**Fiscal Manual**

**Effective TBD**

**\*To be reviewed annually until organizational capacity is fully developed.**

**Developed by: Lydia Sierra Consulting, June 2017**

[**Table of Contents 2**](#__RefHeading__949_1240826929)

[**Accounting Procedures 3**](#__RefHeading__951_1240826929)

[Basis of Accounting 3](#__RefHeading__953_1240826929)

[Journal Entries 3](#__RefHeading__955_1240826929)

[Bank Reconciliations 3](#__RefHeading__957_1240826929)

[Monthly Close 4](#__RefHeading__959_1240826929)

[Recordkeeping 4](#__RefHeading__961_1240826929)

[**Internal Controls 4**](#__RefHeading__963_1240826929)

[Lines of Authority 4](#__RefHeading__965_1240826929)

[Conflict of Interest 5](#__RefHeading__967_1240826929)

[Segregation of Duties 5](#__RefHeading__969_1240826929)

[Physical Security 5](#__RefHeading__971_1240826929)

[**Financial Planning & Reporting 6**](#__RefHeading__973_1240826929)

[Budgeting Process 6](#__RefHeading__975_1240826929)

[Internal Financial Reports 6](#__RefHeading__977_1240826929)

[Audit 7](#__RefHeading__979_1240826929)

[Tax Compliance 7](#__RefHeading__981_1240826929)

[*Exempt Organization Returns 7*](#__RefHeading__983_1240826929)

[*Quarterly/Annual Payroll Reports 7*](#__RefHeading__985_1240826929)

[**Revenue & Accounts Receivable 8**](#__RefHeading__987_1240826929)

[Invoice Preparation 8](#__RefHeading__989_1240826929)

[Revenue Recognition 8](#__RefHeading__991_1240826929)

[Cash Receipts 8](#__RefHeading__993_1240826929)

[Deposits 9](#__RefHeading__995_1240826929)

[**Expense & Accounts Payable 9**](#__RefHeading__997_1240826929)

[Payroll 9](#__RefHeading__999_1240826929)

[*Time Sheet Preparation & Approval 9*](#__RefHeading__1001_1240826929)

[*Payroll Additions, Deletions, and Changes 10*](#__RefHeading__1003_1240826929)

[*Payroll Preparation & Approval 10*](#__RefHeading__1005_1240826929)

[*Pay Upon Termination 10*](#__RefHeading__1007_1240826929)

[Purchases & Procurement 11](#__RefHeading__1009_1240826929)

[Independent Contractors 11](#__RefHeading__1011_1240826929)

[Invoice Approval & Processing 11](#__RefHeading__1013_1240826929)

[Cash Disbursements 12](#__RefHeading__1015_1240826929)

[Petty Cash 12](#__RefHeading__1017_1240826929)

[Employee Expense Reimbursements 12](#__RefHeading__1019_1240826929)

[*Travel Expenses 13*](#__RefHeading__1021_1240826929)

[*Credit Cards 13*](#__RefHeading__1023_1240826929)

[Expense Allocations 13](#__RefHeading__1025_1240826929)

[**Asset Management 13**](#__RefHeading__1027_1240826929)

[Cash Management and Investments 13](#__RefHeading__1029_1240826929)

[Capital Equipment 14](#__RefHeading__1031_1240826929)

[Employee Retirement Accounts 14](#__RefHeading__1033_1240826929)

[Operating Reserve 14](#__RefHeading__1035_1240826929)

**FISCAL MANUAL**

**INTRODUCTION**

This Fiscal Manual is a set of instructions documenting the applicable policies and procedures for this organizations’ fiscal department to use in such matters as recordkeeping, bookkeeping, reporting, budgeting, cost allocating, payment, audit and accounting. The Fiscal Manual sets out the policies and procedures required of all fiscal staff and consultants, contractors, Board Members, management and financial staff to adhere to. The Fiscal Manual’s goals are to document internal controls, as well as to ensure compliance with all applicable Federal, State and City regulations and other financial requirements set by Generally Accepted Accounting Practices.

**Accounting Procedures**

This section covers basic accounting procedures for the organization. The accounting procedures used by the organization shall conform to Generally Accepted Accounting Principles (GAAP) to ensure accuracy of information and compliance with external standards.

**Basis of Accounting**

**Policy:** The organization uses the cash basis of accounting. The cash basis is the method of accounting whereby income on reports will be shown as of the date payment is received and expenses as of the date you paid the bill.

**Procedures:**

* Procedure A: Throughout the fiscal year, expenses are paid in the month in which they are incurred.
* Procedure B:
* Procedure C: Revenue is always recorded in the month in which it was earned or pledged.

**Journal Entries**

Definition: Journal entries are double entries in the accounting system (debit & credit) recording the business transactions of the organization.

**Policy:** All transactions will be posted as journal entries, including personnel and OTPS.

**Procedures:**

* Procedure A: The Finance Manager will be responsible for writing and posting all journal entries.
* Procedure B: The Executive Director will review and approve all journal entry reports monthly by signing and dating.

**Bank Reconciliations**

**Policy:** All bank statements will be opened and reviewed in a timely manner. Bank reconciliation and approval will occur within 30 days of the close of the month.

**Procedures:**

* All bank statements and canceled checks will be opened, reviewed and initialed by the Executive Director upon receipt.
* Once reviewed, bank statements are submitted to the Finance Manager for reconciliation.
* The Executive Director will review and approve reconciliation reports by signing and dating the report in the upper right hand corner.

**Monthly Close**

QuickBooks (QB) does not require special closing procedures at the end of a period. At the end of the fiscal year, QB transfers the net income into the corresponding account and allows you to protect the data for the year by assigning a closing date to the period.

**Procedures:**

* Procedure A: At the end of the fiscal year the Finance Manager will perform a quick-review to posted entries prior to submission to the Certified Public Accountant for the organization.
* Procedure B: The CPA will review in detail all posted entries and reports for any possible adjustments/corrections. All adjustments/corrections made by the Certified Public Accountant will be added to the current company file.

**Recordkeeping**

**Policy:** The Finance Manager will be responsible for organizing and filing all financial documents in a locked file cabinet at our offices.

**Procedures:**

Procedure A: The Finance Manager will prepare all fiscal reports and present them to the Executive Director for review and recordkeeping.

Procedure B: The Executive Director will keep the key of the filing cabinet where all financial documents will be kept.

**Internal Controls**

Definition: Internal controls are a set of policies and procedures to prevent deliberate or misguided use of funds for unauthorized purposes.

The organization employs several safeguards to ensure that financial transactions are properly authorized, appropriated, executed and recorded.

**Lines of Authority**

**Policy:**

**Procedures:**

* Procedure A
* Procedure B

**Conflict of Interest**

**Policy:** All employees and members of the Board of Directors are expected to use good judgment, to adhere to high ethical standards, and to act in such a manner as to avoid any actual or potential conflict of interest. A conflict of interest occurs when the personal, professional, or business interests of an employee or Board member conflict with the interests of the organization. Both the fact and the appearance of a conflict of interest should be avoided.

**Procedures:**

* Upon or before hire, election, or appointment each employee and Board member must provide a full written disclosure of all direct or indirect financial interests that could potentially result in a conflict of interest. Examples include employer, business, and other nonprofit affiliations, and those of family members or a significant other. This written disclosure will be kept on file and will be updated annually and as needed.
* Employees and Board members must disclose any interests in a proposed transaction or decision that may create a conflict of interest. After disclosure, the employee or Board member will not be permitted to participate in the transaction or decision.
* Should there be any dispute as to whether a conflict of interest exists:
  + The Executive Director shall determine whether a conflict of interest exists for an employee, and shall determine the appropriate response.
  + The Board of Directors shall determine whether a conflict of interest exists for the Executive Director or a member of the Board, and shall determine the appropriate response.

**Segregation of Duties**

**Policy:** The organization’s financial duties are distributed among multiple people to help ensure protection from fraud and error. The distribution of duties aims for maximum protection of the organization’s assets while also considering efficiency of operations.

**Procedures:**

* Procedure A: The Executive Director will maintain custody of actual cash and checks and notify the Finance Manager of receipt.
* Procedure B: The Finance Manager will acknowledge and record the actual cash and checks received by the Executive Director and generate a monthly report to be reviewed and approved by the Executive Director.
* Procedure C: The Executive Director will submit a reviewed and approved report prepared by the Finance Manager to the Board Treasurer on a monthly basis.

**Physical Security**

**Policy:** The organization maintains physical security of its assets to ensure that only people who are authorized have physical or indirect access to money, securities, real estate and other valuable property. Checks and/or cash is to be maintained in a safe until deposited into the bank. Only the Executive Director and Board Treasurer have access to the safe.

**Procedures:**

* Procedure A: Both check signors must review supporting documentation of expenses and approvals at the time of signing checks.
* Procedure B: Check signing authority to be vested in Board Chair and Executive Director who do not have any accounting responsibility.

**Financial Planning & Reporting**

The organizations’ financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The presentation of the Financial Statements shall follow the recommendation of the Financial Accounting Standards Board (FASB) No. 117, “Financial Statements of Not-For-Profit Organizations.” Under GAAP, revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the organization are classified as unrestricted, temporarily restricted and permanently restricted.

**Budgeting Process**

**Policy:** The organization’s annual budget is prepared and approved annually. The Executive Director in conjunction with the Treasurer prepares the budget. The budget is to be approved by the Board of Directors prior to the start of each fiscal year. The budget is revised during the year only if approved by the Board of Directors.

**Procedures:**

* The Executive Director will work together with the Board to ensure that the annual budget is an accurate reflection of programmatic and infrastructure goals for the coming year.
* The Executive Director will ensure that the budget is developed using the organizations’ standard revenue recognition (p. X) and cost allocation (p. X) procedures.
* The Executive Director and the Treasurer will draft a budget at least 60 days prior to the end of the fiscal year and at least 30 days prior to its submission to the full Board of Directors.
* The Finance Committee shall review and approve a recommended fiscal year budget and submit it for approval to the Board of Directors. The budget shall contain revenues and expenses forecasted by month. A chart describing monthly cash flow shall be included.
* The Board of Directors will review and approve the budget at its last meeting prior to the start of the fiscal year.

**Internal Financial Reports**

**Policy:** The organization prepares regular financial reports on a monthly basis. All reports are finalized no later than 30 days after the close of the prior month.

**Procedures:**

* The Finance Manager is responsible for producing the following year-to-date reports within 30 days of the end of each month: Statement of Financial Position, Statement of Activities, Budget v. Actual and updated Cash Flow Projection.
* The Executive Director and Finance Manager review financial reports each month, and the Finance Manager presents reports to the full Board of Directors on a quarterly basis.
* On a quarterly basis, the Financial Manager prepares a narrative report that summarizes the organization’s current financial position and includes explanations for budget variance.

**Audit**

**Policy:** To ensure that all financial statements are accurate an audit should be performed at least once a year.

**Procedures:**

* Procedure A: The Executive Director and Finance Manager will meet to review and discuss all financial statements
* Procedure B: The CPA for the company will give a final review before approving that all financial statements are accurate and in accordance with applicable standards, regulations and laws.

**Tax Compliance**

**Exempt Organization Returns**

**Policy:**

**Procedures:**

* Procedure A
* Procedure B

**Quarterly/Annual Payroll Reports**

**Policy:**

**Procedures:**

* Procedure A
* Procedure B

**Revenue & Accounts Receivable**

**Invoice Preparation**

**Policy:** All grants and projects are invoiced each month to capture all billable time and expenses and ensure a regular healthy cash flow for the organization. All final invoices for the prior month are completed by the 15th of the following month (ex: June 15th for May).

**Procedures:**

* The Finance Manager gathers relevant expense documentation, prepares all invoices, and submits to the Executive Director for approval by the 10th of each month.
* Following approval, the Finance Manager makes two copies of the invoice. One copy is mailed to the client/customer no later than the 15th of the month and one copy is filed in the client folder.
* As part of the monthly close process, the Finance Manager reviews an Accounts Receivable Aging report and alerts the Executive Director of invoices more than 60 days overdue.
* The Finance Manager determines appropriate collection efforts for long outstanding invoices. The Executive Director is also notified of any receivables that are more than XX days outstanding and/or more than $XX.

**Revenue Recognition**

**Policy:** All contributions will be recorded in accordance with GAAP, with specific attention to standards FASB 116 and 117. Contributions are recorded as pledged or received in accordance with FASB 116, and must be credited to the appropriate revenue lines as presented in the annual budget and coded as designated in the organization’s Chart of Accounts.

**Procedures:**

* The Executive Director reviews all revenue in excess of $5,000 and indicates on the letter or copy of the check how the revenue shall be recognized (as earned/contributed, conditional/unconditional and restricted/unrestricted). If there is a question or uncertainty about how to recognize a particular contribution, the Executive Director will ensure that the donor is contacted to clarify the intent of the contribution.
* The Finance Manager is responsible for posting revenue to the general ledger in accordance with the determination made by the Executive Director.

**Cash Receipts**

**Policy:** All cash receipts must be verified, initialed and dated by the Executive Director and the Treasurer upon receipt.

**Procedures:**

* Procedure A: After all cash receipts has been verified, it must be placed in a safe or locked drawer until it is deposited.

**Deposits**

**Policy:** All items to be deposited along with the deposit slip must be verified, initialed and dated by the Executive Director and the Treasurer

**Procedures:**

* Procedure A: Cash Deposits - The breakdown of all cash to be deposited will be written on the back of the deposit slip. The Executive Director and the Treasurer will approve all cash deposits by initialing and signing each deposit slip. Check Deposits – All checks to be deposited must be listed individually on the deposit slip. The Executive Director and the Treasurer will approve all check deposits by initialing and signing each deposit slip.
* Procedure B: A copy (front & back) of all checks and deposit slips will be made as part of recordkeeping and will be provided to the Finance Manager for reconciliation.

**Expense & Accounts Payable**

**Payroll**

**Policy:** As set forth in the following:

**Time Sheet Preparation & Approval**

**Policy:** All employees, exempt and non-exempt, are required to record time worked, holidays, leave taken for payroll, benefits tracking, and cost allocation purposes

**Procedures:**

* Employees complete time sheets and submit them to their supervisors on the due date, based on the schedule produced at the beginning of the year.
* The Executive Director will review, correct if necessary, sign and submit time sheets to the Finance Manager within three (3) working days from the time sheet due date.
* The Finance Manager is responsible for entering time sheet information into the payroll and accounting systems as needed. All paid time off balances are maintained within the payroll system, based on the information provided on approved time sheets.

**Payroll Additions, Deletions, and Changes**

**Policy:** The Executive Director will review and approve all payroll additions, deletions, and changes by signing and dating the top right corner of the payroll document/report.

**Procedures:**

* Procedure A: After the payroll document/report has been approved a copy will be provided to the Finance Manager for reconciliation.

**Payroll Preparation & Approval**

**Policy:**

**Procedures:**

* Procedure A: Approved time sheets documenting employee hours, overtime and the activity the employee worked on to be reviewed by the Finance Manager to be submitted to the Board Treasurer for payroll check issuance
* Procedure B: Payroll checks issued by Board Treasurer to be submitted to Executive Director for signature. All payroll checks to require two signatures.

**Pay Upon Termination**

**Policy:** Any and all accrued vacation, holiday, sick and or personal time to be disbursed in next payroll period after termination of employment including any time worked.

**Procedures:**

* Procedure A: Executive Director to inform Finance Manager immediately following termination of any unpaid work time through the submission of a final timesheet clearly marked termination of unemployment/final timesheet. Finance Manager to determine based on employee records and final timesheet the disbursements to be made following all policies and procedures set forth in timesheet and payroll preparation and approval.
* Procedure B

**Purchases & Procurement**

**Policy:** Any expenditure in excess of $XXX for the purchase of a single item should have bids from three (3) suppliers if possible. These bids will be reviewed and approved by the Executive Director.

**Procedures:**

* Procedure A: Upon approval of the winning bid the Executive Director to supply Board Treasurer with copies of all bids with a written request to issue payment according to payment agreement submitted with winning bid.
* Procedure B: Board Treasurer to submit check for payment to Executive Director for final signature. Executive Director to submit to Finance Manager for recordkeeping and disbursement i.e., mailing or electronic transfer or availability for pick up.

**Independent Contractors**

**Policy:** Any contractor/consultant in excess of $XXX for the contracting of a service should have bids from three (3) suppliers if possible. These bids will be reviewed and approved by the Executive Director.

**Procedures:**

* Procedure A: Upon approval of the winning bid the Executive Director to supply Board Treasurer with copies of all bids with a written request to issue payment according to payment agreement submitted with winning bid.
* Procedure B: Board Treasurer to submit check for payment to Executive Director for final signature. Executive Director to submit to Finance Manager for recordkeeping and disbursement i.e., mailing or electronic transfer or availability for pick up.

**Invoice Approval & Processing**

**Policy:** All invoices must be approved by the Executive Director. Approved invoices will be paid within 30 days of receipt.

**Procedures:**

* Invoices and bills will be opened and reviewed by the Executive Director. The Finance Manager will be notified immediately of any unexpected or unauthorized expenses.
* Invoices will be authorized by the Executive Manager and then routed to the Treasurer for payment processing and lastly routed to the Financial Manager for reconciliation. If the expense is greater than $300 and was not authorized through the purchase order system, the Executive Director must approve the expenditure.
* Copies of all invoices paid will be filed in the locked filing cabinet. After two years these documents will be archived and they will not be destroyed.

**Cash Disbursements**

**Policy:** All disbursements, except those from petty cash, are to be made by pre-numbered checks. All void checks to be preserved and filed after appropriate mutilation. Issuing checks payable to cash and/or signing checks in advance are prohibited. All expenses to be approved in advance by authorized persons.

**Procedures:**

* Procedure A: A cash disbursement voucher to be prepared for each invoice or request for reimbursement that details the description of the expense account to be charged and contains authorizing signature and accompanying receipts and/or vendor invoices.

**Petty Cash**

**Policy:** The Executive Director and the Treasurer will each keep a petty cash box not to exceed $100. Petty cash will be used primarily to purchase office supplies, snacks, delivery tips etc. Petty cash will be kept in a lockbox that is locked in a cabinet. Keys to the cash box and cabinet should be kept on the custodian’s person.

**Procedures:**

* The petty cash custodians will be given $100 to be kept in a lock box locked in their desk.
* When cash is used a record must be entered in the individual’s petty cash spreadsheet. Receipts for all purchases are kept in the lock box.
* When cash is low the custodian will submit a check request form signed by their supervisor with a print out of the tracking spreadsheet and all receipts attached.
* A check will be cut in the amount to bring petty cash back to $100. It is the custodian’s responsibility to cash the check and keep track of funds in the box.

**Employee Expense Reimbursements**

**Policy:** Any and all employee expense reimbursement subject to prior approval by Executive Director.

**Procedures:**

* Procedure A: Employee must submit written request for approval to Executive Director for any work-related expenses prior to expenses being incurred, including but not limited to travel, credit cards, meeting refreshments, etc.
* Procedure B: After obtaining written approval from Executive Director employee must submit receipt and/or invoices for reimbursement.

**Travel Expenses**

**Policy: See Employee Expense Reimbursement Policies and Procedures.**

**Procedures:**

* Procedure A
* Procedure B

**Credit Cards**

**Policy: See Employee Expense Reimbursement Policies and Procedures.**

**Procedures:**

* Procedure A
* Procedure B

**Expense Allocations**

**Policy:**

**Procedures:**

* Procedure A
* Procedure B

**Asset Management**

**Cash Management and Investments**

**Policy:**

**Procedures:**

* Procedure A
* Procedure B

**Capital Equipment**

**Policy:**

**Procedures:**

* Procedure A
* Procedure B

**Employee Retirement Accounts**

**Policy:**

**Procedures:**

* Procedure A
* Procedure B

**Operating Reserve**

**Policy:** The target minimum operating reserve fund for the organization is three (3) months of average operating costs. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, program, and ongoing professional services.

**Procedures:**

* The amount of the operating reserve will be calculated each year after approval of the annual budget, reported to the Finance Committee and Board of Directors, and included in regular financial reports.
* The operating reserve will be funded with surplus unrestricted operating funds. The Board of Directors may from time to time direct that a specific source of revenue be set aside for operating reserves. Examples may include one-time gifts or bequests, special grants, or special appeals.
* To use the operating reserves, the Executive Director will submit a request to the Finance Committee of the Board of Directors. The request will include the analysis and determination of the use of funds and plans for replenishment. The organization’s goal is to replenish the funds used within twelve (12) months to restore the operating reserve fund to the target minimum amount.

**Final Note: This fiscal manual will be reviewed annually by the Board of Directors for accuracy, accountability and evaluation of controls. This manual was developed to manage all funds received responsibly to fulfill the organization’s mission.**