



**American Legion Auxiliary
Department of Delaware
Finance Committee
Policy and Procedures
April 5, 2018**

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General Purpose and Background

The purpose of these policies and procedures is to establish guidelines for developing financial goals and objectives, making financial decisions, reporting the financial status and managing funds for the American Legion Auxiliary, Department of Delaware, Inc. a not-for-profit organization incorporated as a 501(c) (19) organization.

Finance Committee Roles and Responsibilities

It is the responsibility of the Department Executive Committee (DEC) to formulate financial policies and review operations and activities on a periodic basis. The Board delegates this oversight responsibility to the Finance Committee

The Finance Committee

- ensures the accuracy of the accounting records
- creates and monitors the internal controls and accountability policies; reviewed by committee and approved by DEC every three years
- protects organization against fraud and theft, ensures safe custody of assets
- creates and presents the annual budget to the Department Executive Committee (DEC) for approval
- Ensures compliance with federal and state regulations.
- Provides financial reporting to the DEC and governing body.
- ensures that incoming officers understand policy and procedures
- Members of the financial committee are not authorized to modify policies and procedures without the specific approval of the finance committee and/or DEC.
- Ensures fundraising practices comply with state charitable solicitation laws.

Role of the Chair

Specific duties of the chair include:

- Monitors transaction activity of banking accounts.
- Is the principal liaison between the finance committee and the DEC
- Presents the budget to DEC for approval
- Sets agenda and notifications of finance committee meetings and distributes minutes.
- Reports results of compilation report to the DEC.

Role of Treasurer

- Financial administration: keeps up to date records, ensures the disbursements/receipts are properly recorded in the categories within the budget or approved variances, completes bank reconciliations, prepares draft budget with finance committee
- Ensures financial reports are prepared and sent to finance committee and/or DEC members in advance of meetings

- Attends scheduled meetings.
- Provides notification to the applicable to program chairman of donations received for that program. All donors shall receive proper acknowledgement of their contributions in accordance with IRS Guidelines.
- Provides notifications to finance committee concerning member's failure to provide appropriate expense report and receipts.

Accounting Policies

- The organization uses the cash basis of accounting.
- The fiscal year of the American Legion Auxiliary, Department of Delaware, Inc. shall be from June 1st to May 31st. (Standing Rules)
- Generally donated materials, assets and services will not be recorded in the accounting records.

On Line Banking

The American Legion Auxiliary, Department of Delaware takes advantage of On-Line Banking to process payments, transfer funds between our checking and money market accounts, sync transaction history between bank and software package, and mobile deposit of manual checks. Tool for chairman to more frequently monitor account activity.

A on line administrator is needed for business accounts, the Department Treasurer serves in that capacity

- M&T allows one on-line administrator per company, who has the following privileges
- a. Can change the Company Administrator
 - b. Person must be an authorized signer on all enrolled accounts
 - c. Maintains an Online Banking for Business account profile – view/edit users id's, reset passwords for authorized online users, change administrator email address and security questions.
 - d. Manage Users – only administrator has access to manage authorized user access and rights, view list of all users, add/delete accounts and users, and change access rights.
 - e. Can add/delete services example direct connect – access information via Quicken or Quick books
 - f. Nickname accounts
 - g. Change the Company Administrator
 - h. Serves as primary contact person to M&T

Authorizing purchases, and contracts:

Grants and Contracts Funded by External Sources

Officers, program directors or chairmen wishing to enter into a new or renewal of contract(s) for products, services or equipment or that have a proposed contract from a supplier must send a copy of the contract to the Finance Chairman for review.

Formal Quotes

- Goods and services valued between \$0 and \$1000 do not require a formal quote.
- Goods or services between \$1,001 and \$15,000, it is suggested that two formal quotes in writing be obtained.
- Goods or services between \$15,001 or more, must obtain quotes from three sources

Recording transactions

- The Finance Chairman who does not have signing authority, bank card or the ability to process transactions – will review bank and investment statements to ensure that purchases and investments are in-line with the budget. Financial institution is able to send a duplicate statement upon request. **(Detective Control)**
- Wire transfers - Department does not currently allow wire transfers.

Maintaining custody of assets

- Annual review the vendor list to determine if any vendor address matches that of an officer or committee member. Request supporting documentation of randomly selected vendors; or for any other irregularities concerning the vendor list.

Debt

DEC approval is required to incur any debt. The Finance Committee will be authorized to negotiate such debt. The Department President and Department Secretary will sign any debt agreements after receiving full Board approval.

Controls for Cash and Checks

Disbursements

- Disbursements may be made if there exists an approved budget for the indicated amount.
- Disbursements not in the approved budget must be authorized through the budget revision process. ([See Budget Planning and Monitoring section](#))
- Supporting documentation is required for all purchases/expenses. (invoices, receipts, etc.).
- All bills/vendors should be paid by check or bank card. Disbursements by wire and cash payments are not authorized.
- Bank Card: See Managing Use of Bank Card – Standing Rules Department Committee, Finance Committee.
- Blank checks should never be pre-signed and check disbursements must have the number of signatures required by the department.
- Access to check stock should be limited and secured. (*Lost or stolen checks do not have the same consumer protection laws as debit/credit cards.*)
- Voided checks should be defaced and retained as required by the department's record retention policy.
- Chairmen and Officers may be reimbursed for budgeted expenses incurred on behalf of the Department of Delaware. Acceptable reimbursable expenses include printing of necessary handouts for training workshops, awards and/or prizes for contests to meet Department or National goals outlined in program action plans.
- See Travel Reimbursement Policy

Receipts

Cash Receipts

- Two or more people should handle and count cash receipts and certify the total together. (Example is silent auction, raffles etc.)
- Treasurer ensures that all cash received is promptly deposited, properly recorded, and kept under adequate security.

Check Receipts

Membership Dues Units Manual

- Department Secretary receives membership dues from units, reviews information inputs information into ALAMIS system. She initials electronic check for national organization portion of membership and the Department's general account is debited.

- Checks are stamped “for deposit only” and deposited into Department of Delaware general account by the Department Secretary
- Department Secretary notifies Department Treasurer and cc; Department President via email using standard template indicating Unit and type of dues.

Membership Monies to Treasurer

Date	Unit	Seniors	Junior	Amount
3/16/2016	17	3@16		48.00

- Treasurer reconciles deposit slips to bank account with record of monies received and receives a report from department to reconcile the debit.

Membership Dues On-line Payments

- National organization sends excel spreadsheet which documents individual member’s online payment, with unit information and amount due to them.
- Department Secretary notifies the unit
- Units take the amount due off their next transmittal. “Credit” System
- Treasurer receives notification of transmittals/spreadsheets.

Paid Up for Life Membership (PUFL)

- National organization sends excel spreadsheet which documents PUFL – individual member and unit information.
- Units take the amount due to them off their next transmittal. “Credit” System

Donations and others

- Donations, poppies and other unit collections are typically sent to Department Treasurer.
- A Letter of Acknowledgement for donations and special donations in excess of \$250 should be sent in accordance with IRS code 170 F8B. (Publication 1771 Substantiation and Disclosure requirements)

Investments

Cash not needed for working capital or membership reserves will be transferred to interest bearing money market account.

To minimize risk the American Legion Auxiliary, Department of Delaware will only use federally insured banking institutions for deposits. The Federal Deposit Insurance Corporation (FDIC) standard insurance amount is \$250,000 which covers all deposit

accounts, including: Checking accounts, Savings accounts, Money market deposit accounts and Certificates of deposit

The DEC must approve any investments beyond those stated in the Standing Rules.

Check-Signing

All checks issued on behalf of the department must be signed by a sufficient number of authorized persons and documented adequately.

The following officers are authorized to sign checks: President, Secretary and Treasurer. Checks require only one signature; however, they cannot sign a check made payable to themselves or a blank check. All details on the check form must be filled in before signature.

A list of all manual checks issued each month, featuring amount, recipient, signers, and explanation, will be maintained by the Treasurer

The Treasurer typically uses on line bill pay to process recurring and non-recurring payments to department officers, chairman and vendor's. The transaction identifiers are maintained within quicken and M&T on-line banking.

Additionally, the Treasurer uses the on-line transfer function to move monies between the general, girl state and money market accounts.

Reconciliations

Bank reconciliations should occur within 30 days of the close of the month. The Treasurer completes a reconciliation of deposits and disbursements to ensure that all checking accounts are correct.

The Finance chairman, **has the option of on-line read only access (no cost)** or to receive the unopened bank statements (**cost associated with this option**). She is responsible for reviewing all accounts for unusual items or changes (**Detective Control**)

Budget Planning and Monitoring

The Finance Committee shall create the fiscal year budget revenues, expenditures and cash flow, and submit it for approval to the DEC prior to the start of each fiscal year.

- The Finance Chairman will request anticipated forecast information from program directors and chairmen for inclusion in budget.

- Treasurer will provide prior year actual vs. budget and current year actual vs. budget to assist committee in preparing the budget.
- Treasurer is responsible of compiling the information and distributing to Finance Committee.
- The Finance Chair is responsible for presenting the budget to the DEC for approval.

Budget Revisions and Request

- Requests for existing committees or programs not included in the budget or for additional funds, which exceed \$500.00 require DEC approval. Requests must be submitted in writing to the Finance Chairman who is responsible for communicating to entire committee and presenting request to the DEC.
- Requests to reallocate monies from one budget item to another must be approved by the Finance Committee.
- Requests for funding in any amount by a new committee or non-existing committee subsequent to budget approval must be reviewed and approved by the DEC in order to determine need and consistency with the overall mission.
- All budget revisions must be documented in writing and filed with the financial records.

Internal Financial Reporting

Regular financial reports for all DEC Meetings and Fiscal Year Reports by Department Convention are required.

- The Department Treasurer is responsible for presenting the financial reports at the DEC Meeting.
- Treasurer must provide a Statement of Cash Receipts and Disbursements – Cash Basis actual income and expenses to budgeted funds. Explain any significant variations between actual verses budgeted income/expenses. (General Fund Budget Report)
- Statement of Assets, Liabilities and Net Assets Balance Sheet – Cash Basis: details the assets, liabilities and equity, as of a particular date
- Transaction history in support of Statement of Cash Receipts and Disbursements and Statement of Assets, Liabilities and Net Assets

Audits

External Audits

The Departments standing rules require an audit every three year by an independent auditing firm or if a new treasurer is appointed/elected mid-term.

- The Finance Chairman, should engage an independent auditing firm and receive the engagement letter which describes the proposed scope of work and cost. The engagement letter must be reviewed by the committee, with the voting members approving the scope of work and cost.
- The Treasurer will serve as liaison with selected accounting firm and will provide the department records (Standing Rules)
- The independent auditing firm presents their management letter to Department Finance Committee as outlined in the standing rules. The Finance Committee will review and accept a draft of the auditing firm's management letter and complied statements.
- The Finance Committee chairmen will communicate results of audit to DEC.

Internal Audits

Internal audit will be performed the 2 years in which the external firm does not review the Department books and records. The audit assesses the effectiveness of the internal control system and helps uncover evidence of fraud, waste or abuse.

- Identifies issues before they become substantial problems, such as attempts to steal intellectual property.
- May conduct one-on-one interviews and process observations if document reviews or audit trails do not fully answer all questions.
- Random test of transactions to ensure proper process has been followed. Expense adhere to budget or approval obtain for ad hoc request, supporting documentation for expenses etc.
- Internal audit concludes with a formal written report submitted to the DEC

Legal action and Fraud

A member who has not returned or refuses to return unused department funds, is in illegal possession of department funds. In such cases, it's recommended that the department take legal action.

Guidelines for legal action

- Give the member a deadline. The Department President or American Legion Department of Delaware department judge advocate send the possessor of the money a certified letter stating the balance owed and the date upon which the money should be returned. The letter should also state that if the funds are not returned in total on said date, the department will consider all legal options available.
- The department does have a fiduciary responsibility to take some action.
 - You are advised to consult your Legion department judge advocate or an attorney.
 - Options to consider may include filing theft charges with the understanding that such charges will become a matter of public record; establishing a non-extendable deadline for the volunteer to return the funds and informing her that if the funds are not returned by the stated deadline that all available options will be pursued to collect; and/or presenting the matter to the DEC for other action(s).
- If the Department President sends the certified letter, it is recommended that she copy the department legion judge advocate, department vice president, and chairman of the department finance and/or audit Committee.

Recommend Steps Should Fraud Happen

The DEC has a fiduciary responsibility to take action, should fraud occur. The organization's reputation is at stake, without proper handling and swift action may I cause a loss of trust of members and the public.

1. Start an investigation by notifying legal counsel and law enforcement and securing electronic and physical documents of the officer, member, or anyone else who might have been involved.
2. Following Delaware State law, interview members who might be involved or know something about what happened. Hire an accounting firm experienced in forensic accounting to analyze pertinent records. Depending on the severity of the fraud, your local or state police or the FBI may conduct their own interviews.
3. Consult with an attorney about crisis communications:
 - how and when to notify the Board
 - what and when to communicate to the members and the public.

It is important that you consult an attorney about what can and cannot be stated, and prepare the official statement on the matter.

- All DEC board members should be given a clear written statement with clear instructions about what they can and cannot state.
- Designated (1) spokesperson to take calls or questions from members and public. The comment should then be the written statement only, unless advised by your attorney to state anything else. Commenting "off the cuff" and stating

anything other than the official statement can jeopardize the investigation and pose further serious liability to the organization.

4. File the appropriate insurance claim.
5. Follow the advice of the outside attorney and file any lawsuit(s) against the member or other persons involved. Acknowledge procedural gaps identified by the accounting firm and put corrective measures in place.
6. Regularly apprise the board of its progress, including any findings about the incident by legal counsel or reported findings by the external accountant.
7. Discipline or terminate the member(s) involved in the fraud as soon as recommended by your attorney, and have the action taken ratified by DEC.
8. It is wrong, and in many instances illegal, to dispense negative repercussions to the person who reports the alleged fraudulent acts. Any action against a member who acts in good faith to protect the organization that causes harm to that member, e.g. verbal or physical assault, suspension, is grounds for a lawsuit against the officers and directors. Any act of retribution that is found to be unwarranted renders the offending party/parties liable for punitive damages. Willful, wrongful acts of retribution, also can nullify any directors and officer's liability policy coverage; the offending party/parties may become personally liable for a court judgement.

Officer Transitions

A checklist for the successful transition from outgoing and incoming Treasurers is key to sustaining an effective organization.

Department Finance Chair, Department Secretary and Department Treasurer are responsible for the following upon changes to department officers.

1. Modify signers on checking accounts, Department Secretary sends notification to bank for changes in the signing officer for bank account (s). See Checking Signer section for list of authorized signers
2. Modify bonding insurance. See Department Officer Bonding section for list of officer positions that are bonded.
3. Disable old and obtain new bank card (Department Secretary)

Note: In the event the Department Secretary changes, the Department President will send notification to bank

4. Disable online access of outgoing Treasurer and obtain access for incoming treasurer.

5. Obtain all financial files, paid bills, EIN documentation and budget information, including special events budgets, and bank statements. Obtain department software and electronic copies of files.
6. Incoming Treasurer should have a copy of your financial policy and procedures manual.
7. Prepare a timeline of upcoming payments and dates when bills are due.
8. Organize for a briefing from the outgoing treasurer detailing any spending commitments or incomings not included in budget papers
9. Once you have done your first budget statement, see if you can check with the outgoing treasurer that nothing is missing.

Tax Filings

Form 8822-B Change of Address or Responsible Party

The IRS requires organizations to file Form 8822-B “Change of Address or Responsible Party – Business” if an organization has had a change of address and/or a change to the organization’s responsible party. The IRS will only send correspondence to the address on record and speak with the officer or responsible party on record. A “Responsible Party” is typically the person that signs and/or submits the organization’s IRS 990/990EZ/990-N. Form 8822-B must be filed within 60 days of the date of the change.

IRS Form 990, 990EZ, 990N

The Department must file IRS Form 990EZ when their annual gross receipts are greater than \$50,000. The federal filing due date for the IRS Form 990, 990EZ, or 990N (e-Postcard) is the 15th day of the 5th month after the close of the tax year. If required form 8868 -Application for Automatic Extension. (www.irs.gov)

Delaware Annual Franchise Tax

All corporations incorporated in the State of Delaware are required to file an Annual Report and to pay a franchise tax. Exempt domestic corporations do not pay a tax but must file an Annual Report. The Annual Report filing fee for all other domestic corporations is \$50.00 plus taxes due upon filing of the Annual Report. Taxes and Annual Reports are to be received no later than March 1st of each year

Mandatory Unit Assessments

Blanket Fidelity Bond

The American Legion Auxiliary (ALA) National Organization procures a Fidelity Bond which provides coverage for American Legion Auxiliary Unit members and employees in addition to coverage for national officers, national directors, and National Headquarters employees.

ALA Departments and ALA Districts/Counties/Councils are not included in the Fidelity Bond coverage provided by the National Organization.

Each Department is billed at the beginning of the three-year policy term for its proportionate share of the bond premium for the coverage of its Units. For Units, the current limits of

coverage for Unit officers, Unit members volunteering for ALA programs and operations, and Unit employees is \$10,000 per claim with a deductible of \$250 for each claim.

Past Presidents Parley

The Past Presidents Parley is a forum that brings together the experience of our former presidents and utilizes their expertise in active service to the American Legion Auxiliary. Women who have been president of a unit, department, or the national organization are encouraged to contribute to the Auxiliary as members of the Past Presidents Parley each unit is assessed is \$10.00 per eligible member.

Registration fees

Each unit is required to pay registration fee of \$5 per person in its delegation (Delegates-at-Large, Delegates and Alternates) for the Department Convention. Each Unit shall be entitled to one delegate and one alternate for each twenty-five paid-up members or the majority fraction thereof, in addition to the Unit President, or, in her absence, the Unit Vice President, who shall be a Delegate-at- Large with vote.

Department Officer Bonding

Article X Finance of Bylaws requires all persons handling funds of the organization shall be bonded to protect against exposure to financial losses due to dishonesty, forgery, alteration, theft, disappearance or destruction. Officers are required to complete the surveys and applications from the insurance agency.

Computer Authorization and Backup

The accounting computer and software will have access controlled by passwords.

The accounting records will be backed up regularly. The Treasurer who maintains the record is responsible for carrying out this backup.

Access to Records

The records are generally open to public inspection due to IRS rules. However, certain information is not open to public examination and may only be released with the permission of the DEC.

IRS Form 990, the exempt organization information returns, must be made available to anyone upon request. All pages, schedules and attachments, except the detailed schedule of contributors must be made available.

Record Retention and Disposal Policy

Retain records in accordance with the requirements of all applicable laws and to ensure that records that are no longer needed or are of no value are disposed of at the proper time

Covered Records

This policy applies to all records generated in the course of operations, including but not limited to:

- handwritten, typed, or printed hardcopy (i.e., paper) documents;
- electronic records and documents (e.g., email, Web files, text files, PDF files);
- video or digital images;
- graphic representations;
- recorded audio material (e.g., voice mail).

Records Retention Schedule

Schedule of Recommended Retention Period

Accounting

Accounts payable (general)	CY + 7 years
Journals and related Trace Reports	
Invoices	
Vouchers (payment to vendors, volunteers, staff – include expense sheets)	
Cancelled checks	CY + 10 years
Cancelled checks (important payments) Perm	
Accounts receivable (general)	CY + 7 years
Zero balance books	
Accounts to 3rd party letter writer	
Accounts to collection agency	
Journals and related Trace Reports	
Invoices	
Audit reports and audited (external) financial statements Perm	
• Internal Audit work papers	7 years
• Interim Budget-actual (internal) financial reports	CY + 7 years
• Year-end budget-actual (internal) financial reports	Perm
• Bank statements and reconciliations	10 years

• Budgets – annual, adopted	7 years
• Capital expenditure vouchers	Life of item + 10 years
• Charts of accounts	Perm
• Check registers	CY + 7
Financing/Loan/Line of Credit	Term + 6 years
• General ledgers Perm	
• Journal entry postings to General Ledger	7 years
• Monthly trial balances	7 years
• Membership deposit edit reports	7 years
• Petty cash vouchers	7 years
• Subsidiary Ledgers	Perm
Claims	
• Accident reports/claims (settled)	7 years after settlement
Communications (Public)	
• Press releases/public statements	Perm
• News articles	Perm

Computer and Voice Mail System Back-Up Records	
• Back-Up Records related to duplicate copies of electronic data issued for disaster recovery due to data loss from a catastrophic event, user error or hardware errors	Not less than 30 days
Records related to deleted e-mails, instant messages, and text messages	Not less than 30 days
Voice-mail messages	Not less than 30 days
Disk and hard drives of computers provided to employees separated from employment. Do not erase, however, without consulting the Human Resources Department.	Not less than 30 days

Corporate/Administration

Annual Reports	CY + 10 years
Charter Documents: Articles of Incorporation, By Laws	Perm.

Board of Directors/National Executive Committee (NEC)

Written Communications, including Financials	Perm
DEC Meeting Minutes Perm	Perm
DEC Meeting Notices Perm	Perm
Conflict of Interest – DEC, Officers, Chairmen	Tenure + 5 years
DEC and Officers Names and Addresses	Tenure + 5 years
Resolutions	Perm

• Bonds, Surety	Life of bond + 6 years
• Contracts, mortgages, leases	Term + 10 years
• Deeds, titles and easements	Perm
• National Finance Committee Minutes	Perm
• Policy, Procedure and Training manuals	Current + 10 years
• Property appraisals	Perm
• Real Property records	Perm
• Personal Property (incl. inventory) records	10 years after disposition
• Strategic plans	Perm
• Survey/inspection records	8 years
• Trademark registrations and copyrights	Perm

Correspondence (via paper or email)

General (important, accounting-related)	7 years
• Legal or tax related	Perm
• All others	Period needed for business purposes

Employment/Human Resources

Payroll Reports (includes withholding tax info)	5 years
• Personnel files (terminated)	Termination + 5 years
• Personnel records relevant to litigation or government action	Disposition of action
• Social Security Reports	7 years
• Staff in-service logs and employee training	5 years from training date

Grants

Approved grant applications (AEF, Scholarships, etc.)	5 years after project completion & after audit
• Unapproved grant applications	5 years

HIPAA

• Privacy Rule or Security Rule Policies and Procedures and Any Other HIPAA-Related Documents	Perm
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Information Management

• Purchase/service contracts/warranties	Term + 10 years
• Computer systems manuals	Life of computer + 10 years
• General support materials	Life + 10 years
• Reference materials	Life + 10 years
• System acquisition documentation	Life + 10 years
• Vendor work orders	Life + 10 years

Insurance

• Insurance policies (expired)	3 years
• Insurance policies (active)	Term + 3 years
• Insurance records, current accident reports	Perm
• Safety reports	Perm
• Bond claims from Departments	10 years

Legal/Compliance

• Compliance program	Perm
• Compliance audits Perm	Perm
• Correspondence with government agencies	Perm
• Corrective actions	Perm
• Inquiry logs	10 years
• Memoranda/letters from attorneys	Perm
• Litigation documents Disposition of case	

Membership

• Life Member (VIM) applications	3 years
• Dues Deposit and Edit Reports	7 years

Membership Reports

Weekly & Target Date	CY + 6 months
Delegate Strength (C of B) and 12/31 reports	CY + 3 years
National Membership Record (updated annually)	CY + 3 years

Membership Cards

Previous years – reduce stock each year as follows
• Immediate past year – 300
• 2 years previous – 200
• 3 years previous – 100
• 4 years previous – destroy all but 50
• 5 years previous – destroy all but 5 for sample purposes
• 6-15 years previous – destroy all but 1 for sample purposes
• 16+ year - destroy

Purchasing & Sales

•Physical inventory logs	3 years
• Inventory reports	
• Purchase orders:	
supplies, Poppy Kits, misc.	3 years
Contractual	Term of Contract + 10 years
• Requisitions	3 years

• Requests for Proposals (RFP's)	3 years after acceptance
• Sales Orders	3 years
• Pick sheets 6 months following order	6 months following order fulfillment
• Shipping and Receiving logs	3 years

Tax Returns and Work papers

• Federal tax returns	Perm
• Federal tax supporting documents	CY + 7 years
• State and local tax returns	Perm
• State and local tax supporting document	CY + 7 years
• Depreciation schedules	Life of item + 7 years
• Equipment records (after disposition)	Life of item + 7 years

Glossary

- **Accounting policies** are the specific principles, rules and procedures implemented by a company/non-profit and are used to prepare its financial statements.
- **Balance Sheet** (Statement of Assets, Liabilities, and Net Assets – Cash Basis) sometimes called a statement of financial position provides a snapshot of your practice's financial status at a particular point in time. This financial statement details your assets, liabilities and equity, as of a particular date. Although a balance sheet can coincide with any date, it is usually prepared at the end of a reporting period, such as a month, quarter or year.
- **Budget/forecast** is an estimation of revenue and expenses over a specified future period of time. It is a guide that can help a nonprofit plan for the future as well as assess its current financial health. It is an internal tool used by board and is not required for reporting to external parties.
- **Cash basis** of accounting recognizes revenues when cash is received, and expenses when they are paid.
- **Conflict of Interest** A situation that has the potential to undermine the impartiality of a person because of the possibility of a clash between the person's self-interest and professional interest or public interest
- **Control environment** the overall attitude, awareness and actions of the officers and board regarding internal controls and it's importance to the organization.
- **Control deficiency** design or operation of a control does not allow organization to prevent or detect misstatements in a timely manner.
- **Documentation** Standardizing documents used for financial transactions, such as invoices, internal materials requests, inventory receipts and travel expense reports, can help to maintain consistency in record keeping over time. Using standard document formats can make it easier to review past records when searching for the source of a discrepancy in the system. A lack of standardization can cause items to be overlooked or misinterpreted in such a review.
- **Fiscal year** It is also used for financial reporting by business and other organizations. Laws in many jurisdictions require company financial reports to be prepared and published on a generally annual basis, but generally do not require that the reporting period be calendar year, 1 January to 31 December.
- **Income statement** (Statement of Cash Receipts and Disbursements – Cash Basis) is a financial statement that reports a company's financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the

business incurs its revenues and expenses through both operating and non-operating activities.

- **Internal Controls** Systematic measures (such as reviews, checks and balances, methods and procedures) instituted by an organization to
 - (1) conduct its business in an orderly and efficient manner,
 - (2) safeguard its assets and resources,
 - (3) deter and detect errors, fraud, and theft,
 - (4) ensure accuracy and completeness of its accounting data,
 - (5) produce reliable and timely financial and management information, and
 - (6) ensure adherence to its policies and plansEffective **controls** reduce the risk of asset loss and help ensure that plan information is complete and accurate, financial statements are reliable, and that the plan complies with laws and regulations.

- **Test of Controls** an audit procedure to test the effectiveness of the controls used by an organization to prevent or detect material misstatements. If test reveals weak controls auditors may enhance or expand the sample size to conduct further testing. Organizational control may be deemed ineffective.

- **Types of Internal Controls:**
 - **Detective Controls** are designed to find errors or irregularities after they have occurred. Audits are an example of a detective control. Monthly reconciliation of bank accounts, review and verification of refunds, reconciliation of petty cash accounts, audits of payroll disbursements or conducting physical inventory are all examples of detective controls.
 - **Preventive Controls** are designed to discourage errors or irregularities from occurring
 - **Internal auditing** is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

- **Types of Audits**
 - **Financial audit:** This is an analysis of the fairness of the information contained within an entity's financial statements. It is conducted by a CPA firm, which is independent of the entity under review. This is the most commonly conducted type of audit.
 - **Compilation:** It's not an audit or even a review of financial statements. And thus, no opinion or assurances are provided regarding whether the financial statements accurately reflect the organization's financial position or are in accordance with GAAP. A compilation involves (1) gaining a general understanding of your

organization, accounting principles used and financial reporting system and (2) presenting financial information in the accepted format of proper financial statements

– **Financial Review** falls somewhere between a compilation report and an audit. it's a review of a nonprofit's statement of financial position, statement of activities, and cash flows.

- **Policy** is the principles or rules that are used to determine decisions and actions.
- **Procedure** is the course of action that must be followed to implement a policy consistently.
- **Segregation of Duties:** duties are segregated among different people to reduce the risk of error or inappropriate action. Examples include prohibiting the same person from conducting related transactions such as initiating and recording transactions; making purchases and approving payments; ordering and accepting inventory; approving vendors and making payments; receiving bills and approving payments; and authorizing returns and issuing refunds
- **Transparency** is the disclosure of information to the public and supporters to indicate the organization is managed well, functions in an ethical manner, and handles its finances with efficiency and responsibility. It's part of a board's duty of obedience.

Version	Date	Description of Change
V2	4/5/2018	Final – accepted all track changes