

**INTERNAL FINANCIAL CONTROLS  
POLICIES AND PROCEDURES  
FOR  
EVANGELICAL CHRISTIAN ACADEMY**

*Purpose.* Evangelical Christian Academy is a nonprofit 501(C)(3) organization committed to protecting and using our assets for our mission. Proper financial practices are very important in doing this, since proper practices help to prevent and detect errors and fraud. Good financial practices also assure our donors that we use their gifts for the purposes for which they were intended.

**I. GENERAL PRACTICES**

*Review of Risks.* These policies were drafted after consideration of the risks associated with the various aspects of our financial operations to enact policies and procedures designed to minimize those risks. The Board will review these policies each year to consider whether the risks have changed. Such changes may include receipt of grant monies for the first time or receipt of grants with restrictions, a change in the laws regulating our nonprofit, hiring of employees or a major change in our programs. If so, the Board needs to identify any new risks and adopt appropriate procedures to minimize those risks. The Board shall consult with a professional if necessary to ensure that it is properly addressing the risks.

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

As much as possible, the Board seeks to separate the responsibilities for fiscal roles so that at least 2 two and preferably more individuals fulfill these roles. It is particularly important that the same person does not authorize, execute and monitor any transaction. At each step of handling funds, the organization shall ensure that more than one person verifies that the step is done correctly.

**II. RECEIPT OF FUNDS**

**RISKS**

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. We also face the risk that we may fail to record a restriction that a donor has placed on our use of funds.

## POLICY

All funds, whether cash, check or charge, 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 or check receivables should be deposited into the bank as early as is practicable. This allows for a complete accounting and independent verification of what happens to our funds. Communications from donors that establish restrictions on the use of their contributions will be saved. If we believe that a donor has restricted the use of funds in a conversation, we will follow up and get written confirmation of the donor's intent.

## PROCEDURES

1. *Receipt of Checks in the Office.* The Bookkeeper opens all Business Office mail addressed to the organization. The Bookkeeper makes deposits of checks through the existing "Remote Deposit Capture" (RDC) system through Evangelical Christian Credit Union (ECCU). This RDC check scanning process enables the Treasurer to verify that all checks received are deposited. The Bookkeeper and Administrative Assistant make deposits and make an accounting of each income transaction, whether it is for payment to an account or received as a donation. These executors of the deposit of each check provide statements of payment or donation to each party respectively.

The Bookkeeper who processes the deposit of checks through the RDC will verify that each check is stamped with an endorsement by the RDC machine. Each check is stamped "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. Furthermore, the Bookkeeper shall see that each check which clears through the RDC process and the reconciliation, be destroyed shortly following the 30 day holding period.

2. *Receipt of Cash in the Office.* Cash is easily stolen and must be handled carefully. If cash comes into the office, the person accepting the cash must provide a written receipt when taking the cash:

- The receipt should state the person's name, the date, the amount of the cash and the purpose of the payment.
- Use a pre-numbered receipt book with an automatic duplicate copy with the organization's name printed on it.
- No pages may be removed from the receipt book.
- The person with access to the receipt book shall keep it in a locked drawer and shall lock cash in a secured location until the Bookkeeper can retrieve it.
- If possible, when the Bookkeeper opens the location with the cash, one other person will accompany the Bookkeeper so that they can count the cash together.

The Bookkeeper or the Bookkeeper's designee shall train all office volunteers in these procedures.

The Treasurer will compare the receipt book and the bank's list of cash deposits when spot-checking the Bank Reconciliation as described below.

3. *Deposit Slips.* The Bookkeeper will deposit corporate funds as follows:

- Prepare a deposit slip in duplicate.
- Scan each check using the RDC Scanner mentioned above to provide a read-only scanned image accessible through the ECCU online banking program.
- If cash will be included in the deposit, the Bookkeeper will attach a calculator tape
- This documentation will be filed chronologically.

The Treasurer will review the deposit ticket and scanned check images when making the Bank Reconciliation described below.

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

5. *Receipt of Checks and Cash Outside the Office.* If checks and/or cash come in outside the office (such as the Elementary Office, Gate or Concession Box, or a class fundraising event), we need to take special precautions to protect these receipts from theft and to ensure that no one is falsely accused of stealing funds.

- Two people need to prepare the deposit slip for the 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 the individuals accepting the contributions at the event know the names of the individuals making gifts in cash, they will provide a receipt using the pre-numbered receipt book. If the funds are received through a "pass the hat" style collection in which it is not possible to know who gave what amount, the individuals accepting the contributions will note that no receipts were provided to donors on the duplicate deposit slip.
- It is not necessary to write out a receipt for contributions made by check unless the donor requests a receipt. However, the individuals accepting the contributions should make a list of all checks received at the event, including the name of the donor and the amount of the contribution. They will compare this list to the deposit to be sure all checks have been included in the deposit.
- If no cash is received at the event, the individuals accepting the contributions by check will give the Secretary the list and the checks within 24 hours of the event.
- If there is cash in the deposit, one of the two individuals accepting contributions must deposit the funds immediately. If checks will be deposited with the cash, the individuals accepting the checks should be sure that the list of checks they prepare includes the donor's address as well as name.
- The duplicate receipt book and the list of checks received shall be given to the Administrative Assistant who will send acknowledgement letters.

The Bookkeeper or the Bookkeeper's designee shall train all volunteers in these procedures.

6. *Credit Card Contributions.* Credit card contributions may be received through online giving using our PayPal account or they may be received through a credit card transacted through the ECA Business Office or Elementary Office.

If the credit card contribution is received through PayPal, periodically a transfer of payments received will be made into an ECA bank account. When these transfers are made, an itemized record of the donor name, date of receipt, and amount of donation is provided to the Bookkeeper in order to validate that the donations received equal the amount of the transfer, less any Paypal services charges per transaction. Records of these donations and transfers may be inspected by the Treasurer or Administrator upon request.

Donations made through the credit card reader in the ECA Business Office shall be confirmed through duplicate receipts produced by the credit card reader. Daily transactions should amount to the end of day transaction report that the credit card reader publishes on the very next day.

Donations made through the credit card reader at the ECA Elementary school office shall be confirmed through duplicate receipts produced by the credit card reader. Daily transactions should amount to the end of day transaction report that the credit card reader publishes on the very next day. Copies of these documents will be sent through inter-office mail to the ECA Business Office for safe-keeping.

7. *Acknowledging Donations.* While IRS rules require that we acknowledge all donations that are more than \$75, our policy is to provide written acknowledgement for every gift we receive. The Administrative Assistant shall respond to each donation with a receipt and letter thanking the donor for their generosity: These letters shall be signed by the Superintendent.

- If the gift was cash (which includes a check), the letter should include the amount of the gift and state that the gift was cash.
- If the gift was donated property of some kind, the Administrative Assistant's letter does not need to and should not value the property. If the donor did receive something of value in return, the Administrative Assistant's letter must contain a description of the donation and a good faith estimate of the value of what we gave back to the donor.
- The letter should include a receipt from the school accounting/donation software management system (QuickBooks/Donor Connect) including one of the following statements: [PICK ONE: "No goods or services were provided in exchange for your contribution" or "In exchange for your contribution of \$\_\_\_\_\_, we provided goods and services of the fair market value of \$\_\_\_\_\_."]

In addition to thanking our donors and providing documentation the donor needs to deduct the contribution, the acknowledgment letter may alert donors whose amount is misstated to contact

us to correct the error. Additionally, our records of the letters we send will help us keep an up-to-date record of how to contact all our donors.

### III. DISBURSEMENT OF FUNDS/USE OF CORPORATE PROPERTY

#### A. PAYMENTS BY CHECK

##### RISKS

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.

##### POLICY

Make all disbursements from the organization's funds by check, with the exception of petty cash. This allows us to track how our funds are spent, who is spending them and who is authorizing expenditures.

##### PROCEDURES

1. *Opening Bank Accounts.* Bank accounts may be opened only upon authorization of the Superintendent.

- All bank accounts must be opened with the organization's employer identification number (EIN).
- The Board shall approve the authorized signers on the organization's bank accounts.
- Because of the Bookkeeper's role in reconciling the bank statement, the Bookkeeper cannot be a check signer.
- If possible, the Bookkeeper should not be a check signer because of his/her role in the custody and preparation of the checks.

2. *Custody of Checks.* The Bookkeeper and the Administrative Assistant are the only persons authorized to have access to unused check stock. The checks should be stored in a locked location and information about how to access them should be kept confidential from everyone but the Superintendent.

3. *Check Authorization.* All invoices will be forwarded immediately to the Class Manager (Administrator over a particular classification: Admin/Collegium – Superintendent; Elementary and Secondary – respective Principals; Activities – Secondary Athletic/Activities Director) for review and authorization to pay. Additionally, the Superintendent shall demonstrate an awareness of each authorized payment by initialing approval of each purchase order.

- The Administrative Assistant will review all invoices for mathematical accuracy, agreement with a written invoice, conformity to budget or Board authorization and compliance with grant fund requirements.

- The Administrative Assistant will ensure that all conditions and specifications on a contract or order have been satisfactorily fulfilled, including inventorying items received against packing slip counts.
- The Class Manager will code the invoice with the appropriate expense or chart of accounts line time number and other information as needed for accounting purposes.
- By approving an invoice, the Class Manager indicates that he/she has reviewed the invoice and authorizes a check.
- The Administrative Assistant is responsible for timely follow-up on discrepancies and payment.

The Class Manager will send approved invoices to the Administrative Assistant for payment.

4. *Expenses Not Invoiced.* In some cases, expenses may not be invoiced, such as rent. When such expenses are due, the Class Manager 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 Bookkeeper.

5. *Payment by Checks.* Upon approval of the invoice and note by the Class Manager, the Administrative Assistant is authorized to prepare all checks and should do so.

- 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.
- In the event that it is necessary to issue a duplicate check for checks in an amount over \$50, the Bookkeeper will order a stop payment at the bank on the original check.

6. *Duties of Check Signers.* All checks will be signed by the signers designated by the Board of Directors. Prior to signing a check, a check signer will do the following:

- Compare the check to the original invoice or the Class Manager’s note to pay the expense.
  - o Compare the amount on the check to the amount on the invoice or note.
  - o Be sure that the Class Manager has initialed the invoice. This is to protect against the risk that you are paying based on a copy of the bill that has already been paid.
  - o Check the date on the invoice or the Class Manager’s note against the date of signing the check. If the difference is more than 60 days, get written approval from the Class Manager before signing the check. This is to mitigate the risk that the organization is paying the same expense twice.
  - o The signer shall be a different person than the one who created the check. Upon signing the check, the signer shall see that the checks are sealed in an envelope and placed in the mail or internal delivery systems.
- Check to be sure that the amount of the check is not clearly unreasonable. For example, a \$30,000 monthly payment for bookkeeping services would be unreasonable for most small nonprofits.

7. *Prohibited Practices.* In no event will:

- invoices be paid unless approved by the Class Manager;
- blank checks be signed in advance;
- checks be made out to “cash,” “bearer,” etc. Each check signer will be made aware that signing blank checks exposes our organization to theft since the bank is entitled to charge our account for any check that has a valid signature. A signed blank check is an invitation to theft.

8. *On-line Payments.* If we make online payments, we will make arrangements with the bank that allow the Superintendent to have online, read-only access to the account. We will also arrange with the bank to be sure that only the individuals the board has authorized as check signers will be permitted to authorize the payment of bills electronically. In addition to the monthly reconciliation, the Superintendent will periodically spot-check the account to compare the bank automatic payments with the vendor statements.

## B. PETTY CASH FUNDS

### RISKS

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.

### POLICY

The Petty Cash Fund should only be used when payment by check is impracticable.

### PROCEDURES

*Administration of Petty Cash.* The Bookkeeper is responsible for the administration of the Petty Cash Funds. The Funds (kept in each school office) shall be funded with checks made out to “Petty Cash—name of specific Office Assistant at a specific office” and initially recorded in the Petty Cash Fund account. The Bookkeeper will require receipts for all purchases and may ask those reimbursed to sign for money the Bookkeeper provides as reimbursement.

The Bookkeeper will record all cash purchases in a journal and save the receipts. When the fund gets low, the Bookkeeper will apply to the Superintendent for authorization to reimburse the fund for the total amount expended. The check written to reimburse the Petty Cash Fund will be recorded in the appropriate expense accounts for the items that were purchased with Petty Cash, so that these expenditures made through the Petty Cash fund are properly classified by type – for example, postage, parking fees, etc.

## C. EXPENSE REIMBURSEMENT

### RISK

Revision: November 6, 2015

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

## POLICY

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

- Your expense must have been authorized in advance by the Class Manager or Superintendent (if for an expense to be incurred by a Class Manager).
- Your expense must have been incurred for goods or services purchased for the organization.
- If your expense is for travel, the travel must be for work related to the organization. We will reimburse no more than the standard mileage rate for business use of a car as established by the IRS. The organization will reimburse meal expenses incurred in direct connection with the organization's business, or at the per diem rate established by the IRS.

## PROCEDURES

To be reimbursed for expenses:

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

## D. PURCHASING

## RISK



Revision: November 6, 2015

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

#### **POLICY**

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

#### **PROCEDURES**

The Class Manager can authorize purchases of \$5,000 or less which conform to the Board's budget. The Superintendent must approve purchases above that amount. The Board must authorize any purchase which does not conform to the Board's budget.

### **E. USE OF CORPORATE PROPERTY**

#### **RISKS**

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

#### **POLICY**

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

#### **PROCEDURES**

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

### **IV. CREATION OF CORPORATE OBLIGATIONS**

#### **RISKS**

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

#### **A. CREDIT AND DEBIT CARDS**

#### **RISKS**

Revision: November 6, 2015

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

## POLICY

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

The following purchases are **not** allowed on the corporate credit card:

- Personal purchases
- Cash advances or loans
- Payroll advances
- Purchased for other organizations
- Alcohol
- Personal entertainment
- Fuel for personal vehicles
- Purchases from a business you own or operate unless pre-approved by the Board
- Any item inconsistent with the mission and values of the organization

An individual purchase shall not exceed \$2,000. Aggregate monthly purchases shall not exceed \$5,000. Planned expenses to exceed these amounts shall be pre-approved by the Superintendent.

## PROCEDURES

In order to use the card, the cardholder must follow these procedures:

1. *Cardholder Agreement.* Upon issuing a corporate card to a cardholder, the cardholder must sign a statement that the cardholder has read and understands this Credit Card policy and will reimburse the corporation for any personal charges on the card.
2. *Advance Approval.* The Class Manager/cardholder must give advance written approval to make a purchase whenever practical. The cardholder's purchase request should describe the purchase and cost.
3. *Original Receipts.* The cardholder must keep the original receipt that describes each purchase made on the card. The credit card receipt is not sufficient.
4. *Notification of use of the credit card:* The cardholder will email the Bookkeeper after each use of the corporate credit card noting the date, vendor, and amount of each charge made. This is will

allow the Treasurer to be aware of the cash that will be required to pay the credit card bill and alert the Treasure to potential unnecessary use of the credit card.

5. *Expense Form.* Within 5 days after the end of the billing cycle, the cardholder must prepare and sign an expense detail form and attach original receipts and a copy of the purchase request. In the case of meals, the statement must include the names of all persons at the meal and a brief description of the business purpose, in accordance with IRS regulations.

6. *Approval by Bookkeeper.* The cardholder must give the expense detail form to the Bookkeeper for approval. The Bookkeeper shall review each purchase to ensure that it was reasonable, necessary and the best value for the organization. The Bookkeeper will reconcile the expense detail form to the credit card billing statement, authorize payment and follow up on any inconsistencies.

7. *Notification of Loss/Theft.* The cardholder must notify the bank and the organization immediately in the event that the card is lost or stolen.

## B. BORROWING AND LINES OF CREDIT

### RISKS

The organization needs to ensure that borrowing in the corporate name is authorized.

### POLICY

The Board must approve application for and acceptance of any Lines of Credit. Once the Line of Credit is authorized by the Board, the Treasurer can authorize borrowing within the limit of the line of credit up to \$65,000. The Board must approve all borrowing against the line of credit greater than that amount.

The full Board must approve any other borrowing of funds in the name of the corporation, including the use of any promissory notes. The Board must give very serious attention to be sure that the corporation will have sufficient funds available to repay any loans or lines of credit on time.

## V. BANK RECONCILIATION AND ON-LINE MONITORING

### RISKS

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

## POLICY

The Treasurer will monitor the corporation's accounts regularly and will prepare a written reconciliation of all bank or investment accounts which proves that the balances presented on our financial reports agree with the records of the financial institution.

## PROCEDURES

1. *Records to Treasurer.* The Bookkeeper shall provide the Treasurer with a copy of all records of deposits, disbursements (checks written), and other bank transactions and of our accounting records for review upon request. Additionally, the Bookkeeper shall provide an electronic file of the general ledger for the year-to-date on the last business day of the month to the Treasurer.

2. *Bank Statement.* The corporation will direct the bank to send the bank statements to the Bookkeeper and Treasurer. This statement currently arrives electronically on the first day of each month and about five (5) days later through the mail.

3. *Reconciliation.* The Bookkeeper will reconcile the bank statement monthly. The reconciliation should be done within 7 days of receiving the statement, as follows:

- Check all checks for correct signatures and number of signatures and protest to the bank any incorrect signatures.
- Review the checks in the bank records to ensure that:
  - o the name of the payee, the amount of the check and the date of the check agree with the corporation's accounting records;
  - o whoever the check was made out to was the depositor of the check; and
  - o 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.
- Check the cash entries in the receipt book against the bank record of deposits to ensure that all cash was deposited.
- Check whether the ending balance in the general ledger cash account agrees with the bank statement, after making the adjustments on the bank reconciliation form.
- List all outstanding checks. On all checks outstanding over 90 days, take appropriate action.
- List all deposits in accounting records not yet recorded by the bank.

If the reconciliation is done electronically, the Bookkeeper must check off on a form to be given to the Treasurer that he or she performed the review above.

Upon completion of the bank reconciliation, the Bookkeeper shall provide the Treasurer with a post-reconciled electronic copy of the general ledger for review and consideration.

4. *On-Line Banking.* Both the Bookkeeper and Treasurer should have on-line, read-only access to the bank account. The Bookkeeper should use the on-line access to check his/her work. The Bookkeeper should review the account on-line on a 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. The Bookkeeper and the Superintendent shall have online authority to transfer funds between accounts owned by the school.

5. *Return of Cancelled Checks by the Bank.* The Board will determine whether it is necessary to direct the bank to return the cancelled checks with the bank statement. If the Board determines that it will not require return of the cancelled checks, it will establish procedures to ensure retention of the electronic images of the checks for at least 3 years.