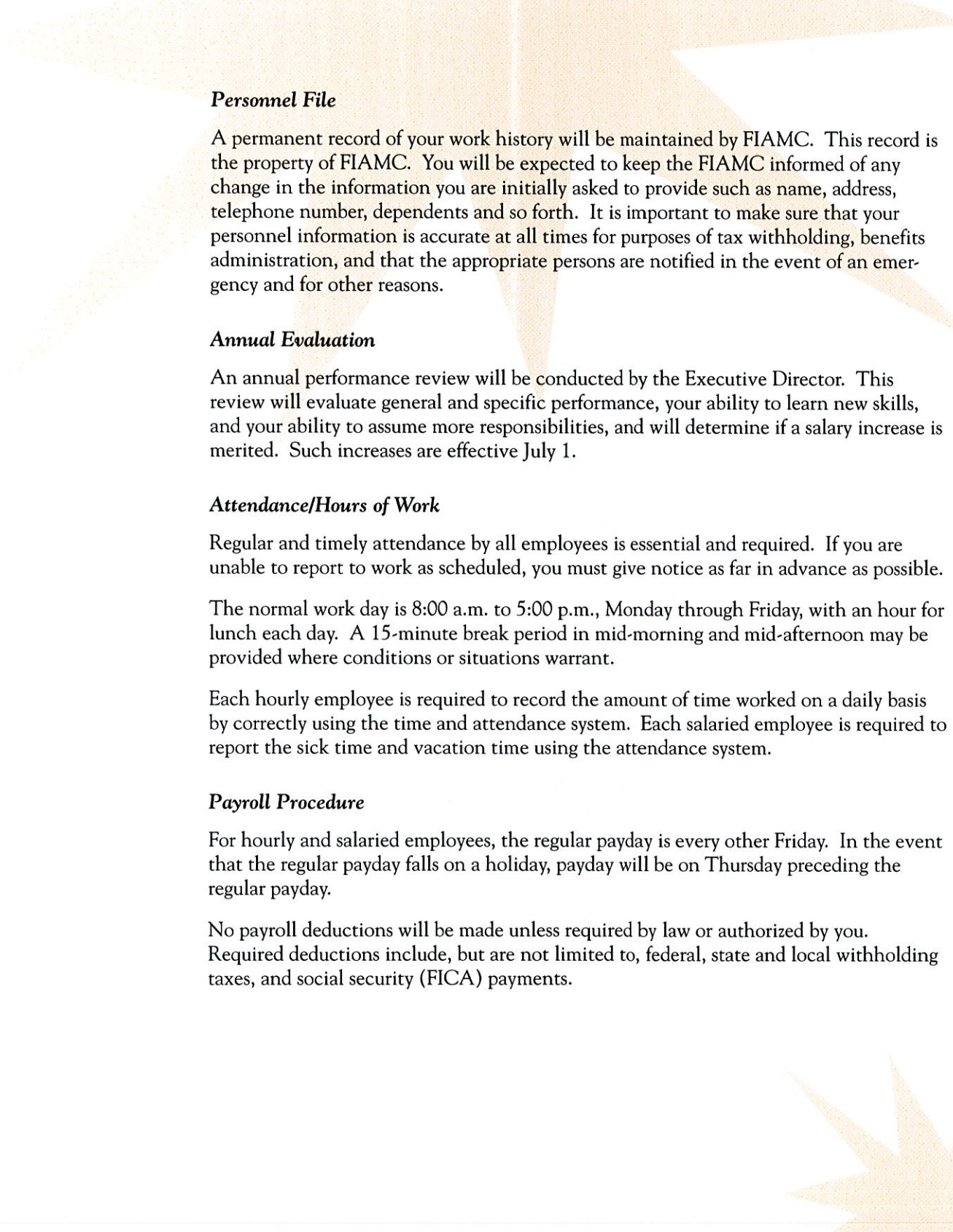
***Initial Evaluation Period***

A three-month probationary period is an integral part of the FIAMC's evaluation and orientation process.

Your most important responsibilities as a FIAMC employee are to learn what your job requires and how to do it safely, efficiently and effectively. Your job duties and the operation of FIAMC will be explained to you by your supervisor. The basic responsibilities of your job may change from time to time depending upon the needs of FIAMC.

***Employee Benefits***

- Health insurance coverage — FIAMC offers its employees health insurance coverage. A description of the specific benefits provided is available through the Executive Director of the FIAMC.
- Vacation — Vacation will accrue beginning from the date of employment but will not be available during the first three months. The amount of paid vacation to which each employee is entitled is calculated based on years of service. See your supervisor for detailed information.
- Sick Time — If you are sick and unable to report to work, you need to call and report off before the start of the work day. Full-time employees may earn up to 5 paid sick days per year, part-time (20 hours/week) may earn up to 3 paid sick days per year.



### ***Personnel File***

A permanent record of your work history will be maintained by FIAMC. This record is the property of FIAMC. You will be expected to keep the FIAMC informed of any change in the information you are initially asked to provide such as name, address, telephone number, dependents and so forth. It is important to make sure that your personnel information is accurate at all times for purposes of tax withholding, benefits administration, and that the appropriate persons are notified in the event of an emergency and for other reasons.

### ***Annual Evaluation***

An annual performance review will be conducted by the Executive Director. This review will evaluate general and specific performance, your ability to learn new skills, and your ability to assume more responsibilities, and will determine if a salary increase is merited. Such increases are effective July 1.

### ***Attendance/Hours of Work***

Regular and timely attendance by all employees is essential and required. If you are unable to report to work as scheduled, you must give notice as far in advance as possible.

The normal work day is 8:00 a.m. to 5:00 p.m., Monday through Friday, with an hour for lunch each day. A 15-minute break period in mid-morning and mid-afternoon may be provided where conditions or situations warrant.

Each hourly employee is required to record the amount of time worked on a daily basis by correctly using the time and attendance system. Each salaried employee is required to report the sick time and vacation time using the attendance system.

### ***Payroll Procedure***

For hourly and salaried employees, the regular payday is every other Friday. In the event that the regular payday falls on a holiday, payday will be on Thursday preceding the regular payday.

No payroll deductions will be made unless required by law or authorized by you. Required deductions include, but are not limited to, federal, state and local withholding taxes, and social security (FICA) payments.



### ***Holiday***

The following holidays are observed by the FIAMC and granted with pay:

- New Year's Day
- Memorial Day
- Independence Day (July 4)
- Labor Day
- Thanksgiving (2 days)
- Christmas or other religious holiday (2 days)

If a holiday falls on a Saturday, it will be observed on the preceding Friday.  
If a holiday falls on a Sunday, it will be observed on the following Monday.

Full-time employees are paid eight (8) hours per holiday and part-time (20 hours/week) employees are paid four (4) hours per holiday.

### ***Jury Duty***

Time off with pay is authorized for employees to serve on jury duty. It should be noted that when employees are excused by the court from jury duty during regular working hours, they should immediately contact the supervisor and/or return to work.

### ***Rules of Conduct and Corrective Action***

FIAMC relies on the common sense and good judgment of the employees to ensure high standards of conduct. It would be impossible to list every inappropriate work behavior but the following are a few examples of intolerable or unacceptable conduct:

- Misappropriation of or damage to property belonging to other employees or to FIAMC
- Disorderly or insubordinate conduct
- Misuse of the time and attendance reporting system
- Harassment or discrimination of any kind
- Leaving the workplace without permission
- Possessing firearms or other weapons at the workplace
- Discourteous behavior toward volunteers or other employees
- Being under the influence of or having possession of alcohol or illegal drugs while on duty
- Excessive absenteeism or tardiness

Whenever appropriate, employees will be given an opportunity to correct any problem with their workplace conduct. However, corrective action may be necessary and will be administered based on the facts of each individual case. In general, termination will be considered a last resort but may occur without prior verbal or written warning.

### ***Travel***

Employees should document the mileage for local business travel, such as visiting a new coalition member. The travel expense form should be submitted every other Friday with the time sheet for reimbursement. (See Appendix F, page 36, for a sample mileage and travel expense report form.) Travel to workshops and conferences must have prior written approval from the Executive Director. The Executive Director must have prior written approval from the Treasurer.

### ***Termination***

If your employment with FIAMC ends for any reason, whether by resignation, discharge, retirement or under any other circumstance, we may request that you participate in an exit interview. The exit interview is conducted to assist the terminating employee, and to close his/her personnel file. An exit interview must be completed by the terminating employee to ensure that the final paycheck is accurate.

Adapted with permission. Source: *Faith in Action* Caregivers, Inc., Wheeling, WV.





## Sample Financial Policies and Procedures

Faith in Action Mission Center

### A. Financial Policies

#### 1. Basis of Accounting

The organization has adopted the accrual basis of accounting.

#### 2. Fiscal Year

The organization's fiscal year begins on July 1 and ends on June 30.

#### 3. Budget Process

The organization operates with a budget approved by the Board of Directors. The Executive Director will prepare a draft of the proposed budget for the next fiscal year and submit it to the Finance Committee for review and refinement in May of each year. The Finance Committee will present the proposed budget to the Board of Directors for approval prior to the beginning of the fiscal year.

#### 4. Presentation of Financial Statements

The organization abides by standards issued by the Financial Accounting Standard Board (FASB) No. 117, Financial Statements of Not-for-Profit Organizations. Financial statements will include:

- a. A statement of activities (income statement)
- b. A statement of functional expenses
- c. A statement of financial position (balance sheet)
- d. A statement of cash flows

The statement of activities is prepared monthly and shows revenues and expenses based on the organization's projected budget. See sample Statement of Activities.

The statement of functional expenses is disclosed by functional classification: program services and supportive services. It will be prepared and presented to the Board of Directors annually. See sample Statement of Functional Expenses

The statement of financial position reports the assets and liabilities of the organization. It is prepared and presented to the Board of Directors annually. See sample Balance Sheet.

The statement of cash flows is prepared on a yearly basis to demonstrate how the organization generated and used its cash during the year. See sample Cash Flow Statement.

The Executive Director prepares a monthly report showing income and expenses for each month based on the organization's approved budget. This report is presented at the monthly board meeting.

**Faith in Action Mission Center**  
**Statement of Activities**  
**For The Year Ended June 30, 200X**

<b>Revenue</b>	<b>Year to Date</b>
Individual gifts	\$ 35,000
Corporate gifts	12,500
Memorials	20,000
Area Agency on Aging	3,500
United Way	<u>4,000</u>
<b>Total Revenue</b>	<b>75,000</b>
<b>Expenses:</b>	
<i>Personnel</i>	
Salaried Staff	45,000
Hourly Staff	10,000
Fringe Benefits	<u>8,250</u>
<b>Total Personnel</b>	<b>63,250</b>
<i>Office &amp; Other Expenses</i>	
Office Supplies	1,000
Rent	1,500
Insurance	1,200
Printing	1,700
Postage	500
Travel (annual, regional & local)	2,200
Volunteer Recognition	500
Utilities	1,100
Depreciation	400
Telephone	<u>800</u>
<b>Total Office &amp; Other Expenses</b>	<b>10,900</b>
<b>Total Expenses</b>	<b><u>74,150</u></b>
Change in Unrestricted Net Assets	\$ 850
Unrestricted Net Assets, Beginning of Year	<u>\$ 5,350</u>
Unrestricted Net Assets, End of Year	<u><u>\$ 6,200</u></u>



**Faith in Action Mission Center  
Statement of Functional Expenses  
Year Ended June 30, 200X**

	Current Year			Prior Year	
	Program Services	Management and General	Fund Raising	Total Expenses	Total Expenses
Salaries and wages	33,135	18,715	3,150	55,000	52,500
Employee benefits	4,970	2,807	473	8,250	7,875
Total Personnel	38,105	21,522	3,623	63,250	60,375
Supplies	475	325	200	1,000	800
Rent	320	865	315	1,500	1,500
Insurance	1,000	200	—	1,200	100
Printing	735	515	450	1,700	1,200
Postage	335	90	75	500	400
Travel	1,357	643	200	2,200	1,600
Volunteer Recognition	500	—	—	500	450
Utilities	515	410	175	1,100	950
Telephone	515	195	90	800	750
Total Expenses before Depreciation	43,857	24,765	5,128	73,750	68,125
Depreciation	235	165	—	400	300
<b>Total Expenses</b>	<b>44,092</b>	<b>24,930</b>	<b>5,128</b>	<b>74,150</b>	<b>68,425</b>

**Faith in Action Mission Center  
Balance Sheet  
June 30, 200X**

<b>Assets</b>	
Cash	\$ 5,000
Prepaid Rent	125
Prepaid Insurance	300
Equipment, Net	<u>3,200</u>
Total Assets	<u>\$ 8,625</u>
<b>Liabilities</b>	
Accounts Payable	\$ 575
Wages Payable	1,500
Taxes Payable	<u>350</u>
Total Liabilities	<u>\$ 2,425</u>
Net Assets, Unrestricted	<u>\$ 6,200</u>

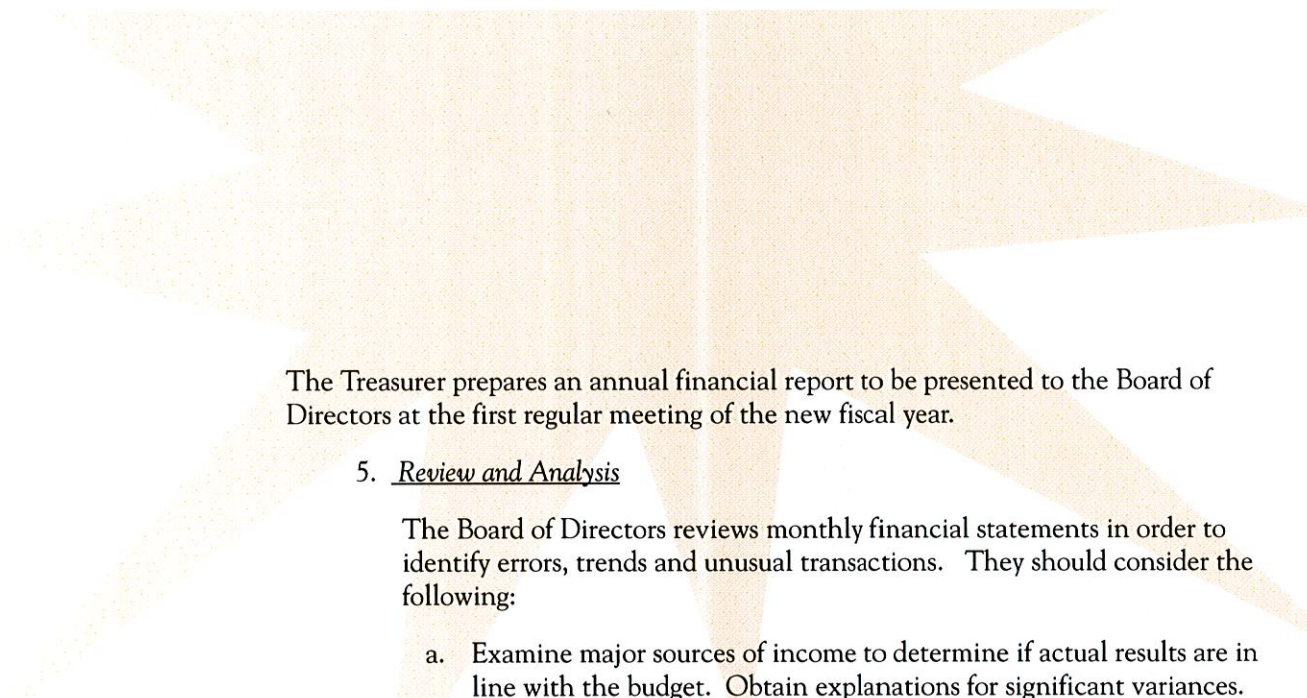
**Faith in Action Mission Center**  
**Statement of Cash Flows**  
**Year Ended June 30, 200X**

<b>Cash flows from operating activities</b>	<b>\$850</b>
Increase (decrease) in net assets	
Adjustments to reconcile increase (decrease) in net assets to cash provided by (used in) operating activities:	
Depreciation	400
(Increase) decrease in:	
Prepaid expenses	(225)
Increase (decrease) in:	
Accounts payable	235
Accrued expenses and payroll taxes	<u>895</u>
Cash used in operating activities	<u>\$2,155</u>
<b>Cash flows from investing activities</b>	
Acquisition of equipment	<u>(1,000)</u>
Cash used in investing activities	<u>(1,000)</u>
Increase in cash	\$1,155
Beginning cash	<u>3,845</u>
Ending cash	<u><u>\$5,000</u></u>

*Sample financial statements are for demonstration purpose only.*







The Treasurer prepares an annual financial report to be presented to the Board of Directors at the first regular meeting of the new fiscal year.

5. Review and Analysis

The Board of Directors reviews monthly financial statements in order to identify errors, trends and unusual transactions. They should consider the following:

- a. Examine major sources of income to determine if actual results are in line with the budget. Obtain explanations for significant variances.
- b. Examine all expenses for costs that exceed the budget. Obtain explanations for significant variances.
- c. Review the listing of unusual payees and identify those payees that are not familiar.
- d. Examine the payroll liability accounts for unusual increases.

6. Record Keeping

The organization's financial records for the current fiscal year are maintained by the Treasurer.

Financial records for previous years are maintained by the Executive Director.

The organization utilizes a software accounting program to maintain financial records and budget records. The Executive Director is responsible for this record keeping. The system is used to monitor and track income and expenses according to the approved budget.

7. Audit

The Board of Directors authorizes a yearly audit or a review of financial records. The audit or review will be conducted by an independent C.P.A. or accounting firm chosen at the Board's discretion.

The Executive Director and Treasurer work with the auditor to provide all necessary records.

8. Delegation of Responsibility

The Executive Director is responsible for instructing all employed staff and office volunteers in the financial policies and procedures.

The Executive Director delegates responsibility for specific tasks to an employee or a volunteer when necessary.

## B. Financial Procedures

### 1. Management of Deposits

Deposits into accounts are managed by the Executive Director or other employee who may be designated.

Deposits will be categorized and a separate deposit made for each category. For example, categories might include donations, grants, special event fund raising and so forth.

When preparing funds for deposit the following procedures are followed:

- a. A deposit slip provided by or approved by the bank will be used.
- b. Checks will be itemized on the deposit slip.
- c. Checks will be endorsed with the FIAMC stamp "For Deposit Only."
- d. Two photocopies will be made of all checks and deposit slips.
- e. The category of the deposits will be marked on the copies (donations, grants, etc.).
- f. One copy of the checks and deposit slip will be retained by the FIAMC office; the other copy will be given to the Treasurer.
- g. The receipt from the bank will be stapled to the Treasurer's copy.

The Executive Director, or other designated employee, takes cash, checks and deposit slips to the bank at least each Friday. In times when the organization is receiving large amounts of money, deposits will be made more frequently.

### 2. Accounts Payable

All bills are submitted to the Treasurer for approval for payment in a timely manner. The Executive Director issues checks for payment from the organization's checking account after the approval from the Treasurer.

Receipts or invoices are required for payment of all bills.

The organization uses the following procedures for payment:

- a. The Executive Director will submit bills to the Treasurer for approval for payment.
- b. Original invoices will be used when possible.
- c. The Treasurer will determine the appropriateness of the invoice.
- d. The Executive Director will mark or stamp the invoice paid once the check is issued.



3. Purchasing Policy and Level of Approvals

The Executive Director will have the authority to use the organization's funds for routine and necessary items according to the approved budget. Routine and necessary items include, but are not limited to, office supplies, postage, local travel and volunteer recognition.

Authorization for major, non-routine purchases must be pre-approved by the Board of Directors. Non-routine purchases may include, but are not limited to, computer equipment, office equipment or furniture.

The Executive Director is authorized to approve expenses for employees such as incidental supplies, including file folders, envelopes, pens and so forth.

The Treasurer approves expenses such as office equipment and travel for workshops for the Executive Director.

4. Petty Cash

The Executive Director is issued a petty cash account. Funds for this will be withdrawn from the organization's checking account and held in the Executive Director's office in a lock box. The petty cash fund will maintain an amount not to exceed \$50.

All disbursements from the petty cash fund require that a receipt be maintained as part of the accounting records. Any item over \$10 must be made by check and not be reimbursed through petty cash. The Executive Director files a monthly report of petty cash transactions with the Treasurer. Receipts are attached to the report.

Only the Treasurer is authorized to raise the amount of the petty cash fund above the specific amount set in this policy.

5. Payroll

Employees submit a time sheet to the Executive Director every other Thursday, the day prior to payday. Payday is designated as every other Friday. The Executive Director reviews the time sheet and signs in the appropriate place to indicate approval.

Employees on vacation or who for some other reason will not be in the office on the day before payday are responsible for submitting the time sheet to the Executive Director before that day.

In the absence of the Executive Director, employees are responsible for submitting time sheets to the Treasurer on the date due.

The Treasurer authorizes payment of payroll through the payroll service currently under contract.

Copies of time sheets are retained by the Executive Director in the employee's personnel file (or with Human Resources, if your *Faith in Action* program is part of a larger organization).

6. Bank Account Reconciliation

All bank account statements are mailed to the Treasurer. The Treasurer will be responsible for reconciling the account balances and preparing a report for the board's monthly meeting.

7. Reimbursement for Travel Related Expenses

a. Local Travel

Employees are to submit travel expense report forms to the Executive Director with the time sheet. The Executive Director reviews the mileage reimbursement request and signs in the appropriate place indicating approval.

The Executive Director submits a travel expense report form to the Treasurer for payment with payroll. The Treasurer has authority to approve mileage reimbursement for the Executive Director.

Mileage is reimbursed based on the rate established by the I.R.S.

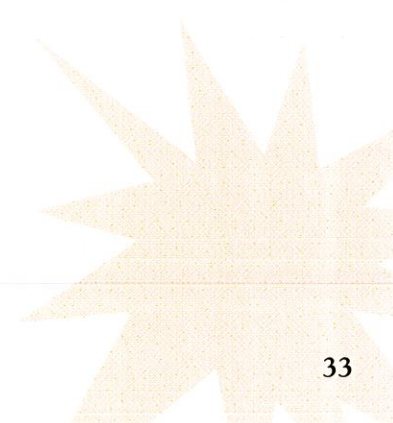
b. Attend Workshops/Conferences

Travel to workshops and conferences must have prior written approval from the Executive Director. Reimbursement must be submitted within 15 days after completion of travel.

The Treasurer has authority to approve workshops and conferences, and reimbursements for the Executive Director.

Employees must submit original receipts for all business expenditures and identify the business purpose of the expenditure.

Adapted with permission. Source: *Faith in Action* Caregivers, Inc., Wheeling, WV.





**APPENDIX D**

**Sample Check Request Form**

The purpose of the check request form is to ensure controls are in place over the disbursement of organization funds via manually prepared checks. To ensure internal controls are functioning properly, all check request forms should be completed and properly approved before checks are issued.

---

Date of Request: \_\_\_\_\_

Make Check Payable to: \_\_\_\_\_

Payee Address: \_\_\_\_\_

SS#/EIN: \_\_\_\_\_

Business Purpose of Check: \_\_\_\_\_

Mail check to vendor: ( ) Yes ( ) No

Give Check to (name): \_\_\_\_\_ (please provide explanation)

**Check Amount:** \_\_\_\_\_

Funding Source: \_\_\_\_\_

(List the grantor to which this expense relates or indicate administrative.)

**Prepared by:** \_\_\_\_\_ **Title:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Approved by:** \_\_\_\_\_ **Title:** \_\_\_\_\_ **Date:** \_\_\_\_\_



**APPENDIX E**

**Sample Petty Cash Voucher**  
*Faith in Action Mission Center*

To disburse petty cash funds, the organization will need to buy or develop petty cash vouchers for documenting each transaction.

Petty Cash Voucher Date: _____
Amount:\$ _____
For: _____
Paid to: _____
Signature: _____
Approved by: _____

Adapted from the Nonprofit Genie with permission. Source: The Nonprofit Genie web site [www.genie.org](http://www.genie.org).  
The Nonprofit Genie is supported by the *California Management Assistance Partnership and CompassPoint Nonprofit Services* ([www.compasspoint.org](http://www.compasspoint.org)).





APPENDIX G

Sample Donor Thank You Letters

Sample A General Thank You Letter



FAITH  
IN ACTION

July 1, 2002

John Smith  
1234 USA Main Street  
Anycity, ST 00000

Dear John,

Thank you for your recent donation of \$250.00 to *Faith in Action* Mission Center. In compliance with the Omnibus Revenue Reconciliation Act of 1993, please note: no goods or services were provided by *Faith in Action* Mission Center.

Mother Teresa of Calcutta writes, "Love in action is service. Our work is only the expression of the love we have for God." The kindness of your gift will touch many lives as it allows us to coordinate assistance to people who are elderly or have disabilities and others in need through the shared ministry of our faith communities. Your generosity allows others to have opportunities to express their kindness to those we help.

Thank you again for your gift.

Sincerely,

Mary Brown  
Executive Director

Adapted with permission. Source: *Faith in Action* Caregivers, Inc., Wheeling, WV.



Sample B *Memorial Donation Thank You Letter*



**FAITH**  
IN ACTION

July 1, 2002

Mary Smith  
897 USA Any Street  
Anycity, ST 00000

Dear Mary,

A donation in memory of your father, Joe Smith, has been made to *Faith in Action* Mission Center by:

Adam Doe  
3590 USA Main Street  
Any city, ST 00000

This gift of remembrance will be placed in our Endowment Fund and will be used to help secure the future of this ministry. The gift will touch many lives as it allows *Faith in Action* Mission Center to coordinate services to people who are elderly or have disabilities. With each act of kindness shared by a volunteer caregiver, your loved one will be remembered and honored.

We extend our deepest sympathy to you at this time and will remember you and your family in our prayers.

Sincerely,

Mary Brown  
Executive Director

Adapted with permission. Source: *Faith in Action* Caregivers, Inc., Wheeling, WV.

## APPENDIX H

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## Accounting Glossary

Accrual Basis of Accounting – A method of recording revenues when earned and expenses when incurred, not necessarily when the cash is received or the bill is paid. Accrual accounting is the most common method of accounting used by organizations.

Assets – These are things your organization owns. Current assets often include cash, prepaid rent and prepaid insurance. Fixed assets often include your building, equipment and furniture.

Balance Sheet (Statement of Financial Position) – A statement indicating your financial position at a particular point in time. The accounting equation for not-for-profit is “assets = liabilities + net assets.”

Budget Variance – The purpose is to compare the budgeted revenue and expenses to the year-to-date actual revenue and expenses on a monthly or quarterly basis.

- Unfavorable Variance – When the actual revenue is less than the budgeted revenue, or when the actual expenses are more than the budgeted expenses.
- Favorable Variance – When the actual revenue is more than budgeted revenue, or when the actual expenses are less than the budgeted expenses.

Cash Basis of Accounting – A method of accounting that recognizes transactions only when cash is received and expenses are paid.

Cash Flow Management – The purpose is to ensure that you have enough cash to pay current bills on a month-to-month basis.

Deficit – If actual expenses are greater than revenue within a fiscal year, a deficit has occurred.

Depreciation – An allocated portion of the cost of your fixed assets (i.e., equipment, furniture and building) over the estimated useful life. For example, a computer cost of \$2,000 with an estimated useful life of four years has a depreciation expense of \$500 to be incurred each year over the period of the useful life ( $\$2,000/4 \text{ years} = \$500$ ).



Direct Costs – Expenses such as postage and program personnel that are clearly and easily attributable to a specific program.

Fiscal Year – Any 12-month accounting period used by an entity. Many for-profit companies use the calendar year, ending on December 31, for their fiscal year. Many government, educational or nonprofit units use a fiscal year that ends on September 30 or June 30.

Indirect Costs (Overhead or Administrative Costs) – Expenses that are not easily identifiable to a specific program, but are necessary to the operation of the program. These expenses are shared among many programs, for example, rent, telephone, utilities and so forth.

Liabilities – These are debts such as accounts payable, wages, taxes and so forth.

Net Assets – The total assets after deducting the liabilities, “net assets = assets – liabilities.”

Operating Budget – A budget is a financial plan for achieving the financial and operational goals of an organization. An operating budget identifies all the income and expenses that will be needed during the coming year.

Statement of Revenue and Expenses (Statement of Activities) – This statement includes your revenue and subtracts your expenses resulting in your surplus or your deficits over a period of time.

Surplus – If actual revenue is greater than expenses within a fiscal year, a surplus is generated.