



FINANCIAL CONTROLS POLICIES & PROCEDURES

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FINANCIAL CONTROLS POLICIES AND PROCEDURES FOR OREGON CONSERVATION EDUCATION & ASSISTANCE NETWORK

Purpose:

Oregon Conservation Education and Assistance Network (OCEAN) is a nonprofit organization committed to protecting and using its assets to further its nonprofit mission. Responsible fiscal management is fundamental to achieving this goal, and also assures our donors that we are using their gifts for the purposes for which they were intended. As such, the policies contained within this document are designed to provide a framework to facilitate sound management of organizational resources, to reduce and deter opportunities for fiscal mismanagement, and to prevent and detect errors and fraud.

All individuals within the organization, including members, board directors, and volunteers are responsible for complying with the policies and procedures described herein. If an individual is found to have intentionally or unintentionally deviated from these policies and procedures, the organization may take disciplinary and/or legal recourse to remedy any damages caused as a result of their actions.

ACCOUNTING PROCEDURES

Basis of Accounting

Policy:

Accounting will be conducted using a cash basis. If the organization decides to hire employees, or if the fiscal requirements of the organization become significantly complex, the accrual basis of accounting shall be used from that point forward.

Journal Entries

Policy:

Journal entries shall be made for any transaction not automatically produced by the software. These entries often include payroll, reclassification of amounts already posted, reconciling items from the bank statement and allocations.

Procedures:

1. Entries shall be made to reclassify previous posting and to correct errors. **EXISTING TRANSACTIONS SHALL NOT BE ALTERED!** This is true even if the general ledger package allows you to do so.
2. At a minimum these entries should occur within 2 business days of a new transaction or within 2 business days of the discovery of an incorrect transaction that will be addressed by the entry.
3. To the extent possible, changes and entries should be reviewed by a second party and approved.

Reconciliations

Policy:

The Treasurer will monitor the organization's accounts in accordance with the Bylaws and this Financial Controls Policies and Procedures document, and will prepare and print a reconciliation report of all bank or investment accounts which proves that balances presented within our financial reports agree with the records of the financial institution.

Procedures:

1. *Records to Secretary.* The Treasurer shall provide the Secretary with a copy of all records of deposits, disbursements (checks written), and other bank transactions and of our accounting records for review.
2. *Bank Statement.* The organization will direct the bank to send the bank statements to the Treasurer. The Treasurer will provide the Secretary a copy of the bank statement.

3. *Reconciliation.* The Treasurer will reconcile the bank statement monthly within the accounting software and send the reconciliation report to the Secretary. The reconciliation should be done within 7 days of receiving the statement, as follows:
 - Verify that all checks possess the correct number of signatures by authorized signers, and protest to the bank any checks signed incorrectly.
 - Review the checks in the bank records to ensure that:
 - The name of the payee, the amount of the check and the date of the check agree with the organization's accounting records;
 - Checks were deposited by the intended payee; and
 - Each check has a valid signature.
 - Compare the bank deposit records with our accounting records to determine whether each deposit recorded in the accounting records agrees with the bank record.
 - Compare the cash entries in the receipt book against the bank record of deposits to ensure that all cash was deposited.
 - Verify whether the ending balance in the general ledger cash account agrees with the bank statement, after making the adjustments on the bank reconciliation form.
 - List all outstanding checks, and on any issued for greater than 90 days, contact the payee to determine the status of the check. If the payee cannot be reached or the check is lost, the Treasurer will order a stop payment on the check.
 - List all deposits in accounting records not yet recorded by the bank.
4. *On-Line Banking.* Both the Secretary and Treasurer will have on-line, read-only access to the bank account. The Secretary should use the on-line access to check the work of the Treasurer. The Treasurer should review the account on-line on a bi-weekly basis to check for identity theft that is diverting corporate funds. The Treasurer can reconcile the bank statements and spot-check the on-line payments as described above.
5. *Return of Cancelled Checks by the Bank.* If the bank allows, the bank will return cancelled checks with the bank statement. If the bank does not allow return of the cancelled checks, the Treasurer will ensure retention of the electronic images of the checks as outlined in the Records Retention Policy.

Monthly Closing

Policy:

The treasurer closes each monthly accounting cycle at the end of the fifth workday of the following month. All submitted documents, such as vendor invoices and reimbursement requests must be received by the end of the first work day of the new month in order to be considered for Board of Directors approval.

Document Management

Policy:

1. Document Destruction

The Document Management Policy identifies the record retention responsibilities of volunteers, members, members of the Board of Directors, and outsiders for maintaining and documenting the storage and destruction of the organization's documents and records.

The organization's volunteers, members, members of the Board of Directors, and outsiders (independent contractors via agreements with them) are required to honor the following rules:

- All documents received by post will be date stamped at the time of receipt;
- Paper or electronic documents indicated under the terms for retention in the following section will be transferred and maintained by the treasurer at the organization's physical office location;
- All other paper documents may be destroyed after three years from receipt of documents;
- All other electronic documents may be deleted from all individual computers, data bases, networks, and back-up storage after one year;
- No paper or electronic documents will be destroyed or deleted if pertinent to any ongoing or anticipated government investigation or proceeding or private litigation (check with legal counsel or the human resources department for any current or foreseen litigation if employees have not been notified); and
- No paper or electronic documents will be destroyed or deleted as required to comply with government auditing standards (Single Audit Act).

2. Record Retention

The following table indicates the minimum requirements for record retention. In addition, federal awards and other government grants may provide for a longer period than is required by other statutory requirements, and as such, any instructions provided from grantors will supersede this policy.

| Document Type | Minimum Retention Period |
|---|--------------------------|
| Accounts payable ledgers and schedules: 10 years | 10 years |
| Accounts receivable ledgers and schedules: 10 years | 10 years |
| Audit reports of accountants: Permanently | Permanently |
| Bank statements: 10 years | 10 years |
| Capital stock and bond records: ledgers, transfer payments, stubs showing issues, record of interest coupon, options, etc.: Permanently | Permanently |

| | |
|--|-------------|
| Cash books: 10 years | 10 years |
| Checks (canceled, with exception below) | 10 years |
| Checks (canceled, for important payments; i.e., taxes, purchase of property, special contracts, etc. [checks should be filed with the papers pertaining to the underlying transaction]) | Permanently |
| Contracts and leases (expired) | 10 years |
| Contracts and leases still in effect | Permanently |
| Correspondence, general | 4 years |
| Correspondence (legal and important matters) | Permanently |
| Depreciation schedules | 10 years |
| Donation records of endowment funds and of significant restricted funds | Permanently |
| **Donation records, other | 10 years |
| Duplicate deposit slips | 10 years |
| Employee personnel records (after termination) | 7 years |
| Employment applications | 3 years |
| Expense analyses and expense distribution schedules (includes allowance and reimbursement of employees, officers, etc., for travel and other expenses) | 10 years |
| Financial statements (end-of-year) | Permanently |
| General ledgers and end-of-year statements | Permanently |
| Insurance policies (expired) | Permanently |
| Insurance records, current accident reports, claims, policies, etc. | Permanently |
| Internal reports, miscellaneous | 3 years |
| Inventories of products, materials, supplies | 10 years |
| Invoices to customers | 10 years |
| Invoices from vendors | 10 years |
| Journals | 10 years |
| Minute books of Board of Directors, including Bylaws and Articles of Incorporation | Permanently |
| Payroll records and summaries, including payments to pensioners | 10 years |
| Purchase orders | 3 years |
| Sales records | 10 years |
| Scrap and salvage records | 10 years |
| Subsidiary ledgers | 10 years |
| Tax returns and worksheets, revenue agent reports, and other documents relating to determination of tax liability | Permanently |
| Time sheets and cards | 10 years |
| Voucher register and schedules | 10 years |
| Volunteer records | 3 years |
| **Note: Donation records include a written agreement between the donor and the charity with regard to any contribution, an email communication or notes of or recordings of an oral discussion | |

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|---|--|
| between the charity and the donor where the representative of the charity made representations to the donor with regard to the contribution on which the donor may have relied in making the gift | |
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INTERNAL CONTROLS

Segregation of Duties

Policy:

Segregation of duties shall be practiced in accordance with the procedures set forth within this document. The organization shall identify, remediate, and maintain a separation of organizational functions that do not provide appropriate safeguards against errors or loss, intentional or otherwise. In instances where organizational functions cannot be fully and appropriately segregated due to specific circumstances, the Board of Directors shall implement mitigating controls to compensate for such situations. As organizational, functional, and technological conditions change over time, assessments shall be performed to address the impact on the segregation of duties resulting from such changes.

The Board of Directors shall review, revise, and enforce this policy as significant developments occur with respect to the segregation of duties.

Procedures:

The following is a list of personnel who have fiscal and accounting responsibilities:

1. *Board of Directors*

- Reviews and approves the annual budget
- Two members of the Board of Directors (Treasurer and Vice President) are designated in the Bylaws as authorized signers on the organization's bank accounts
- Reviews and approves expenditure over \$100
- Reviews and approves all non-budgeted expenditures
- Reviews and advises staff on internal controls and accounting policies and procedures
- Determines whether the organization should have an audit and, if so, chooses and contracts with the auditor
- Reviews and approves all financial reports
- Reviews and approves all grant submissions
- Reviews and approves bids or quotes for any expenditure in excess of \$5,000

2. *Finance Committee*

- Reviews all bids or quotes required for contracts over \$5,000
- Oversees the adherence to all internal controls
- Assists Treasurer with the development of annual budget
- Reviews, revises, and maintains internal accounting controls and procedures
- Performs annual internal audits using a checklist adopted by the Board of Directors

3. *President*

- Authorized to sign independent contractor service agreements approved by the Board of Directors.
- Retains the information to access stored checks and the password to the accounting software.

4. *Vice President*

- Has authority to review and sign checks

5. *Treasurer*

- Sees that an appropriate budget is developed annually
- Monitors the organization's accounts regularly
- Prepare and print monthly reconciliation reports
- Provides the Secretary copies of all records of deposits, disbursements, reconciliations, and other bank transactions
- Reviews and signs issued checks
- Opens all bank statements, reviews for any irregularities, and completes monthly bank reconciliations
- Manages Accounts Receivable
- Reviews and initials all reimbursements and fund requests
- Closes each monthly accounting cycle at the end of the fifth workday of the following month.
- Receives and opens all incoming mail
- Reviews all incoming and outgoing invoices
- Monitors grant reporting and appropriate release of temporarily restricted funds
- Can authorize purchases of \$100 or less which conform to the annual budget.
- Initiates donor thank you letter acknowledgements
- Overall responsibility for data entry into accounting system and integrity of accounting system data
- Processes invoices and prepares checks for signature
- Makes bank deposits
- Maintains general ledger
- Prepares monthly and year-end financial reports
- Reconciles all bank accounts
- Mails vendor checks

6. *Secretary*

- Reviews all incoming and outgoing invoices for accuracy, agreement with a written invoice, conformity to budget or Board of Directors authorization and compliance with grant fund requirements.
- Initial all incoming invoices. By initialing the invoice the Secretary indicates that he/she has reviewed the invoice and authorizes payment.
- Send approved invoices to the Treasurer for payment.
- Reviews bank statements for any irregularities, and reviews monthly bank reconciliation
- Reviews all financial reports

Physical Security

Policy:

This organization shall take every reasonable step to maintain the physical security of its assets to ensure that only authorized individuals have physical or indirect access to money, securities,

real estate, important documents, and other valuable property.

Procedures:

Custody of Checks. The Treasurer is the only person authorized to have access to unused check stock. Checks shall be stored in a locked location and information about how to access them shall be kept confidential from everyone but the President.

Accounting Software. The Treasurer is the only person authorized to have access to edit transactions within the accounting software. The software is to be password protected and the password shall be kept confidential from everyone but the President. The Secretary is allowed read-only access to the accounting software, and shall keep their password related to the software confidential.

Custody of Cash. In the event that the organization receives cash contributions, the cash is to be deposited into the organization's bank account in accordance with the Deposits Policy. Once collection is completed, cash is to be stored in a locked location until it is ready to deliver to the bank for deposit.

FINANCIAL PLANNING & REPORTING

Budgeting Process

Policy:

The organization's budget is prepared and approved annually. The budget is prepared by the Treasurer in conjunction with the Finance Committee. The budget is to be approved by the Board of Directors prior to the start of each fiscal year. Revisions to the budget after adoption must be approved by the Board of Directors.

Procedures:

1. The Treasurer will work together with the Finance Committee to ensure that the annual budget is an accurate reflection of programmatic and infrastructure goals for the coming year.
2. The Treasurer will present a draft budget to the Finance Committee no later than 120 days prior to the end of the fiscal year.
3. The Finance Committee shall review and approve a fiscal year budget and submit it as a formal budget recommendation to the Board of Directors no later than 90 days prior to the end of the fiscal year. The budget shall contain revenues and expenses forecasted for the year.
4. The Board of Directors will review and approve the budget prior to the start of the fiscal year.

Internal Financial Reports

Policy:

The financial reports of the organization are prepared on a monthly basis. All reports are finalized no later than 5 business days after the close of the prior month.

Procedures:

1. The Treasurer is responsible for producing the following year-to-date reports within 5 business days of the close of each month:
 - Balance Sheet
 - Statement of Activities (Profit and Loss)
 - Budget vs Actual
 - Check Register
2. The Treasurer presents the most recent year-to-date Balance Sheet, Statement of Activities, and Budget vs Actual reports, and a check register report for all transactions since the previous board meeting to the Board of Directors at each regularly scheduled board meeting.
3. The Treasurer presents the previous fiscal year Balance Sheet, Statement of Activities (Profit & Loss), and Budget vs Actual reports to the Board of Directors no later than the last regularly scheduled board meeting before the Annual Meeting. These prior year reports will be made available to the membership at the Annual Meeting.

Audit

Policy:

The Finance Committee will perform an annual internal audit of the financial documentation, business transactions, accounting practices, policies, and fiscal controls using the Nonprofit Internal Audit Workbook developed by the Center for Nonprofit Stewardship. A financial review by an independent CPA may be conducted if approved by the Board of Directors.

Audits will not be conducted unless it is a requirement of an accepted funding source or unless the total budget for the organization exceeds \$150,000.

Tax Compliance

Policy:

The organization will complete all required State and Federal forms in a timely manner according to state law.

Procedures:

1. The Treasurer will prepare all required State and Federal tax forms and provide them to the Finance Committee for review no later than 60 days after the close of the fiscal year.
2. The Finance Committee will review the accuracy and completeness of the forms within 75 days of the close of the fiscal year, and will present a final version of the forms to the Board of Directors for approval no later than 90 days after the close of the fiscal year.
3. The Board of Directors will approve the forms for submission to state or federal government no later than two weeks before they are due, unless an extension has been filed and accepted with the governing authority.

REVENUE & ACCOUNTS RECEIVABLE

Invoice Preparation

Policy:

The Treasurer will prepare invoices, which must be sent to vendors within two business days of the Treasurer receiving notification of the completion of the service provided. Invoices will be reviewed monthly and an aging report created and reported to the Board of Directors.

Procedures:

1. Invoices will be created in the accounting system approved by the Board of Directors
2. Invoices will be numbered for easy recognition
3. Invoice payments will be recorded upon receipt
4. Resend any invoices that have not been paid within 45 days of being sent
5. The Board will be notified of any invoices that have not been paid within 90 days of being sent

Revenue Recognition

Policy:

Any donation with a value exceeding \$50 will be recorded and the donor will receive an acknowledgement letter.

Procedures:

Acknowledging Donations. Any donation with a value exceeding \$50 will be recorded, and the Treasurer will send a letter acknowledging the donation to the donor within four weeks of receipt of the donation.

The letter shall contain the following information:

- Name of recipient organization
- Amount of cash contribution (checks are considered cash)
- Description, but not value, of non-cash contributions
- Statement that no goods or services were provided by the organization in return for the contribution OR description and good faith estimate of the value of goods or services, if any, that the recipient organization provided in return for the contribution

Cash Receipts

Policy:

When cash is received by the organization, it is to be promptly handled in accordance with the procedures outlined below. Retention of cash received from outside sources for use as petty cash or for making change is prohibited. Use of the organization's cash funds or cash receipts for cashing checks is prohibited.

All individuals have an obligation to report any suspected theft, fraud, embezzlement, or any other irregularity causing a loss of cash. Individuals who are aware of criminal activity and fail to report such may be subject to disciplinary action. Individuals are required to cooperate with any police or audit investigation, and they may be requested to keep their knowledge of the investigation confidential.

Procedures:

1. *Issuance of written or printed receipt.* Any time cash is received, an acceptable form of receipt must be used. An acceptable receipt may be:
 - Uniquely and consecutively pre-numbered receipts, with a duplicate copy maintained as a cash receipts log
 - Dated cash log
 - Pre-numbered tickets
 - Cash register tapes
2. *Receipt of Checks in the Office.* The Treasurer opens all mail addressed to the organization. The check must be payable to the organization, or must be returned to the individual or institution from which it was given. The Treasurer will endorse all checks by an endorsement stamp that provides that the check is “For Deposit Only” and will be paid to the order of the corporate bank and lists the organization’s name and account number. This lessens the risk that a check may be stolen and cashed.
4. *Receipt of Cash in the Office.* Cash will not be accepted in the office.
5. *Receipt of Checks and Cash Outside the Office.* If checks and/or cash are to be accepted outside the office (such as at a fundraising event), special precautions are required to protect these receipts from theft and to ensure that no one is falsely accused of stealing funds.
 - A list of all donations will be kept for any event where donation are accepted specifying the date and time, receipt number, the donor name, the donor address, the amount, and the tender type.
 - The individuals accepting the contributions at the event will provide a receipt using the pre-numbered receipt book, and retain a copy for the organization. The receipt will contain the full name of the individual providing the cash or check, and their address.
 - No anonymous funds will be received**. An example of a disallowed cash receipt would be a “pass the hat” style collection in which it is not possible to know who gave what amount.
 - Two people need to prepare the deposit slip for the accepted funds in duplicate.
 - Both must count the cash and initial the cash count on the copy of the duplicate deposit slip kept by the organization.
 - If no cash is received at the event, the individuals accepting the contributions by check will give the Treasurer the list and the checks as soon as possible.
 - If there is cash in the deposit, one of the two individuals accepting contributions must deposit the funds with the financial institution in accordance with the Deposits Policy.
 - The duplicate receipt book and the list of cash/checks received shall be given to the

Treasurer who will send acknowledgement letters.

- The Treasurer shall train all volunteers in these procedures.

5. *Credit/Debit Card Contributions.* We do not accept contributions by debit or credit cards. If at some point in the future the organization decides to accept this form of payment, accounting advice will be obtained to ensure that proper controls are in place.

**Note: Donors may request that their identity remain confidential and not be revealed to the public. This is allowed so long as internal documents still identify their name, address, and donation amount. We will honor their anonymity externally to the extent that it is allowable by law.

Deposits

Policy:

All funds, whether cash or check, which the organization receives will be deposited intact into the bank account, with no monies removed to make payments or for other purposes. All cash receipts should be deposited into the bank as soon as possible, but no later than 3 business days after the end of the collection event.

Procedures:

1. *Deposit Slips.* The Treasurer will deposit corporate funds as follows:
 - A. Photocopy the checks and deposit slip.
 - B. If cash will be included in the deposit, the Treasurer will attach a list or photo copy of the sources of the cash and the receipt numbers for each source of cash.
 - C. File this documentation chronologically in a locked cabinet to prevent theft.

The Secretary will review the deposit slip and attached photocopies when making the Bank Reconciliation described above.

2. *Bank Deposit.* If no cash is present, the deposit may be mailed to the bank. If cash is present, a second person (if available) shall verify deposited funds prior to the Treasurer sealing the envelope and making the deposit in person. The person verifying the cash shall initial the cash entry on the copy of the deposit slip retained by the organization.

EXPENSE & ACCOUNTS PAYABLE

Purchases & Procurements

Policy:

All purchases made on behalf of the organization must be made pursuant to the organization's approved budget or must be approved in advance by the Board of Directors.

Procedures:

The Treasurer can authorize purchases of \$100 or less which conform to the organization's budget. The Board of Directors must approve expenditures in excess of \$100. The Board of Directors must authorize any purchase which does not conform to the organization's budget. Any expenditure in excess of \$5,000 for the purchase of a single item shall have bids or quotes from three suppliers if possible. These bids will be reviewed by the Finance Committee and the bid award must be approved by the Board of Directors.

Independent Contractors

Policy:

The President has the authority to establish contracts on behalf of OCEAN in accordance with the Bylaws and this Financial Controls Policies and Procedures document. OCEAN is committed to hiring individuals who perform services in accordance with applicable law, including laws and regulations pertaining to the proper classification of individuals as independent contractors or employees. An independent contractor is an individual who provides services to OCEAN and is paid under a 1099 (and not a W-2). More specifically, it is a worker who: is engaged in an independently established profession or business and is free from OCEAN's control or direction when providing services.

Procedures:

Prior to engaging a potential independent contractor:

1. The President must review all proposed independent contractor service agreements and in doing so will confirm their status as an independent contractor.
2. The Treasurer can authorize expenditures of \$100 or less which conform to the organization's budget. The Board of Directors must approve (a) expenditures above that amount; and (b) expenditures which do not conform to the organization's budget.
3. OCEAN must obtain bids or quotes from three independent contractors if the service agreement is in excess of \$5,000.
4. The President has authorization to sign independent contractor service agreements only when approved by the Board of Directors.

Invoice Approval & Processing

Policy:

All invoices must be reviewed and initialed by the Secretary and Treasurer prior to payment.

Approved invoices will be paid within 30 days of receipt in accordance with policies and procedures set forth by the Board of Directors.

Procedures:

1. *Check Authorization.* All invoices will be forwarded to the Treasurer for review and authorization to pay as soon as possible, but no later than 3 business days after receipt.
 - A. The Treasurer will forward copies of all checks to the Secretary for review and approval.
 - B. The Secretary will review all invoices for mathematical accuracy, agreement with a written invoice, conformity to budget or Board of Directors authorization and compliance with grant fund requirements.
 - C. The Treasurer will ensure that all conditions and specifications on a contract or order have been satisfactorily fulfilled, including inventorying items received against packing slip counts.
 - 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. By initialing an invoice, the Secretary indicates that he/she has reviewed the invoice and authorizes a check.
 - F. The Treasurer is responsible for timely follow-up on discrepancies and payment.
 - G. The Secretary will send approved invoices to the Treasurer for payment.

2. *Prohibited Practices.* In no event will:
 - invoices be paid unless approved by the Secretary;
 - blank checks be signed in advance;
 - checks be made out to “cash,” “bearer,” etc.

Cash Disbursements

Policy

All disbursements from the organization’s funds will be made by check, which facilitates expenditure tracking and spending authorization.

Procedures

1. *Opening Bank Accounts.* Bank accounts may be opened only upon authorization by the Board of Directors.
 - All bank accounts must be opened with the organization’s employer identification number (EIN).
 - Authorized signers on all existing or new bank accounts will be designated with the bank in accordance with the organization’s Bylaws.
 - Because of the Secretary’s role in reconciling the bank statement, the Secretary cannot be designated to sign checks.

2. *Expenses Not Invoiced.* In some cases expenses may not be invoiced (such as rent). When such expenses are due, the Treasurer needs to ensure that the expense is in the budget and write a note authorizing payment of the expense and the amount of the expense and supply it

to the Secretary.

3. *Payment by Check.* Upon approval of the invoice and note by the Secretary, the Treasurer is authorized to prepare all checks.
 - If a check is voided, the check will have “VOID” written in large letters in ink on the face and have the signature portion of the check torn out. Voided checks will be kept on file.
 - If it becomes necessary to issue a duplicate check for a payment in excess of \$50, the Treasurer will order a stop payment on the original check.
4. *On-line Payments.* The organization will not authorize online payments for any purposes.

Petty Cash

Policy:

The organization will not authorize the use of petty cash for any purposes.

Expense Reimbursements

Policy:

Board members, employees and volunteers are entitled to be reimbursed for expenses related to the organization that they incur on behalf of the organization.

To receive reimbursement, the individual must ensure the following requirements are met:

- The expense must be authorized in advance or later approved by the Board of Directors, and all reimbursement requests, regardless of dollar amount, must be initialed by the treasurer and secretary before the reimbursement will be paid.
- The expense must be incurred for goods or services purchased for or in service of the organization.
- When combined with any other source of reimbursement, the total of all past or possible future reimbursement must not exceed the actual cost of the goods or services for which reimbursement is being requested.
- If the expense is for travel, the travel must be conducted for purposes related to the organization. OCEAN will reimburse individuals for mileage at a rate that is not to exceed the standard mileage rate for charitable organizations as established by the IRS. Also, OCEAN will reimburse actual meal expenses incurred in the service of the organization at a rate not to exceed per diem rates established by the U.S. General Service Administration (www.GSA.gov).

In any case where OCEAN reimburses an individual in an amount greater than is due, any excess reimbursement must be returned by the individual to OCEAN within 60 days of the discovery of overpayment.

Procedures:

To be reimbursed for expenses, the individual must:

- *Provide Documentation.* The *OCEAN Reimbursement Form* must be completed showing the purpose, date, amount, item/service, unit cost and number of units. Itemized receipts must be submitted with the *OCEAN Reimbursement Form*.
- *Provide Documentation of Other Reimbursement.* Documentation must reflect past or future, full or partial reimbursement from sources other than OCEAN, and those amounts must be clearly explained to avoid duplicate reimbursement. Individuals must not receive a combined reimbursement (including other sources) in excess of the total cost of the goods or services for which reimbursement is being requested.
- *Submit Request for Reimbursement in a Timely Manner.* Individuals must request reimbursement and provide required documentation within 60 days of the date the expense was incurred. Submissions greater than 60 days after an expense is incurred may only be approved by the Board of Directors.

Creation of Corporate Obligation

Policy:

The organization will not authorize the use of debit or credit cards for any purposes. The organization will not authorize borrowing or lines of credit for any purposes.

Cost Allocation

Policy:

OCEAN will ensure that any cost incurred and debited against funding from external sources is allocated based upon the guidelines and requirements set forth by the funder or granting entity.

APPENDIX - POLICY DESCRIPTIONS

ACCOUNTING PROCEDURES

Basis of Accounting

Purpose:

Generally, there are two methods under which organizations can conduct their accounting; the cash method and the accrual method. The cash method of accounting is focused on the inflows and outflows of cash. The accrual method of accounting doesn't worry about cash flow and instead focuses on when revenue was actually earned and when expenses are actually incurred. When creating reports in an accrual based system, it takes into account all money owed and expected when showing the net assets. Cash only really shows the bank account balance.

Cash basis is straightforward but as the number of funders and programs grow, it becomes difficult to truly know where the organization stands and to make decisions about cash flow and sustainability. It also makes it difficult to track compliance with restricted vs. non-restricted funds.

Accrual accounting gives a more accurate depiction of the current financial state of an organization. It does this by entering in income and expenses as they are incurred. This means that expenses are entered as a payable as soon as the invoice is received (not when it is paid) and income is entered into the system as a receivable as soon as the promise to pay (i.e. grant award letter) is received.

Journal Entries

Purpose:

Most transactions are posted automatically through the accounts payable and accounts receivable modules of the general ledger software owned by the not-for-profit. While these transactions are posted via journal entries generated by the software, the mechanism is not obvious. The use of journal entries to correct prior transactions is necessary to create an audit trail. In this manner, all of the transactions made can be followed and traced to original documentation.

Reconciliations

Purpose:

Even the most honest and attentive individual makes mistakes. Monitoring allows the organization to uncover errors. If our records and the bank records do not agree, it is likely that our records are wrong. Monitoring also assists in identifying discrepancies between our accounting records and our banking records that suggest theft or fraud, checks signed by unauthorized signers, and identity theft.

Monthly Closing

Purpose:

In order to prepare the accounts for presentation and review, a consistent and predictable timeframe is needed so that reports and account statuses are comparable from month to month. It is also important that the closing be completed to provide ample time for reports to be created

and delivered to board members in advance of meetings.

Document Management

Purpose:

Certain federal laws prohibit the destruction of certain documents for non-profit organizations. As such this policy provides a written, mandatory document retention and periodic destruction policy. This policy will eliminate accidental or innocent destruction. In addition, it is important for administrative personnel to know the length of time records should be retained to be in compliance with regulations.

INTERNAL CONTROLS

Segregation of Duties

Purpose:

Adequate segregation of duties reduces the likelihood that errors (intentional or unintentional) will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of the work performed. The segregation of duties provides four primary benefits:

1. Risk of a deliberate fraud is mitigated as the collusion of two or more persons would be required in order to circumvent controls
2. Risk of legitimate errors is mitigated as the likelihood of detection is increased
3. Cost of corrective actions is mitigated as errors are generally detected relatively earlier in their lifecycle
4. The organization's reputation for integrity and quality is enhanced through a system of checks and balances

Segregation of duties is a key internal control and one of the most difficult to accomplish. In essence, there is greater assurance that internal control responsibilities will be fully deployed when there is increased dispersion of such responsibilities among multiple individuals and work groups.

Physical Security

Purpose:

Physical security policies ensure that appropriate access controls are in place to protect the financial, technical, and written resources of an organization. Physical security measures required for protecting organizational resources should be commensurate with the nature and degree of importance of the resources they are intended to protect.

FINANCIAL PLANNING & REPORTING

Budgeting Process

Purpose:

Budgets are a planning tool for the organization. This plan should allow the flexibility needed to achieve goals with order and success. Well-planned budgets focus on the primary goals and objectives of the organization and provide financial and programmatic adaptability. The documentation of budget assumptions and changes will provide a basis for improving the efficiency of the budgeting process each year.

Internal Financial Reports

Purpose:

Accurate, consistent, and timely reports that comply with Federal regulations, board policies, and sponsors requirements are essential tools that enable responsible fiscal management of the organization.

Audit

Purpose:

Most commonly, the term audit refers to an independent review of an organization's financial documentation, business and accounting practices, policies, and fiscal controls. The outcome of an audit is a written professional opinion about the organization's fiscal management and whether it meets accepted accounting standards.

While audits may not be required by law for non-profits, there are other factors that may compel an organization to conduct an audit. Banks may require an audit before granting a loan, funders may require an audit before granting money to an organization, and the non-profit community recommends audits for organizations that have an annual operating budget over \$250,000.

An independent audit may be cost prohibitive for smaller organizations as they can cost anywhere from a couple to several thousands of dollars to conduct. In addition, they require staff time to prepare for.

Alternatives for small organizations may be a financial review. A review is a report that the financial statements are free from intentional or unintentional inaccuracies. While this type of financial examination will not substitute for an audit, it does show a level of transparency and fiscal accountability to the public at a much lower cost.

Tax Compliance

Purpose:

It is imperative for the Board of Directors to adhere to federal and state law in order to ensure that the organization maintains its tax-exempt status and meets its ongoing compliance responsibilities.

A 501(c)(3) public charity that does not restrict its participation in certain activities and does not absolutely refrain from others, risks failing the operational test and jeopardizing its tax-exempt status.

REVENUE & ACCOUNTS RECEIVABLE

Invoice Preparation

Purpose:

Current and up-to-date invoices are necessary for tracking accounts receivable, budgets, and ensuring the Board of Directors are informed of the financial state of affairs.

Revenue Recognition

Purpose:

The IRS imposes recordkeeping and substantiation rules on donors of charitable contributions and disclosure rules on charities that receive certain quid pro quo contribution. These rules require charitable organizations to provide a written disclosure to a donor who receives goods or services in exchange for a single payment in excess of \$75.

This policy ensures that the IRS requirements imposed on OCEAN are followed, and helps satisfies the requirements our donors have to follow in maintaining proof of donation.

Acknowledgement letters also serve as a tool for donors to verify that the donated amount matches what we have on file.

Cash Receipts

Purpose:

All individuals have a fiduciary responsibility to the organization to handle cash properly. Procedures for the handling of cash receipts are designed to provide accountability for monies received in accordance with our internal controls. All individuals of the organization are responsible for complying with the policies and procedures described below.

Deposits

Purpose:

Our organization faces the risk that funds that we receive may be stolen or lost or that someone may be falsely accused of stealing funds.

EXPENSE & ACCOUNTS PAYABLE

Purchases & Procurements

Purpose:

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

Independent Contractors

Purpose:

OCEAN is committed to hiring individuals who perform services for the organization in accordance with applicable law, including laws and regulations pertaining to the proper classification of individuals as independent contractors or employees. OCEAN does not have

employees at this time.

Invoice Approval & Processing

Purpose:

Timely review and processing of invoices ensures that vendor terms can be met while providing the Board of Directors sufficient time to verify the accuracy and purpose of the service or item for which the invoice has been submitted.

Cash Disbursements

Purpose:

We face the risks that that our funds will be spent on unauthorized items, that someone will steal our funds by taking blank checks or by writing checks to payees who are not our vendors, that someone will use corporate property for personal purposes or that payments we make will be improperly recorded.

Petty Cash

Purpose:

Payments by cash are not as completely documented and are not as easily monitored as payments by check and thus subject the organization to greater likelihood of errors and fraud.

Expense Reimbursements

Purpose:

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 organization. The organization 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.

Creation of Corporate Obligation

Purpose:

The organization needs to ensure that any obligation undertaken in the corporate name is authorized by the organization and is for a corporate and not a personal purpose. Corporate credit or debit cards can be misused when people charge personal expenses to them, fail to obtain documentation showing that a purpose was for the organization, or put expenses on the corporate card for purchases that are embarrassing to the organization.

Cost Allocation

Purpose:

The purpose of this cost allocation policy is to summarize, in writing, the methods and procedures that this organization will use to allocate costs to various programs, grants, contracts and agreements.