Guide to Financial Best Practices for Local Leaders

NATIONAL EDUCATION ASSOCIATION

NATIONAL EDUCATION ASSOCIATION
The National Education Association is the nation's largest professional employee organization, representing more than 3 million elementary and secondary teachers, higher education faculty, education support professionals, school administrators, retired educators and students preparing to become teachers.

May 2022

Guide to Financial Best Practices for Local Leaders

May 2022

Dear Local Leader,

We are proud of the important steps that NEA and our affiliates have taken to prioritize fiscal health. We are pleased to share with you this guide to sound Association fiscal practices to assist you in fulfilling your responsibilities as fiscal stewards.

NEA and NCUEA worked together to develop these guidelines, which are designed to ensure that the necessary internal controls and policies are in place to build and sustain healthy, effective local associations throughout the country.

We want to thank you for your continued leadership and commitment. At a time when the Association continues to face dramatic changes – political, legislative and legal – at every turn, it is critical that we work together to ensure that we are well-positioned to adapt and respond to the ever-changing landscape.

In solidarity,

Noel Candelaria
NEA Secretary-Treasurer

Brent McKim
NCUEA President

For additional assistance, please contact NEA Affiliate Support
Paula K. Purdy, Manager of Affiliate Support, 202-822-7094 ppurdy@nea.org
Bob Maleta, Sr. Financial Analyst & Accountant, 202-822-7433 bmaleta@nea.org

Contents

Tone at the Top

The "Tone at the Top" begins with the board of directors. This concept refers to the general ethical (or unethical) climate of the association and is established by implementing sound codes of conduct and then living by them day in and day out as well as leading by example. Establishing and promoting an ethical climate is believed to reduce fraud and other unethical practices.

There are several ways that you can set the "Tone at the Top":

- Implementing a code of ethical conduct
- Establishing a conflict of interest policy
- Adopting and promoting a whistleblower policy
- Consistently adhering to internal control procedures and association policies
- Hiring competent management and staff
- Performing fiduciary responsibilities
- Valuing an ethical culture
- Active and engaged board of directors

Having weak "Tone at the Top" can lead to the following:

- Fraud
- Mismanagement of association assets and resources
- Poor morale for management, staff and the board
- Reputation risk of the association
- Disgruntled members or loss of members
- Personal liability
- Public scrutiny

So, the most powerful and effective step officers, board members and management can take to promote the overall fiscal health of the association is to foster an ethical culture within the association.

Fiduciary Responsibilities

As a member of the board of directors and staff you have certain legal and ethical responsibilities to the association. You are legally charged to protect the assets of the association and to act in its best interest at all times.

A fiduciary–

- Is a person or institution given the power to act on behalf of another in situations that require great trust, honesty and loyalty
- Must set aside their own personal motives and act in the best interest of the association
- Cannot act in any manner adverse or contrary to the interests of the association

Board members and staff are granted fiduciary status under state law, the association's constitution and bylaws and common sense.

The general responsibilities of a fiduciary are:

- To act in the best interest of the association
- To use good faith and honesty when making decisions
- To exercise all of the skill, care and diligence that a *PRUDENT PERSON* would exercise when acting on behalf of the association
- To strive to make the best or right decisions in all situations

Prudent Person

Before going further, it is important to understand what a prudent person is and why acting in such a manner is fundamental in upholding the fiduciary responsibilities as a board or staff member.

A prudent person---

- Regularly attends meetings
- Is inquisitive
- Applies their skills
- Acts with caution
- Uses their best judgment
- Relies on experts as needed

The 4 Fiduciary Responsibilities

There are four duties required of a fiduciary: **care**, **loyalty**, **good faith** and **obedience**.

The duty of care requires a person to exercise ordinary and reasonable care while exhibiting honesty and good faith. As part of the duty of **care**, it requires that the board member act in what is believed to be the best interest of the association or similarly how a prudent person would act under similar circumstances.

The duty of **loyalty** requires that a board member remain faithful to the association when making decisions and not put their personal interests above the interests of the association. If it is believed that there is a conflict of interest then it needs to be disclosed.

The duty of **good faith** requires a board member to always undertake their responsibilities honestly, conscientiously, and fairly. Decisions that are made for the association should be in the best interests of all association members and not for the advantage or benefit of one group over another.

The duty of **obedience** requires board members to act in accordance with the association's articles of incorporation, constitution, bylaws and other governing documents, as well as all applicable laws and regulations.

Relying on Experts

From time to time the need may arise to rely on experts, particularly when dealing with legal, financial or other matters outside of any officer, board member or staffs' expertise.

Instances of when expertise should be sought may include:

- Suspected criminal activities
- Financial irregularities
- Money management
- Infrastructure and building projects
- Staff issues
- Issues with governmental agencies such as the IRS, Department of Labor, Equal Employment Opportunity Commission, etc.

Personal Liability

It is essential that as a board member and as a board, issues are dealt with as they arise and turning a blind eye to a problem does not relieve the person or board of their fiduciary duties. Personal liability can even arise if as a board member acts outside of or abuses their authority as an officer or director. As well, any intentional injury or damage to persons or property may result in personal liability even if the activity was carried out on behalf of the association.

There are steps that can be taken to reduce association and personal liability:

- Be thoroughly and completely prepared before making decisions
- Review the full terms of all contracts before voting to approve them
- Be actively involved–
    - In deliberations
    - By commenting when appropriate
    - By making inquiries and asking questions
- Make decisions without undue haste or pressure
- Insist that meeting minutes accurately reflect vote counts and actions taken at meetings
- Request legal consultation on any matter that has unclear legal ramifications
- Request financial consultation (public accountants, investment advisors, etc.) to evaluate any matter with financial ramifications
- Obtain monthly financial statements and annual audit reports to read and review
- Attend association meetings and read all materials provided to stay informed
- Review periodically the association’s governing documents
- Avoid all conflicts of interest and disclose any potential conflicts

Bottom line, there is a seriousness to taking on the responsibility of becoming an officer or board member and there are potential consequences, some of them personal, from not upholding the 4 duties that are required of a fiduciary.

Association Policies to Avoid Conflicts of Interest and Unethical Conduct

In the early 2000's several major financial scandals came to light, most notably Enron and MCI WorldCom. Leadership of both companies promoted unethical business practices in order to misrepresent earnings and indicate favorable performance. Congress created the Sarbanes-Oxley Act to protect shareholders and the general public from accounting irregularities and fraudulent activities. While this Act applies to public corporations, many nonprofits voluntarily adopted policies designed to combat unethical conduct and conflicts of interest. The IRS Form 990 which is the Return of Organizations Exempt from Income Tax requests on page 6 of the return whether the nonprofit adopted a written conflict of interest policy and was it enforced and monitored in addition to wanting to know if a Whistleblower Policy and a Records Retention Policy has been adopted.

Therefore as best practice it is advocated that all nonprofits adopt the following policies for both governance and staff and that they are annually reviewed and acknowledged:

Sample Code of Ethical Conduct

In fulfillment of our obligation we commit to:

1. Exercise appropriate fiduciary responsibilities over Association resources;
2. Not having, directly or indirectly, an interest or relationship, take an action or engage in any transaction or incur any obligation which is in conflict with, or gives the appearance of a conflict with, the proper and faithful performance of our responsibilities;
3. Comply with policies of the Association and applicable laws and regulations;
4. Respect confidentiality of information acquired in the course of our work;
5. Provide Association constituents with information that is complete, accurate and appropriate;
6. Carry out activities professionally, with honesty and integrity;
7. Not knowingly be a part to any illegal activity or breach of fiduciary responsibility;
8. Report violations of the Code in accordance with all applicable rules of procedure;
9. Institute due process policies for violations of this Code of Ethics;
10. Be accountable for adhering to this Code.

Acknowledgement

Print Name: ____

Signature: ______________________ Date: ______________________

Sample Conflict of Interest Policy

No Association official or employee shall, directly or indirectly, have an interest or relationship, take any action or engage in any transaction, or incur any obligation, which is in conflict with, or gives the appearance of a conflict with, the proper and faithful performance of his or her Association responsibilities.

1. Any action or transaction which is in conflict or gives the appearance of conflict with the best interests of the Local;
2. Any action or transaction for the gain of personal interest;
3. The acceptance of third party gifts, compensation or loans;
4. The unauthorized disclosure of confidential information pertaining to the members of the Association.

Print Name: ____

Signature: ______________________ Date: ______________________

Sample Whistleblower Policy (WB Policy)

1. Any person who has reasonable cause to believe that an Association official or employee has engaged or is about to engage in misconduct, should notify the Whistleblower Officer (WB Officer) in writing. That person (the whistleblower) shall identify himself or herself in the notice to the WB Officer, but the WB Officer if requested to do so by the whistleblower treat the notice as anonymous and shall not except, in response to a legal mandate, reveal the whistleblower's name. If the WB Officer is unavailable, and the whistleblower believes that a delay in providing notification can have adverse consequences for the Association, he or she may notify other designated WB officials, who shall as soon as possible thereafter turn the matter over to the WB Officer.
2. If, based upon the information provided by the whistleblower and other relevant information, the WB Officer has reasonable cause to believe that an Association official or employee has engaged or is about to engage in misconduct, the WB Officer shall turn the matter over to general or outside counsel.

Sample Whistleblower Policy (continued)

3. General or outside counsel shall conduct an expeditious investigation of the alleged misconduct, and shall submit to the WB Officer a written opinion setting forth its conclusions as to whether the Association official or employee has engaged or is about to engage in misconduct, and if so, what should be done to correct the situation.
4. After consulting with the Association Executive Committee, the WB Officer shall arrange for such action to be taken as he or she deems appropriate to correct the situation.
5. If the WB Officer concludes that any person has made an allegation of misconduct, or has participated in an investigation of alleged misconduct, in bad faith or without reasonable cause, the WB Officer, after consulting with the Association Executive Committee, shall arrange for appropriate disciplinary action to be taken against the person.

Protection of Persons who Provide Evidence of Alleged Misconduct

1. Except as otherwise stated in number 5 above, no person shall be subject to any form of direct retaliation by an Association official, Association staff member or other Association representative because he or she 1) is a whistleblower 2) has participated in an investigation of alleged misconduct, or 3) has in good faith in any other way been involved in the implementation of the WB policy.
2. If any person believes that he or she has been subject to retaliation in violation of number 1 above, that person shall report such retaliation to the WB Officer. The WB Officer shall investigate the matter, and if the WB Officer concludes that an Association official, after consulting with the Association Executive Committee, shall arrange for appropriate disciplinary action to be taken against said Association official, Association employee or representative of the Association.

Acknowledgement

Print Name: ____

Signature: ______________________ Date: ______________________

Sample Commitment to the Integrity of Internal Controls

In fulfillment of our obligation to maintain the highest standards of quality in financial reporting through business ethics and effective internal controls, we support:

1. A control environment founded on ethical values and technical competence;
2. The identification and analysis of relevant internal and external risks that can hinder the achievement of business and Association objectives;
3. The implementation of control activities that mitigate each identified risk, with the appropriate focus on prevention, detection and correction;
4. The institution of fluid information pathways among management, employees and governance that capture, process and communicate relevant internal and external information in a timely manner;
5. Systems of evaluation and assessment to monitor whether Internal Controls are adequate, effective and adaptive;
6. Adoption of formal internal control policies and procedures;
7. Documentation of systems of internal control procedures in a comprehensive manner as well as roles and responsibilities of governance and employees;
8. Appropriately communicating with and educating governance and employees on their roles and responsibilities.

Acknowledgement

Print Name: ______________________________

Signature: ____________________ Date: ____________________

Sample Audit Committee Resolution

In fulfillment of our obligation to monitor, question, inform, improve and advise, and as those responsible for the fairness, thoroughness and accuracy of financial information, we strongly support the institution of an Audit Committee that will:

1. Report to the Executive Committee and/or Board of Directors at least annually;
2. Review and understand financial statements;
3. Be responsible for the recommendation to the appropriate body of the appointment, compensation and presentation of the work of any public accounting firm performing audit services;
4. Review any audit problems or difficulties, and recommend to the appropriate body resolution of disagreements between the independent auditor and management;
5. Review the Management Letter provided by the independent auditor;
6. Establish procedures for the receipt, retention and treatment of complaints received regarding internal controls and auditing;
7. Request to engage independent counsel, independent financial experts or other advisors, as deemed necessary to carry out its duties;
8. Participate in training necessary to fulfill these duties.

Internal Controls

Internal controls refers to a system of checks and balances designed to minimize errors or misappropriation of assets, maximizing the probability of detection if such things occur, and protect the organization overall. **It is the responsibility of the president, other officers, board members and staff to safeguard the assets of the association through a good system of internal controls**.

Over the years, there has been an increase in instances of theft of association funds. The common theme in all these instances is that a situation was allowed to occur because there was no separation of duties (checks and balances) and other proper internal controls were not in place. In these instances, individuals who are trusted colleagues, and in some cases long-time friends were not able to resist the temptation to help themselves to funds belonging to their local members.

Implementing proper internal controls provides assurance that:

- Misappropriation of funds will be discovered on a timely basis
- Perpetrators will be identified
- A strong deterrent to improper activities is in place
- Losses will be covered by insurance (i.e. fidelity bond insurance)

One of the basics of good internal controls is that no one person handles all aspects of any financial transaction. This creates a system of checks and balances in accounting known as segregation of duties. An example would be that the person, who approves a bill to be paid, should not be the same person who signs the check to pay it. It may not be easy or practical to involve more than one person in all financial transactions; therefore, your association may inherently have poor internal controls. However, it is the joint responsibility of all board members and staff to remedy this situation to the extent possible. The first step is an "organizational control" – different people should fill the offices of president, treasurer and membership chair.

Example of Poor Controls

A person ("Y") held the office of President of an association. Over time, Y took over the duties of Treasurer and Membership Chair as well. Everyone trusted Y; and was more than happy to let Y do all this work. Gradually most of the basic internal controls that were once in place to protect association assets were no longer used. Only one signature was required for checks. There was no audit or budget. Financial reports were not prepared. Y handled all aspects of the association's finances. No one else looked at the bank statements. Documentation for expenditures was minimal.

Checks were being written to Y's name and to "Cash". Y spent more and more of the association's funds personally, which meant that less was available for legitimate, useful programs. The association's reserves, built over a period of years, were depleted. Because there was no audit and no financial reporting, no one knew this. The Board did not even know where their bank account was located.

After the reserves were gone, Y needed a new revenue source. Y as the Membership Chair started intentionally forgetting to send new member enrollment forms to the State affiliate. After a period of a few years, the association had dozens of members whose State-National dues were being withheld from their paychecks but were not being remitted to the State. As far as the State was concerned, the members did not exist. Since the association was receiving these State-National dues, but was not properly transmitting them to the State, Y could spend them for personal reasons.

When this was finally discovered, the association owed the State a great deal of money for prior years' dues. This balance had to be assessed from the association members over a period of years. The association leaders were shocked at what had been done by their friend and colleague. ***They should not have been. They let it happen!***

Cash Receipts

- Incoming checks should be received by someone other than the person making the deposit. This person should list the checks in a log that can be compared to the actual amounts deposited, as an audit procedure.
- The person who receives checks should immediately stamp them "For Deposit Only with the Association's Bank Account."

- Receipts should be entered in the accounting records daily.
- **Checks and cash should be deposited daily, with date of the deposit indicated in the applicable records. The bank deposit slip totals should match the total in the books. Cash should NEVER be withdrawn when making a deposit.**

Cash Disbursements

- All disbursements, except petty cash items, should be made by check. Complete supporting documentation should be maintained. This is to insure that there will be a permanent record of how much and to whom the funds were paid, as well as the business purpose of expenditures.
- **Checks should always be payable to a specific person/company. This makes it more difficult to fraudulently disburse funds. Checks should never be made payable to "Cash."**
- **Checks should be paid from original vendor invoices. Never pay off of statements.**
- Written policies should be in place to spell out the documentation that will be required for any expenditure to be reimbursed. Individuals who are given advances for occasions, such as Representative Assemblies, should be provided with these guidelines when they receive their funding.
- Annually, the Board should authorize bank accounts and signers of checks.
- **Two signatures are recommended on all checks. Two signatures reduce the possibility of unauthorized disbursements. The governing board should authorize all check signers. The bank should be instructed not to accept checks without two signatures.**
- **Signing of blank checks should never be permitted.**
- Checks should be pre-numbered and used in sequence, to control the checks used and identify missing checks.
- **If an error is made in writing a check and/or a check is returned due to duplicate payment, write "VOID" across the face of the check and stub to indicate that the check and stub are not to be used again. Keep physical custody of checks stamped "VOID."**
- **Keep the supply of checks in a secure place. There should be adequate internal controls over supplies of blank checks. This internal control also insures that checks are protected against loss by fire or theft.**
- **A person other than the treasurer should receive bank statements directly from the bank. This person should review monthly activity shown on the statement (look for any unauthorized disbursements) and then pass the bank statement along to the treasurer. This simple internal control is very important and highly effective in deterring fraud.**

- **Monthly bank reconciliations are necessary and should be required. In order to prove accuracy of both the association records and those of the bank, it is necessary to reconcile and account for any differences between the two balances.**
- All vendor invoices and expense vouchers should be checked for quantities received, service performed, prices charged and clerical accuracy. Without a review of invoices, errors may be overlooked and payments could be paid in the wrong amount or to the wrong vendor.
- **Any electronic funds transfer or automatic debit agreements should be established with the authority of at least two officers of the association and should be reauthorized annually by the Board.**
- **ATM/Debit cards: We recommend that these NOT be used by any associations!!!**
- **Credit cards: All other avenues and alternatives should be explored before the decision is made to obtain credit cards. Use of credit cards negates some of the internal controls that are discussed above (e.g. the "two signature" recommendation).**
- **Gift Cards: There are two issues with gift cards. One is that they are basically the same as cash. So all of the problems associated with handing out cash apply equally to gift cards. The other is that the IRS, with a few isolated exceptions, looks at gift cards as compensation. So you have documentation and possibly IRS reporting requirements when you start handing out gift cards. We strongly suggest that you do not use gift cards.**

Internal Control Dos and Don'ts

Internal Control Do's:
▪ Do make sure that the assets of the association are safeguarded and used solely for the benefit of members.
▪ Do adopt a budget prior to the start of the fiscal year.
▪ Do prepare and present complete and accurate financial statements to the board of directors on a monthly basis.
▪ Do make deposits timely. Keep detailed records of all deposit transactions.
▪ Do remit the NEA/State membership dues timely in accordance with the dues transmittal agreement.
▪ Do have proper supporting written documentation for every check written. Make sure every disbursement is authorized. (Documentation includes invoices, receipts, approved minutes of the board of directors, approved budget, etc.)
▪ Do keep detailed records and support documentation of every check written.

Internal Control Do's:
▪ Do require 2 signatures for every check written.
▪ Do reconcile the bank accounts monthly.
▪ Do have an annual audit or review by an independent certified public accountant if your internal policies require it.
▪ Do comply with federal and state laws and regulations with respect to tax-exempt status. Association funds should only be used for exempt purpose.
▪ Do file all federal and state reports on time.
▪ Do formally adopt and implement policies regarding (a) conflict of interest; (b) code of ethics; (c) document retention; (d) travel reimbursement policies, (e) check signing authority; (f) financial and operating standards; and (g) whistleblower policy.

Internal Control Don'ts
▪ Don't give out members' personal information (i.e. social security number, home address, e-mail address, telephone number, health matters, etc.) to unauthorized persons. This information is confidential and subject to privacy laws. Keep members data secure.
▪ Don't spend more than you make. Do not operate "in the red."
▪ Don't spend NEA/State membership dues for local association activities. The local association is a trustee of these funds and is not entitled to use the funds.
▪ Don't conduct transactions for "private inurement" (for the benefit of an insider).
▪ Don't deposit association funds into personal bank accounts.
▪ Don't accept "post-dated" checks.
▪ Don't spend funds for activities not approved by the membership.
▪ Don't write checks for "Cash."
▪ Don't sign blank checks.
▪ Don't withdraw cash from the association's bank accounts.
▪ Don't use an ATM/Debit card on the association bank account.
▪ Don't pay bills from statements. Require vendors to provide an original invoice. Be careful of copies and faxes to avoid duplicate payment.
▪ Don't use a bank or credit union that does not provide a copy of the cancelled checks to the association. Opt for a bank or credit union that provides an image of the check in the statement.
▪ Don't "co-mingle" PAC funds with the association's general funds.
▪ Don't destroy association records until after the retention timeline has passed.

Signs of Fraud

What is fraud?

- Theft of funds belonging to the association
- Reimbursement for fictitious expenses
- Diversion into a separate account with reimbursement at a later date (the temporary use of the money)
- Theft of funds belonging to State-NEA
- Improper membership reporting
- Failure to pay State-NEA dues
- Misleading financial reporting
- Purchases of goods and services from related parties at an inflated cost
- Use of association funds for purposes not intended by the governing body

What are the contributing factors to fraud?

Experts use the "fraud triangle" concept to assess the risk of fraud in any particular situation. It is believed that fraud becomes more likely when:

- Someone has the **opportunity** to commit fraud, due to poor controls and/or lack of oversight.
- Someone has **pressure** to commit fraud: trying to maintain an extravagant lifestyle, unexpected financial obligations, etc.
- Someone can find ways to **rationalize** their fraud: "They owe it to me." "The last treasurer did it," and "I'll pay it back later," etc.

The "Opportunity" side of the triangle is very important. If an "honest" person has opportunity and a strong incentive, it can become relatively easy to take the next step and rationalize a fraudulent act. However, if opportunity is prevented due to strong internal controls and oversight, even if a person has a strong incentive and rationalization, it will be very difficult for him/her to commit fraud.

Warning Signs and Opportunity for Fraud

In most cases, the signs listed below are not indications of anything other than poor internal controls. **Do not jump to conclusions and assume otherwise**. Even the presence of several internal "Level 1" or "Level 2" situations does not prove that fraudulent activity is occurring. However, these signs should generate questions and, in many cases, corrective action. The warning signs are grouped in descending order of urgency, but all are important.

Level 1

- One person does all of the work related to financial and membership matters. Worst case is someone who serves as president, membership chair and treasurer
- No oversight over the person with the checkbook (controls such as dual signatures missing, there is no monthly financial reporting, etc.)
- Bank statements are not reviewed by someone other than the treasurer
- The association is consistently behind in paying State-NEA dues
- Deficiencies in documentation for disbursements:
    - No documentation
    - Use of copies instead of original invoices
    - Multiple erasures/whiteouts on any kind of financial records (checks, deposit slips, invoices, etc.)
- Commingling of funds (general fund and PAC, etc.)
- People with access to financial resources exhibit a "WHEELER-DEALER" personality, with little regard for financial responsibility. For instance, *well, if I can't pay my credit card bills, I'll just declare bankruptcy*."
- People who display an acceptance of dishonest behavior, as long as the consequences are avoided. Such as, *"I made $5,000 from my Avon business last year, and I didn't declare it as income because there's no way that I'll get caught."*
- The treasurer is reluctant to let others examine the accounting records
- Checks written to "Cash"
- Cash withdrawals from the association's bank account
- Cash deducted from bank deposits

Level 2

- No annual review of the books/records by an outside body
- Signing of blank checks
- Purchase of gift cards, especially in large quantities or amounts, or with inadequate documentation
- No budget or comparison of actual results to the budget
- Checks written payable to check signer without a second signature
- People in positions of authority appear to be living beyond their means
- Use of an ATM or debit card for an association. Unless there is a specific business purpose for such cards, they are usually just an invitation for misuse
- No written, enforced guidelines on:
  - Conflict of interest
  - Documentation requirements/retention
  - Reimbursement of expenses
  - Check signing
  - Training of treasurer on his/her duties
  - Training for officers on financial matters such as controls and oversight over the bookkeeping function
  - Annual board approval of banking arrangements and approved signatures
  - Strict controls over credit card use (or hopefully no use at all)

Level 3

- Delays in depositing checks/cash received
- Treasurer, membership chair and other officers do not attend training sessions when they are offered by the State in nearby locations, and/or are not aware of other State resources available to help them with their job duties
- Large petty cash funds with many transactions

- An association credit card is used for transactions that could be handled by check or reimbursement to an officer. In today's world, most people have credit cards that provide rebates or airline miles for purchases. Therefore, it is not a financial burden to ask an officer to charge expenses to his/her credit card and then be promptly reimbursed by the association. This eliminates all of the control issues that come into play with the use of the association credit card.

If fraud is suspected, take it seriously and do not ignore tell-tale signs. It is the Board's and Management's responsibility to protect the association's assets and reputation. The association may need to look for outside assistance when investigating fraud allegations. Outside audit firms are available to perform "agreed upon procedures" to help the association determine if fraud is occurring.

Cash

Bank Reconciliations

The association should perform bank reconciliations on all bank accounts on a monthly basis to compare bank account activity per the bank statement to bank account activity per the association's books. Timely bank reconciliations allow for discrepancies to be cleared up promptly and with relative ease. All monthly bank reconciliations should be examined and approved by a designated board member. The following procedures should be applied in maintaining control over cash.

One of the easiest and most cost effective safeguards against fraud and embezzlement for associations is board of director review of bank reconciliations.

1. Each month, the Board of Directors or, at a minimum, the President **AND** Treasurer of the Board of Directors should review the bank reconciliations for all accounts in conjunction with the financial statement review.
2. Each bank reconciliation should include the following information:
   a. The ending balance from the prior month's bank statement
   b. All transactions that cleared the bank during the month reconciling to the ending balance on the current month's bank statement
   c. All outstanding items (transactions that have occurred but have not yet cleared the bank) reconciling the ending balance on the bank statement to the ending balance on the financial statements
   d. The bank statement should be attached to the reconciliation
3. Verify that all checks are accounted for on the reconciliation (no check numbers missing), including voided checks. The list should include the date; check number, payee, and amount of the check. This list should be reviewed for reasonableness and examined for duplicate payments and old outstanding checks.
4. Verify that all deposits are included on the reconciliation. Examine the outstanding items for old outstanding deposits.
5. Make sure that all transfers between bank accounts are reflected on both account reconciliations in the same period. All transfers listed should indicate which account received the transfer and the purpose of the transfer.

6. Ask for more information if any item comes to your attention that seems to be out of the ordinary.
7. Outstanding checks older than 90 days should be investigated and reissued if necessary.
8. Review and approval of the bank reconciliations should be documented by signing off on the bank statements and reconciliations. Additionally, the review and approval should be documented in the Board of Directors meeting minutes.

Dual Signatures

The association should institute a dual-signature policy that requires two authorized signatures on all cash disbursements over a prescribed dollar amount.

Maintaining/Updating Authorized Check Signers

As board terms are generally limited, so is check signing authority. Authorizing signature cards should be updated and/or reviewed on an annual basis to remove signers that are no longer authorized. Obtain the authorizing signature cards from the association's financial institution. Most financial institutions can assist with completing the necessary paperwork.

Cash Receipts

All incoming checks should be restrictively endorsed "For Deposit Only with the Association's bank account number," by the individual opening the mail or receiving the check. Cash and check receipts should be stored in a safe or locked cabinet until the time of the deposit. Deposits should be made on a daily basis. Ideally the person opening the mail should not be the same person recording the deposits and making the deposits.

Voided Checks

Remove the signature section of all voided checks and keep physical custody.

Credit/Debit Cards

It is strongly recommended that debit/ATM cards should **not be** used. The potential for misuse outweighs any convenience that they may provide. Always remember that even if the current officers are 100% honest, you have no such assurance about the future board members. By using ATM/Debit cards an element of risk is now introduced with regards to protecting the association's cash.

All other alternatives should be explored before a decision is made to obtain an association credit card. Use of credit cards negates some internal controls like the two signature recommendation. There have been cases where a person has used a credit card inappropriately and has not been able to pay the funds back. If there are no alternatives to obtaining a credit card, it is strongly recommended that the credit card limit be set as low as possible so that losses due to improper usage are minimized. Persons assigned credit cards should account for all charges within 30 days.

Establishing a Petty Cash Fund

If the association finds it beneficial to maintain a petty cash fund, it should be established by a board resolution. The resolution should include the level of cash and provide the name and position of the custodian of the fund. A check should be written to the petty-cash custodian who will cash the check, place the cash in a locked and secured container, and enter the opening balance of the petty cash in a petty cash register.

In the event of a change in the custodian of the petty cash fund, the name and position of the new custodian should be included in the meeting minutes and attached to the board resolution that established the petty cash fund.

Funding Petty Cash

After the initial creation of the petty cash fund, cash is added to replace the amount of any cash disbursed from the fund. Funding procedures include summarizing all disbursements and issuing cash back to the fund for that amount.

1. A reconciliation form is completed which lists the remaining cash on hand, the vouchers issued for each disbursement, and any variance (overage or underage) between the cash balance in the register and actual cash on hand. A second person should review and approve the form comparing the vouchers listed for reimbursement to the total on the form. A copy of the form is retained by the custodian.
2. A check is made payable to the custodian in the amount needed to fund petty cash to its established limit.
3. The custodian cashes the check and replenishes the cash in the petty cash container. The custodian enters the amount received in the petty cash register; and updates the running total of cash on hand.

4. The amounts shown on the petty cash reconciliation form are recorded as expenses in the general ledger and then the form and attached vouchers are filed.

Disbursing Petty Cash

Each expenditure and disbursement of funds should be sufficiently documented.

1. Funds should only be disbursed for minor expenses.
2. If a petty cash disbursement request meets the disbursement requirements, the petty cash container can be unlocked. The container should remain locked when it is not being used.
3. The person requesting a reimbursement completes a reimbursement voucher. Vouchers should contain the business purpose, a description of the expense, date of the expense, the name of the person requesting reimbursement, and the date the reimbursement was made. If a receipt is submitted, it should be attached to the voucher. Finally, the voucher should be signed by the person requesting reimbursement.
4. The cash being disbursed should be counted by the custodian as well as the person requesting the reimbursement. The voucher should be signed by the recipient indicating the cash was received.
5. The petty cash book or register should be updated with the date, the voucher number, the amount disbursed, and the running total of cash on hand.

Wire Transfers and Cybersecurity Threats

If the association periodically makes wire transfers it is best practice to use the same procedures as making disbursements. Recently, cyber-hackers started using email to request wire transfers. The email appears legitimate and will often come in the name of the president or executive director. Under no circumstances should an email request for a wire transfer be used as authorization to wire money. Verify first with the person making the request either by phone or in person.

Cash Disbursements

The most important thing to remember for cash disbursements is that you are spending your members' money, and you must retain adequate proof that it was used for an appropriate business purpose. This should be documented as follows:

- Payments to vendors for goods and services: An **original** vendor invoice
- Stipends and scholarships: A notation in the minutes of the board of directors meeting, including the name and dollar amount paid to each recipient
- Dues refunds: A voucher which includes the reason for the refund and a computation of the dollar amount
- Petty cash checks: Expense voucher, with petty cash vouchers attached

Ideally, each association should have a short written policy that spells out documentation requirements for each cash disbursement. In addition, the following items must be documented for all disbursements:

- Name of payee
- Dollar amount
- Check number
- Approval signature(s)
- Complete description of the business purpose of expenditure
- If gift cards are involved (which are discouraged), the names of the recipients and the denomination of the card should be documented
- If meals are reimbursed, the names of each person attending should be noted in the documentation

The documentation should include the expense account from the chart of accounts that the item will be charged to, this will facilitate the accurate preparation of your financial reports.

Contracts

In the course of the year, the association may enter into a variety of contracts. For instance, the association may contract for a hotel, restaurant, event venue, etc. The association assumes the responsibility to comply with the terms and conditions of the contract and to pay the stated sum. The fact that an activity was not a financial success or that the association has insufficient funds to meet its obligation has no effect on the responsibility assumed.

Before entering into a contract on behalf of the association, consider the following:

- Has the board approved the expenditure?
- Does the President or Treasurer have authorization from the board to negotiate a contract?
- Have all contracts been received in writing?
- Are the terms and conditions of the contract understood? Have they been reviewed by legal counsel, if needed, and agreed to by the board and executive committee?
- Is the length of the contract limited to the term of the current officers and board, or does it encumber future boards?
- It is preferable to require two signatures on a contract (President and Treasurer).
- Be sure and obtain a copy of the executed contract for the association's records.

Tip – Remember if there are any questions about the terms and conditions of the contract, the appropriate time to seek advice is before the contract is signed. Verbal contracts can also be binding so be careful when talking to vendors.

It is best practice to determine who has the authority to enter into contracts on behalf of the association and the person's dollar threshold for committing association funds.

Travel Expense Advances/Reimbursements

Documentation for travel expense advances and reimbursements must be handled carefully for several reasons:

- For most associations, travel expense is the single largest item of expenditure.
- To ensure that travelers are reimbursed adequately; otherwise, they may not want to travel on behalf of the association.
- Both the association and the traveler may run afoul of the IRS unless travel expenses are computed and documented correctly.
- Payments to individuals require a great deal of scrutiny to ensure excess reimbursement is not provided and that proper documentation is maintained.

Each association should have a written travel expenses advance/reimbursement policy and a travel expense reimbursement form which should include the following:

- **Date**: The date each expenditure was made
- **Event**: A description of the business purpose of the travel
- **Travel Points**: The towns traveled to and from

- **Program**: Identify the program(s) to be charged
- **Business miles**: If someone uses their personal auto for travel on official business, they can be reimbursed for their mileage, with three caveats 1) they cannot be reimbursed for "commuting" mileage (e.g. if they drive to their school, work their normal work day, then have a meeting after school and drive home, they cannot be reimbursed for mileage); 2) if they are reimbursed at a rate higher than the official IRS rate, the excess is considered as taxable income by the IRS, and must be reported as such; and 3) mileage to State and NEA Representative Assemblies should be reimbursed at a rate not to exceed the cost of "coach" airfare to the same destination.

  The easiest way to substantiate the mileage to be reimbursed is to request that a copy of google map showing the mileage to and from the meeting or event be included as part of the expense substantiation.

  If someone uses their personal car for business travel, mileage is the preferred method of payment. Do not reimburse them for gas expenses, etc. either in lieu of or in addition to mileage.
- **Parking**: Receipts should be required when parking in a parking facility. Reasonable fees for parking meters and tolls may be reimbursed without additional documentation.
- **Public transportation**: This would be taxis, trains, airfare, etc. Receipts should be required for these expenses.
- **Meals (breakfast, lunch, dinner)**: Receipts should be required for all meals. If a traveler pays for a meal for someone other than him/herself, the name(s) of the individual(s) should be listed as well as the purpose for the meeting. Meal expenses for relatives, etc., who are not on official business, should not be reimbursed. It is a good idea to establish dollar limits for meals to be reimbursed or per diem rates. A detailed receipt for the meal should be submitted as well.
- **Tips**: Tips on meals should be reimbursed as part of the meal and documented accordingly. A normal tip, in accordance with the association's policy, is reimbursable without documentation.
- **Hotel**: The room cost should be reported on this line; meals, parking, etc. that are included on the hotel bill should be reported in the appropriate column.
- **Telephone**: Business-related calls from hotel rooms should be reported on this line, as should business-related calls from someone's personal telephone. Reimbursement should be made only for individually-billed calls that have a business purpose, and a copy of the billing is required. *Reimbursement of all or a pro-rated portion of someone's monthly phone bill may generate taxable income. This practice should not be followed without consulting a tax adviser.*

- **Miscellaneous**: The association should have a policy on what sort of additional business-related expenditures are reimbursable.
- All unreasonable, unsubstantiated or personal expenses should not be reimbursed.

If a travel advance is provided, the traveler should be instructed that he/she needs to provide original receipts and documentation for legitimate business expenses that equal or exceed the amount of the advance. If they do not, the undocumented portion of the advance must be returned by the traveler.

Reimbursable Expenses

To be eligible for reimbursement, expenses should meet two criteria. They should be related to the individual's function and they should be reasonable in nature and cost. The cost of a taxi ride from the airport to the hotel would meet both these criteria. A stretch limo ride from the airport to the hotel for a single traveler would normally fail the "reasonable" test.

Additional Financial Policies

It is best practice to establish financial policies for credit card usage, travel and entertainment reimbursement, record retention and investments.

Credit Card policy should address:

- Authorized users
- Authorized and prohibited uses
- Expenditure amount limits
- Documentation requirements
- Monitoring compliance

Travel and Entertainment policy should address:

- What is reimbursable vs. what is not reimbursed
- The 5 W's:
    - Who was there? (all parties attending)
    - What was purchased (detailed itemized receipt)
    - When was the purchase?
    - Where was the purchase?
    - Why was it purchased? (e.g. purpose of dinner)
- Original itemized receipt
- Mileage ideally with a "google map" attached evidencing actual mileage to and from the event
- Tipping and gratuities- reasonable amount

Other things to consider

- What, if any, incidentals to cover
- Meal per diems
- Alcohol consumption
- Reasonable accommodations

- Airline seat class
- Car rental guidelines
- Gasoline reimbursement
- Limousine usage
- Telephone and internet usage
- Valet and laundry service
- Companion travel
- Personal property loss
- In-town expenses such as meals

Records Retention policy should:

- Be a formal policy
- Match the association records to the document retention policy and retain or destroy accordingly
- Association records should be kept for the fiscal year e.g. September 1 to August 31
- Be sure to retain and store permanent records in a safe place

Investment policy should:

- Define the decision makers
- Define the investment options
- Define how to evaluate and monitor the investments
- Define who will execute purchases and sales of investments
- Define how to communicate with stakeholders
- Define the asset allocation

FINANCIAL STATEMENT ANALYSIS

One of the most effective ways that the officers and board can oversee the health of their association is by reviewing the financial statements on a monthly basis. Quite often leaders simply do not know where to begin and what to look for in order to do this effectively. The 8 Incredibly Easy Steps to Doing Financial Statement Analysis method is effective in picking up on trends, anomalies and even detect errors when things are amiss. Several state affiliates are now using this simple method.

To be successful with this process though you must be committed to doing the following:

1. Read the financial statements.
2. Come up with a list of questions to ask at the board meeting.
3. Ask the questions at the board meeting.
4. Ask follow-up questions when you do not understand the answer.
5. Ask for additional information to be provided, if necessary; and be sure to follow up on any open issues.

To do the 8 Incredibly Easy Steps to Doing Financial Statement Analysis it is helpful to know:

- You are not expected to be accountants
- It is essential that you are inquisitive
- Follow-up is an important part of this process

And finally…You simply cannot do this wrong. Everybody can do this!

You will need some basic supplies in order to do this:

- A 6″ plastic ruler
- A red pen
- A blue pen
- A yellow highlighter
- Self-stick notes

FINANCIAL STATEMENT ANALYSIS IN 8 INCREDIBLY EASY STEPS

1. Determine whose financial statements you are reading and for what period the financial statements are reporting. Quickly flip through the financial statements to see what information is provided.
2. For the Statement of Financial Position (Balance Sheet), quickly read the account titles to familiarize yourself with the types of assets, liabilities, and net assets that are being reported on.
    - Do I recognize all of the asset, liability, and net asset accounts?
    - Are there any new accounts that I have not seen before?
    - **Highlight what you do not recognize.**
3. Starting at the top with "Cash and Cash Equivalents," use the ruler to focus on one line at a time comparing the balance for current fiscal period to the prior fiscal period. Continue moving down the Statement of Financial Position doing the same comparison for each line item.
    - Is this a large balance?
    - Is there a significant change from the prior period? This can be a positive or negative change.
    - **Highlight the line if there is a significant change.**
4. After reviewing the Statement of Financial Position, go back and revisit the line items that were highlighted in yellow.
    - Why did I highlight this line item?
    - What was interesting or unusual about the item?
    - Do I have information from another source that causes me to question this line item?
    - **With the red pen, write any questions you might have about that line item on the Statement of Financial Position.**

5. For the Statement of Activities (Income Statement), quickly read the account titles to familiarize yourself with the types of revenue and expense accounts that are being reported on. Also, determine the number of months remaining in the fiscal year. Knowing how many months remain in the fiscal year will become very important as the year progresses. You will be comparing actual results to the annual budget and knowing how much time remains will help you determine how well operations are going for the year, and whether or not any action needs to be taken.
    - Do I recognize all of these revenue and expense accounts?
    - Are there any new accounts that I have not seen before?
    - **Highlight what you do not recognize.**
6. Starting at the top with "Dues" revenue, use the ruler to focus on one line at a time comparing the balance for the current year-to-date to the annual budget for each:
    - Revenue line item
    - Total revenue
    - Department expense
    - Other expense
    - Total operating expense
    - Change in net assets from operations.
    - Is there a significant variance between actual and budget?
    - Is it a favorable or unfavorable balance?
    - Is there a significant change from the prior period? This can be a positive or negative change.
    - **Highlight the line item if there is a significant variance to budget.**
7. After reviewing the Statement of Activities, go back and revisit the line items that were highlighted in yellow.
    - Why did I highlight this line item?
    - What was interesting or unusual about the item?
    - Do I have information from another source that causes me to question this line item?
    - **With the red pen, write any questions you might have about that line item on the Statement of Activities.**

8. For any supplemental information provided, read through highlighting any significant, interesting or unusual items that you notice.
    - Why did I highlight this line item?
    - What was interesting or unusual about the item?
    - Do I have information from another source that causes me to question this line item?
    - **With the red pen, write any questions you might have directly on the document. Use the post-it notes to write any questions that refer to multiple pages.**

Bring the financial statements with your questions to the board meeting. Write the answers in blue directly on the financial statement in response to your question.

Be sure to retain your "marked up" copy of the financial statements each month. You will refer back to these financial statements periodically during the year. By having the comments already on the financial statements, it will also help you remember the information that was provided during the financial statement review.

Financial Management Review Checklist

Stewardship of the association's money is an important part of the board's fiscal responsibilities and requires systematic and ongoing attention. The following checklist provides an outline and written record for an annual financial management review. If utilized, this completed checklist should be filed with the audit and kept with financial records.

This checklist should be completed annually, and any outstanding issues should be resolved or corrected.

Name of Association:	
Address:	
Treasurer:	
President:	
Fiscal Period/Year	

Budgeting	Yes	No
Does a finance committee prepare the preliminary budget?		
Is the preliminary budget based on all necessary information (membership estimates, other sources of income, expenses)?		
Does the budget show all sources of income, against all total expense categories?		
Has the budget been formally adopted by the appropriate body (i.e. board)?		
Are policies in place to permit changes to budget line items as needed during the fiscal year?		
Are monthly financial reports made to the appropriate body?		
Does the association perform an independent audit at the close of each fiscal year?		
Financial Controls		
Does the association use an accounting system with accurate records of income and expense transactions?		
Are all bank signatory cards up-to-date with at least two signatures that have been approved by the board?		

Financial Controls *(continued)*	Yes	No
Are at least two people involved in the process of keeping financial records, depositing revenue, issuing checks, and handling cash?		
Are all funds deposited in a timely manner?		
Does the association perform monthly bank reconciliations by individuals other than those who are authorized to sign checks?		
Does the association have salaried staff?		
▪ Are appropriate withholdings made (state and federal taxes, etc.) and submitted to the proper agencies?		
▪ Are quarterly Form 941 Federal Tax Returns filed as required and within proper deadlines?		
Insurance		
Are insurance policies in place to protect the association against loss of property by reason of fire, theft, or other casualty?		
Are liability insurance policies in effect to protect the association's officers and board, or other third parties where events or activities may result in an accident?		
Are copies of all current insurance policies maintained with the permanent association records?		
IRS and Tax Forms		
Is the association exempt from federal income taxes under the Internal Revenue Code? If yes, is the IRS letter of ruling on the tax exempt status kept in the permanent records?		
Has the IRS Form 990, 990-EZ, or 990-N-Postcard tax returns been filed with the IRS?		
Has an IRS Tax Identification Number been secured?		

THE AUDIT

Auditing involves examining financial records and transactions to ensure receipts have been properly accounted for and expenditures have been properly authorized and recorded in the accounting system per the association's bylaws, standing rules, and budget limitations.

Association bylaws or policies and procedures indicate when an audit is to be made, its procedure, and when it should be reported to the membership. Ideally, financial records should be audited at least once a year. However, smaller associations often opt for internal financial reviews.

The process of selecting/electing individuals to serve on the internal audit committee or for retaining a professional firm (with nonprofit accounting experience) should be included in the policies and procedures.

Be sure to check the laws in your state as several states require organizations to hire a professional firm to complete the audit when the gross income exceeds a certain amount.

The Purpose of an Audit

The purpose of an audit is to provide reasonable assurance that an association's financial statements are free of material misstatements and to ensure that receipts and expenditures are in conformity with the association's bylaws. It is not intended to determine the effectiveness of internal controls of the association or to detect fraud.

An audit with an unmodified ("clean") opinion reasonably assures the membership that the association's resources are being properly accounted for and managed with the regulations established for their use based upon the records that were audited.

Compiled Financial Statements

- Compiled financial statements, the most basic level of service provided by Certified Public Accountants (CPA), is less expensive, and takes less time.
- The CPA receives financial information from the association, reviews it for obvious errors without verifying the facts or tracing the transactions, and prepares financial statements using information provided.
- The CPA might have to perform additional accounting services, such as creating a general ledger or assisting with adjusting entries, before financial statements can be prepared.

- Upon completion, a report is issued that states a compilation was performed in accordance with the American Institute of Certified Public Accountants (AICPA) professional standards, but no assurance is expressed that the statements are in conformity with Generally Accepted Accounting Principles (GAAP). Essentially, the public accountants are not expressing an opinion on the association's financial statements.

Reviewed Financial Statements

- These require that the CPA perform inquiry and analytical procedures in addition to the procedures described above for a compilation.
- Reviewed financial statements are in-between a compiled financial statement and a full audit, in time, expense and assurance.
- Upon completion, a report is issued stating that a review has been performed in accordance with AICPA professional standards, that a review is less in scope than an audit, and that the CPA did not become aware of any modifications that should be made in order for the statements to be in conformity with GAAP.

Audited Financial Statements

- An audited financial statement is the most expensive and most complete auditing service CPAs provide. This would be most appropriate for larger associations that are required to obtain external audits as provided for in the bylaws or due to requirements from grantors.
- This type of service provides the highest level of assurance.
- In an audit, the CPA performs all of the steps indicated above regarding compiled or reviewed statements, but also performs confirmation, verification and substantiation procedures.
- When the audit is complete, the CPA's standard audit report states that an audit was performed in accordance with Generally Accepted Auditing Standards, and expresses an opinion that the financial statements present fairly the association's financial position and results of operations in conformity with GAAP. This would be considered an unmodified ("clean") opinion.

Preparing for a Financial Review/Internal Review

For clarification purposes, a financial review represents an internal process performed by two or more members of a financial review committee or the board's designees.

The first step in the review process should be appointment of a financial review committee. This committee should be made up of members who do not have signing authority over the bank account. Additionally, **the President or Treasurer should not be part of the financial review committee**.

Financial records should be put in order for the financial review – shortly before the end of the Treasurer's term of office or the end of the fiscal year. The Treasurer should make the following items available for the financial review:

- A copy of the last financial review report
- Checkbook and canceled checks
- Bank statements and deposit receipts
- Treasurer's book or ledger
- The monthly financial statements
- Itemized statements and receipts of bills paid
- Check requests
- Copies of board, executive committee, and association minutes that would include an adopted budget, as well as any amendments that were approved during the year. Minutes also show certain authorized expenditures approved by the Board.

Financial Review Procedures

- Start the financial review with the records used after the last review. Check to see if the amount shown on the bank statement corresponds to the starting balance recorded in the checkbook and ledger.
- Do a sample of test transactions. The size of the sample should be based on the size of the association. The larger the association the more transactions should be tested. If mistakes are found, the sample size should be broadened to test more transactions. You should consider retaining the services of an external auditor if nearly all of the transactions were reviewed due to errors or concerns regarding validity and accuracy.

  Some items to look for:

    - Are monthly bank reconciliations done
    - Unexplained reconciling items on the bank reconciliation
    - Old outstanding checks
    - Unusual endorsements on checks
    - Disbursements not supported by invoices or other documentation
    - Blank checks not secured in a safe place
    - Deposit ticket dates correspond with dates received by bank

    - Timeliness of deposits based on known dates of events
    - All invoices paid by check and not cash or debit card
- Make certain that money collected for a specific purpose (e.g. scholarship funds) has been disbursed accordingly.
- Check the treasurer's reports and annual reports for accuracy.
- After all errors have been corrected by the treasurer, and the financial review committee is satisfied that the financial accounts are correct, sign and date the annual report: "Examined and found correct. "(Name), (Date)."
- If all is in order, the Financial Review Committee should prepare a statement, and each member of the financial review committee, should sign. A sample statement might read: "The Financial Review Committee has examined the records of XXX Association for the period of (time covered). Based upon the records examined, we found them to be correct."

The Internal Revenue Service (IRS)

DISCLAIMER: When necessary, please consult a tax advisor with specific questions the association may have about tax related matters.

The IRS exists to enforce the tax laws of the United States. These laws include various reporting requirements for tax exempt organizations such as your association.

Tax Exempt Organizations

Local associations are categorized by the IRS as tax exempt labor unions or member associations, under IRS section 501 (c) (5) or IRS section 501 (c) (6). What this means is that, in exchange for operating in accordance with the association's allowable activities and complying with the applicable reporting requirements, under the association's nonprofit status the association does not have to pay taxes on most revenue. (See section below on Unrelated Business Income Tax)

An association may be in jeopardy of losing its nonprofit status due to non-compliance or other prohibited activities. Private inurement may result when the association's assets or earnings are used for the benefit of an insider rather than for the good of the association. Examples of private inurement include:

- Excessive travel or entertainment expenses
- Procuring services or merchandise from vendors who are relatives or friends of insiders at higher than the market rates or for nother inappropriate reasons
- Paying compensation to employees that is disproportionately high compared with their duties

Transactions with insiders should be closely scrutinized because of the inherent conflict of interest that may exist. Associations should set and follow very strict standards concerning compensation and benefits, travel, entertainment and other expenses.

As well, an association may lose its nonprofit status by not filing its tax returns on an annual basis.

For clarification purposes, associations operate both as nonprofits and tax exempt. They are permitted to generate greater income than expenses; in fact, this is essential to the association's ability to grow, serve its members, and meet unexpected future needs. However, all earnings must be "reinvested" or held in the association to further its nonprofit purpose. Tax exempt labor unions and member associations still must pay state and local sales taxes.

Tax Identification Number

The IRS needs ways to uniquely identify and keep track of everyone who might be a potential taxpayer. For corporations and other business entities, it is done through the Taxpayer Identification Number (TIN) which may also be referred to as the Employer Identification Number (EIN) or Federal Employer Identification Number (FEIN).

Each association needs this number in order to:

- Open a bank account
- File annual information returns with the IRS
- File any other IRS forms

It is important that this number is kept on file together with other permanent file documents. All associations should apply for this number. ***Always be on the lookout for situations where the association may have opened bank accounts using their school's TIN or social security number of one of their officers or board members***.

EINs may be obtained by going online to www.IRS.gov and completing a brief form.

Reporting

The association must file an annual information return with the IRS. Depending on the "normal" annual gross receipts, one of three forms will need to be filed. "Normal" means the average of the previous three years. "Gross receipts" means all cash the association took in excluding the State-NEA dues that are collected and remitted. The following table shows the forms that must be filed each year:

Annual receipts	Form
Under $50,000	990-N (E-Postcard)
$50,000 - $200,000*	990-EZ
Over $200,000*	990

If you have assets over $500,000, you must file Form 990 regardless of the amount of your "gross receipts"

Most associations file Form 990-N. This form must be filed electronically after the end of each fiscal year (Per the records of the IRS) and before the 15th day of the fifth month following the end of the fiscal year. This return is very easy to do and can be completed in about 5 minutes. No extensions for filing the 990-N return are granted by the IRS.

Associations that file Form 990-EZ or 990 normally pay a CPA firm to do an annual audit, and as well as the preparation of the Form 990-EZ or 990. The due date for these forms is the 15th day of the fifth month following the end of the fiscal year. Extensions of filing dates are possible but extension requests must be made to the IRS.

Unrelated Business Income Tax (UBIT)

Occasionally the association conducts activities that generate income that is unrelated to their tax exempt purpose (operating as a nonprofit labor union or member association). The IRS imposes an Unrelated Business Income Tax (UBIT) on income generated from these activities. If the unrelated business income exceeds $1,000, the association must file an annual tax return Form 990-T, "Exempt Organization Business Income Tax Return".

Directors and Officers Liability Insurance

All boards should consider purchasing liability insurance called, Directors and Officers Liability Insurance. This coverage offers reimbursement for losses and defense costs in the event that the board suffers a loss as a result of lawsuits filed for alleged wrongful acts in their capacity as directors and officers. Civil and criminal actions are covered by this insurance. Illegal acts are not. This insurance coverage is relatively inexpensive but recommended.

Succession Planning

The concept of succession planning can be off putting and may even be a little threatening particularly if the planning focuses on a particular role within the association such as the president or executive director's. Thoughts of, "Am I being replaced," or, "Is my job secure," are not uncommon. But succession planning is so much more than this.

Succession planning:

- Empowers up and coming leaders by equipping them with the skills and experience to lead the association in the future
- Allows for the smooth transition of leadership
- Ensures business is carried on as usual without interruption
- Keeps the association in compliance with laws and regulations by making sure documents are filed in a timely manner
- Establishes an emergency plan in the event of unexpected leadership changes

Up and coming leaders should be trained in the following areas so that future generations of qualified candidates are groomed. The 3 fundamental skills necessary for this are:

1. Financial skills
    a. An understanding of budgets and the budgeting cycle
    b. Knowledge of forecasting financial information in order to formulate effective strategies
    c. Understanding financial reporting and operational financial results
    d. Ensuring that all compliance deadlines are met and all required information returns are filed with the appropriate agency
2. Business skills
    a. Recognizing that association resources are limited and that programs need to be prioritized
    b. Adhering to established association policies and procedures
    c. Managing and protecting association resources
3. Global skills
    a. Acknowledging the role of governance and the responsibilities that come with the position

b Assessing risk particularly looking for strengths, weaknesses, opportunities and threats of the association

c. Implementing effective strategies to deal with risks and opportunities

Before succession planning is even undertaken it is best to gain the commitment of the board to the process and understand upfront that there may be challenges ahead when creating the succession plan.

The following information should be part of any effective succession plan:

- Create job descriptions to include:
    - The role, term of service, and the skills necessary for the office
    - Qualities and skills needed to fulfill the responsibilities of the role
- Financial housekeeping
    - A calendar of critical deadlines such as
        - Due dates
        - Meetings
        - Essential timelines
    - The location of crucial documents
        - Employer identification or tax identification number
        - IRS tax-exempt letter
        - Financial statements for prior years
        - Organizing documents such as articles of incorporation
        - Governing documents such as the constitution and bylaws
        - Tax returns
        - Minutes of meetings and committees
    - Verify compliance with Federal and State laws
        - IRS Form 990
        - Tax exempt status requirements
        - State and local tax returns
        - 1099s for miscellaneous payments made to individuals in excess of $600.00 during a calendar year

        - W-2s for association employees
        - Payroll taxes for federal, state and unemployment taxes
    - Update banking and investment information
        - Identify bank accounts and bank account numbers
        - Update signers
    - Establish a document retention schedule
        - Know key dates to purge documents
        - Create a system of centralized document storage
            - Develop a list of documents to be transitioned and to whom
            - Appreciate that the electronic storage of permanent records is acceptable but the means of storage may need to be regularly updated in order to stay current with technology changes
                - i.e. floppy disks no longer used as thumb drives became acceptable
- Leadership transition plan
    - Groom potential leaders with necessary skills and knowledge
    - Plan for transitional leaders
    - On the job training through mentoring and advisory positions such as a past president
    - Adopt an emergency plan
        - Identify interim leadership
        - Cross-train leadership
- Formally document policies and procedures and then regularly review the policies
    - Code of ethics
    - Conflict interest policy
    - Whistleblower policy
    - Travel and expense reimbursement
    - Credit card usage policy
    - Records retention policy

In short planning assists all associations with planning for the future and planning for the unexpected.

NEA/NCUEA
1201 16th Street, N.W. • Washington, DC 20036
www.nea.org

This document has been printed by Organized Staff Union Labor at the National Education Association.

28643.0522.JR