

Knobstone Hiking Trail Association

Financial Controls Policies And Procedures

Purpose. The Knobstone Hiking Trail Association (“**KHTA**”) is a not-for-profit organization committed to protecting and using its assets for its not-for-profit mission. Proper financial practices are very important in doing this, since proper practices help prevent and detect errors and fraud. Good financial practices also assure donors that the KHTA uses their gifts for the purposes for which they were intended.

Review of Risks. These policies were drafted after consideration of the risks associated with the various aspects of the KHTA financial operations to enact policies and procedures designed to minimize those risks. The Board will review these policies annually to consider whether the risks have changed. Such changes may include receipt of grant monies for the first time or receipt of grants with restrictions, a change in the laws regulating the KHTA not-for-profit status, hiring of employees or a major change in the KHTA programs. If so, the Board needs to identify any new risks and adopt appropriate procedures to minimize those risks. The Board shall consult with a professional if necessary to ensure that it is properly addressing the risks.

Segregation of Roles. There are several fiscal “roles” in the KHTA - **custody, authorization, execution, and monitoring**. For example, the person who has authority to sign the Community Foundation of Morgan County (“**CFMC**”) Request For Payment (“**RFP**”) and checks is acting in the custodial role. The person who approves payment of a bill is authorizing. The Board as a whole acts in an authorizing role when it approves an annual budget, makes a decision to purchase a major item, or approves a table of authorization. The person who prepares the RFPs or checks for signature by an authorized check signer is acting in the execution role, executing an action that has been authorized by the Board through an annual budget or by the individual responsible for approving payment of the bill. The person who reconciles the bank statement acts in the monitoring role. The Board also acts in a monitoring role when it reviews the monthly or quarterly financial reports to be sure that its plan - the budget - is being executed properly.

As much as possible, the Board seeks to separate the responsibilities for fiscal roles so that at least two (2) and preferably more individuals fulfill these roles. Because of its size and that it is all volunteer; it is difficult to achieve this. However, it is particularly important that the same person does not authorize, execute and monitor any transaction. At each step of handling funds, the organization shall ensure that more than one person verifies that the step is done correctly.

Fiscal Sponsor. The **CFMC** is the fiscal sponsor for the KHTA and maintains two advised pass-through funds to collect donations and pay authorized expenditures on behalf of the KHTA. Donations to these funds and purchases which will be paid from them are covered by the CFMC’s tax exemptions. The KHTA will abide by the CFMC’s fiscal policies and procedures related to advised pass-through funds.

II. RECEIPT OF FUNDS

Risks

The KHTA faces the risk that funds it receives may be lost, stolen, or that someone may be falsely accused of stealing funds. It also faces the risk that it may fail to record a donor or a restriction that a donor has placed on the use of funds.

Policy

All funds, whether cash or check, which the organization receives will be forwarded intact to the CFMC for deposit, with no monies removed to make payments or for other purposes. All cash receipts received by members directly or at the KHTA post office box should be forwarded as soon as possible intact to the CFMC for deposit. This allows for a complete accounting and independent verification of what happens to the KHTA funds. Communications from donors that establish restrictions on the use of their contributions will be saved. If the KHTA believes that a donor has restricted the use of funds in a conversation, it will follow up and get written confirmation of the donor's intent.

Procedures

1. Receipt of Checks in the PO Box. Two (2) Directors shall be designated by the Board of Directors to have access to the KHTA post office box. These 2 Designated Directors shall open all mail addressed to the organization. The Designated Director makes a photocopy or electronic copy of all checks received and provides the copies to the Treasurer. This allows the Treasurer to verify that all checks received are credited to the KHTA funds by the CFMC. The Designated Director will deliver all checks to the CFMC with 5 days of opening the mail.

2. Receipt of Cash or checks in other circumstances. Cash or checks may be received at KHTA events. The Treasurer shall delegate an individual with the responsibility of accepting cash or checks at a KHTA activity and delivering any funds collected to the CFMC. The person accepting the cash or check must provide a written receipt when accepting it. This includes any Board Member receiving cash for anything--a map, for example.

The receipt should:

- a. State the donor's name, the date, the amount of the cash and the purpose of the payment.
- b. Be written from a pre-numbered receipt book with an automatic duplicate copy with the organization's name printed on it. But the receipt may be written on a blank sheet of paper. However, the information listed in a. above should be included.
- c. Not have the duplicate pages may be removed from the receipt book.
- d. The person with access to the receipt book shall keep it in a secured location until the Treasurer or Treasurer's designee can retrieve it.
- e. The Treasurer shall:
 - 1) Prepare a listing of funds received that includes the sources of the cash and the receipt #s; and,
 - 2) Compare the listing to the Statement of Activities provided by the CFMC.

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Cash or checks shall be deposited in the Bank or delivered to the CFMC within 3 business days.

Receipt copies and deposit slips shall be forwarded to the Treasurer within 3 business days.

3. *Credit Card Contributions.* We do not accept contributions by credit card except through the CFMC.

4. *Acknowledging Donations.* While IRS rules require that we acknowledge all donations that are more than \$75, the KHTA policy is to provide written acknowledgement for every gift we receive. As our fiscal sponsor, CFMC responds to each donation it receives online with a letter thanking the donor for their generosity. However, donations received at KHTA activities may not be acknowledged by the CFMC, so the _____ of the KHTA will provide written acknowledgement that follows the following guidelines:

- a. If the gift was cash or check, the letter should include the amount of the gift and state that the gift was cash.
- b. If the gift was donated property of some kind, the _____'s letter should not value the property. If the donor did receive something of value in return, the Secretary's letter must contain a description of the donation and a good faith estimate of the value of what we gave back to the donor.
- c. The letter should include the statement: "Thank you for your contribution of \$_____, received on _____, 20___. [PICK ONE: "No goods or services were provided in exchange for your contribution" or "In exchange for your contribution, we gave you _____ whose fair market value was \$___."]"
- d. In addition to thanking our donors and providing documentation the donor needs to deduct the contribution, the acknowledgment letter may alert donors whose amount is misstated to contact us to correct the error. Additionally, the KHTA records of the letters we send will help us keep an up-to-date record of how to contact all our donors.

III. DISBURSEMENT OF FUNDS/USE OF CORPORATE PROPERTY

A. PURCHASING

RISK

The KHTA wants to ensure that all purchases on behalf of the Association are authorized by the Board or by Board policies. Unauthorized purchases deplete the organization's resources and interfere with the Board's ability to govern properly.

POLICY

All purchases made on behalf of the organization must be made pursuant to the Board-approved budget or Board Table of Authority rules.

PROCEDURES: Purchasing Authority Table

1. Committee Chairpersons may authorize purchases of a single item of up to \$_____ or several items aggregating that amount without prior approval.

Items above that amount require the prior approval of the Chairman or the Board of Directors, depending upon the amount of the purchase.

2. The Chairman can authorize purchases of \$_____ or less without prior approval and which conform to the Board's budget.
3. The Board must approve purchases above \$_____ prior to the purchase being made. The Board must authorize any purchase which does not conform to the Board's budget.

B. EXPENSE REIMBURSEMENT

RISK

The organization does not have the same level of control over expenses incurred on behalf of the organization by those who pay with personal funds and seek reimbursement as it does for expenses paid directly by the corporation. The corporation is not in as good a position to determine whether the good or service purchased might have been obtained at a lower price elsewhere, whether there is a personal benefit to the person seeking reimbursement and how the expenditure fits in with the rest of the organization's budget.

POLICY

In proper circumstances, Board members, employees and volunteers are entitled to be reimbursed for expenses related to the organization that they incurred on behalf of the organization. To receive reimbursement, you must meet the following requirements:

1. Your expense must have been authorized in advance by the Board or by the Chairman or later approved by the Board or the Chairman.
2. Your expense must have been incurred for goods or services purchased for the organization.
3. If your expense is for travel, the travel must be for work related to the organization.
 - a. We will reimburse no more than the standard mileage rate for business use of a car as established by the IRS.
 - b. The organization will reimburse meal expenses incurred in direct connection with the organization's business, or at the per diem rate established by the IRS.

PROCEDURES

To be reimbursed for expenses:

1. *Documentation.* You must provide reasonable documentation showing the date, amount and the reason for the expense. Credit card receipts and store receipts that do not describe the purchase are not adequate documentation. Your receipt must describe the purchase. Use of the KHTA Travel and Expense Report is encouraged.
2. *Other Reimbursement.* Your voucher must reflect reimbursement from sources other than ours.
3. *Timely Submission.* You must submit your documentation with a request for payment within 60 days from the date the expense was incurred.
4. *Overpayment.* If we overpay you, you must return any excess reimbursement within a reasonable period of time.

C. PAYMENTS FOR PURCHASES

RISKS

We face the risks that that the KHTA funds will be spent on unauthorized items, that someone will steal the KHTA funds by obtaining checks to payees who are not the

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KHTA vendors, that someone will use corporate property for personal purposes or that payments we make will be improperly recorded. Because of the fiscal sponsor relationship with the CFMC, the KHTA does not maintain a general operating account or write checks for its expenditures. From time to time, however, it may open an account to facilitate deposits of receipts from various online activities or merchandise sales.

POLICY

Make all disbursements of the organization's funds through the CFMC. This allows us to track how the KHTA funds are spent, who is spending them and who is authorizing expenditures.

PROCEDURES

1. *Opening Bank Accounts.* Bank accounts may be opened only upon authorization by the Board of Directors.
 - a. All bank accounts must be opened with the organization's employer identification number (EIN).
 - b. The Board shall approve the authorized signers on the organization's bank accounts.
 - c. Because of the Treasurer's role in reconciling the bank statement, the Treasurer cannot be a check signer.
2. *Custody of Checks.* The _____ is the only person authorized to have access to unused check stock. The checks should be stored in a locked location and information about how to access them should be kept confidential from everyone but the President.
3. *RFP Authorization.* All invoices will be forwarded immediately to the person who authorized the purchase. The authorizing person should:
 - a. Review all invoices for mathematical accuracy, agreement with a written quote, conformity to budget, Chairman or Board authorization and compliance with grant fund requirements.
 - b. Ensure that all conditions and specifications on a contract, quote or purchase order have been satisfactorily fulfilled, including inventorying items received against packing slip counts.
 - c. Forward to the Chairman in the case of a Committee level authorization, or to the Treasurer:
 - d. The Treasurer will code the invoice with the appropriate expense or chart of accounts line time number and other information as needed for accounting purposes.
 - e. The Treasurer is responsible for timely follow-up on discrepancies and payment. The Treasurer will send approved invoices to the CFMC for payment.
 - f. If the Treasurer expects to be unable to follow through in a timely fashion for bill payment, for example, for an extended vacation absence, the Board should be notified, and an alternate method of payment for bills due should be arranged.
4. *Expenses Not Invoiced.* In some cases, expenses may not be invoiced, such as rent. When such expenses are due, the Treasurer must ensure that the expense is in the budget or has Board approval and authorization.
4. *Payment by Checks.* No expense will be paid by check unless the Board directs the Treasurer to do so.
6. *Prohibited Practices.* In no event will:

- a. Invoices be paid unless properly approved;
- b. Blank checks or RFPs be signed in advance;
- c. Checks be made out to “cash,” “bearer,” etc.

7. *On-line Payments*. Any online payment must be arranged through the CFMC.

D. USE OF CORPORATE PROPERTY

RISKS

The corporation faces a risk that individuals will use corporate property without authorization for personal purposes. Usage reduces the life of property and eventually is an expense that the corporation assumes. It also betrays the trust of the KHTA donors who expect that the corporation will use its resources only for purposes that help us achieve the KHTA mission.

POLICY

Property and equipment owned by the corporation may only be used for corporate activities or activities approved by the corporation. They may not be used for personal purposes.

PROCEDURES

If a Board member, officer, employee or volunteer wants to use corporate property or equipment for any purpose other than a corporate purpose, that individual must obtain permission from the Board of Directors.

IV. CREATION OF CORPORATE OBLIGATIONS

RISKS

The corporation needs to ensure that any obligation undertaken in the corporate name is authorized by the corporation and is for a corporate and not a personal purpose.

A. CREDIT AND DEBIT CARDS

RISKS

Corporate credit or debit cards can be misused when people charge personal expenses on them, fail to obtain documentation showing that a purchase was for the corporation or put expenses on the corporate card for purchases that are embarrassing to the corporation.

POLICY

The corporation will not authorize the use of debit cards for any purposes. The Board will determine whether there is a compelling need for the corporation to obtain one or more credit cards. If the Board determines that credit cards are needed, the Board will authorize specific individuals to utilize a corporate credit card. A corporate cardholder may use the credit card only for official purposes directly related to the needs of the organization.

B. BORROWING AND LINES OF CREDIT

RISKS

The KHTA must ensure that any it will have the resources to repay any encumbrances or obligations it makes..

POLICY

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The Board must approve must approve any encumbrance prior to incurring it. An encumbrance includes but is not limited to borrowings, contracts, leases, employment contracts, and grants. A majority of the full Board must approve any other borrowing of funds in the name of the corporation, including the use of any promissory notes. The Board must give very serious attention to be sure that it will have sufficient resources to fulfill the requirements of any encumbrance on a timely basis.

V. BANK RECONCILIATION AND FISCAL SPONSOR MONITORING

RISKS

Mistakes happen. Monitoring allows us to uncover errors. Monitoring also assists us in identifying discrepancies between the KHTA accounting records and the CFMC records that suggest errors, theft or fraud, and unauthorized RFPs.

POLICY

The Treasurer will monitor the KHTA's accounts at the CFMC regularly and will prepare and present to the Board at its regular meetings financial reports that are reconciled to the records of the CFMC.

PROCEDURES

1. *Records to Treasurer.* The Treasurer shall periodically request a copy of all records of deposits, disbursements (checks written), and other bank transactions from the CFMC for review.
2. *Bank Statement.* The corporation will direct the bank to send the bank statements to the Treasurer.
3. *Reconciliation.* The Treasurer will reconcile the bank statement monthly. The reconciliation should be done within 7 days of receiving the statement, as follows:
 - a. Check all checks for correct signatures and number of signatures and protest to the bank any incorrect signatures.
 - b. Review the checks in the bank records to ensure that:
 - 1) the name of the payee, the amount of the check and the date of the check agree with the corporation's accounting records; and,
 - 2) whomever the check was made out to was the depositor of the check; and;
 - 3) each check has a valid signature.
 - c. Compare the bank deposit records with the KHTA accounting records to determine whether each deposit recorded in the accounting records agrees with the bank record.
 - d. Check the cash entries in the receipt book against the bank record of deposits to ensure that all cash was deposited.
 - e. Check whether the ending balance in the general ledger cash account agrees with the bank statement, after making the adjustments on the bank reconciliation form.
 - f. List all outstanding checks. On all checks outstanding over 90 days, take appropriate action.
 - g. List all deposits in accounting records not yet recorded by the bank. If the reconciliation is done electronically, the Treasurer must check off on a form to be given to the Board that he or she performed the review above.