

Financial Management:

How to Manage and Report the Use of Your NRP Funds

Training Objectives

- Provide training participants with explanations and examples of sound financial management principles and practices.
- Inform training participants of guidelines for the use of NRP funds.
- Demonstrate how to complete the NRP/MCDA Community Organization Report Form (Payment Request Form).
- Answer specific questions about accounting for NRP funds.

Training Materials

The materials that follow are designed to provide basic financial management information to help neighborhood organizations develop management practices that are best suited to their specific needs. Training information is organized under the following categories:

NRP Requirements. Organizations must adhere to these requirements when using NRP funds and develop accounting and management practices that will allow them to do so.

Management Principles. Neighborhood groups should incorporate these basic concepts when developing their financial practices.

Suggested Practices. These practices **are not** the only way to manage your organization's finances, but rather are suggested approaches upon which you can build to meet the needs and circumstances of your organization.

Samples. These models, diagrams, and forms provide specific illustrations of the training information. Samples are contained in an accompanying packet.

Sound Financial Management Practices

Implementing sound financial management practices:

- Demonstrates the neighborhood association's accountability and capacity to its constituents (neighborhood residents and other stakeholders), funding sources such as NRP and foundations, and banks.
- Protects board members and volunteers from liabilities or charges of misconduct.
- Saves the organization time and money by avoiding common financial problems, such as forgetting to pay its payroll taxes.
- Helps the organization to make better decisions and better manage the resources it has.
- Provides for organization stability over the long term, because procedures are in place as staff and board members turnover

Samples A in the accompanying packet provides a sample of a neighborhood organization's fiscal policies and procedures.

Segregation of Duties

Segregation of duties is the practice of having several people divide the responsibilities of managing and accounting for an organization's funds.

Why should neighborhood organizations segregate financial duties?

- It can prevent errors and the misuse of funds by having more than one person involved in managing an organization's finances.
- It can help limit the management burdens carried by any one individual in the organization.
- It prompts organizations to build the capacity of their members and help train new people to assume management roles by involving several people in their financial management.
- Auditors will look for the appropriate segregation of duties during an audit.

Management Principles

- Segregate the duties of receiving funds from depositing funds.
- Segregate the duties of receiving and reviewing the banks statement from reconciling the bank statement with the checkbook.
- Segregate the duties of approving purchases and payments from writing checks.

Suggested Practices

Sample models on how to effectively segregate duties within neighborhood organizations (especially those with a limited number of people involved in the financial management) are contained in *Sample B*.

Receiving and Depositing Funds

NRP Requirements

- NRP funds must be held in a separate account from other funds. (For example, NRP funds should not be kept in the same account as MCDA Citizen Participation funds.)
- Funds from separate NRP contracts can be held in the same account.
- You must identify the NRP contract from which you are receiving the funds.
- Funds from separate NRP contracts must be accounted for separately.

Management Principles

- Properly documenting the receipt of funds and source of funds will help protect the organization against the incorrect accounting, misuse, loss or theft of funds.
- A different person should be responsible for each of the following:
 - ⇒ receiving and logging funds
 - ⇒ depositing funds
 - ⇒ receiving the bank statement.
- Do not have the treasurer or accountant receive funds.

Suggested Practices

- Record all incoming funds (cash and checks) on a receipts journal. *Sample C* provides an example of a receipts journal. The receipts journal should include the following information:
 - ⇒ Date funds are received
 - ⇒ Funding source or name of payer
 - ⇒ Contract number
 - ⇒ Amount of payment
- Restrictively endorse all incoming checks. Stamp or write the following information on the back of all checks:
 - ⇒ Name of your organization
 - ⇒ “For Deposit Only”
 - ⇒ Your bank account number

- Bundle cash and checks for deposit along with cover letters or any other back-up information and store in a secure place.
- Do *not* spend incoming cash for other purposes. Deposit it intact.
- Notify the person who prepares and makes the deposit that funds have been received.
- Make deposits in a timely fashion. Deposit funds at regular intervals or when funds received have reached a pre-determined level.
- Prepare the deposit by listing all checks and cash received on the deposit slip.
- Photocopy the deposit slip, copies of checks and/or cash receipts and that make up the deposit, and other back-up information that may accompany incoming payments. If it is not practical to copy the deposit slip, prepare a duplicate slip.
- When making the deposit at your bank, obtain a receipt identifying the correct amount and date of the deposit.
- Attach the bank receipt to the duplicate deposit slip and other supporting documents such as cover letters.
- File the deposit slip and attached documents in the appropriate transaction files.

Purchasing Goods/Services

NRP Requirements

- Require three competitive bids or price quotations for purchases of \$500 or more.
- Develop a policy statement with regard to conflicts of interest, including employee-vendor and board member-vendor relationships.

Management Principles

- Require advance approval for all purchases. A purchase authorization/check request policy should include:
 - ⇒ Who can approve purchase authorization/check requests
 - ⇒ The dollar threshold at which certain approvals are required
 - ⇒ The number of signatures required for purchases above a certain dollar amount
- Before approving a purchase/check request, review the request against the amount remaining in the appropriate budget category to be sure the purchase will not exceed the approved budget.

Suggested Practices

- The purchase/check request should include the following information:
 - ⇒ The name of person requesting the purchase

- ⇒ The name and address of the vendor who will supply the goods/services
- ⇒ A description of goods/services to be purchased
- ⇒ An estimated cost of the goods/services
- ⇒ A brief description of organizational use for goods / services
- ⇒ The budget category to which the goods/services will be charged
- ⇒ The required authorization signatures (it is best to have at least two signatures)

Sample D provides an example of a Purchase Authorization/Check Request.

- Give copies of approved purchase authorizations to both the person who will receive incoming goods/services and the person who will pay the bills.
- Count and inspect all incoming items.
- Obtain a receipt, shipping slip, invoice, or other receiving documentation for all incoming items and services received. Note any changes or problems with the order on the documentation.
- Give receiving documentation with noted comments to the person who pays the bills.
- Before paying for purchases, make sure the purchase authorization/check request and receiving documents match.

Paying the Bills

Management Principles

- Establish a board-approved schedule of check signing authority which includes:
 - ⇒ Who can sign checks
 - ⇒ The dollar threshold at which certain check signing authority is required
 - ⇒ The number of signatures required on checks over a certain dollar amount
- Clearly segregate the functions of:
 - ⇒ payment authorization
 - ⇒ processing or payment requests
 - ⇒ check signing
- Use pre-numbered checks, control access to blank check stock, and account for all returned or voided checks.
- Ensure that bills are paid in a timely fashion, taking advantage of available discounts and avoiding late payment penalties.
- Use purchase authorizations, receiving documentation and personal follow-up to ensure that payment is not made on invoices for which the goods and services have not been received or were not satisfactory.

Suggested Practices

- Prepare a purchase authorization/check request for each payment to be made if one is not already prepared.
- Prepare each check and attach the invoice, the completed purchase authorization/check request, and any receiving documentation.
- Stamp each invoice “paid,” indicate the date paid, and write the check number on the invoice.
- Do not write checks to “cash” or sign blank checks in advance.
- Bring the checks **and** back-up documents to the authorized person(s) for review and signature.
- Make sure an authorized person has reviewed, approved and signed employee time sheets and contractor invoices prior to writing a check. **Sample E** provides an example of an employee time sheet – please note that the employee’s time is tracked by program area.
- Record signed check dates and amounts in the checkbook, and determine if cash needs to be transferred from savings to checking.
- Promptly mail the checks, along with the appropriate invoice copies, to the vendor. Do not hold checks before mailing.
- File a copy of the check, attached to the purchase authorization/check request, an invoice copy, and receiving documentation in the transaction file(s).

Balancing the Checkbook

Management Principle

- Designate a person to receive the bank statement every month. This person should be different than the person who prepares deposits, handles cash disbursements, and handles cash receipt processing. Some organizations have a board member receive the bank statement.

Suggested Practices

- When reviewing the bank statement and canceled checks, look for any unusual amounts or payees. Review questions with the check writer.
- Initial and date the bank statement after review and pass it to the person who does the reconciliation.
- Prepare the bank reconciliation as soon as possible after the bank statement is received.
- Identify checks outstanding from prior bank statements that were processed by the bank in the month currently being reconciled.
- Record on the bank reconciliation any checks that have not been returned or identified on the bank statement, up to and including the last check written in the checkbook.

- Review the deposits recorded in the checkbook and compare to the bank statement. If any deposits made during the month are not shown on the statement, record them on the bank reconciliation.
- To determine the ending balance on the bank reconciliation:
 - ⇒ Write the bank statement's ending balance at the top of the reconciliation form
 - ⇒ Subtract the total amount of checks written but not yet processed by the bank
 - ⇒ Add the total of any deposits made but not shown on the bank statement
 - ⇒ Make any other adjustments (such as service fees charged or automatic deposits/ deductions) shown on the statement but not yet recorded in the checkbook.
- The ending balance on the bank reconciliation form should be the same as the cash balance listed in the checkbook for the month end.
- File the bank statement with the balanced reconciliation form in the transaction file(s).

Financial Reports

Suggested Practices

- Organize financial reports so that they provide clear and meaningful information which fosters good decision making.
- The treasurer should prepare both a budget report and an income and expenses report on a regular basis for the board and appropriate staff.
- Include in the treasurer's report a list of cash/checks received and issued for the previous period, and a list of known purchase requisition/check requests for the coming period.
- Reports for the prior month should be available for the board at their regular meeting.
- Financial reports should allow for comparison of actual activity to budgeted amounts (see the Community Organization Report Form). It is a good idea to show the monthly and year-to-date projected costs against the actual costs, and to show the difference between the two.
- Include a cover memo with the financial reports, highlighting important differences between budgeted and actual amounts, and suggesting any appropriate response(s).
- Financial reports should be identified in, attached to, and approved along with the minutes. Minutes should be signed by a board member other than the member(s) who prepared the minutes and the financial reports.

Sample F recommends an approach to records retention.

The Community Organization Report Form

The Community Organization Report Form, often referred to as the “payment request form,” is used by NRP to advance funds to neighborhood groups and to reimburse them for costs incurred in implementing NRP contracts. *Sample G* provides an example of the use of these forms.

NRP Requirements

- Each NRP contract requires its own separate set of Community Organization Report Forms.
- Neighborhoods cannot use one form to report on two contracts.
- Neighborhood organizations should submit this form *at least* two weeks before they need to receive reimbursement

Suggested Practices

- Timely submission of your payment request (i.e. before you are on the verge of running out of funds) helps ensure good cash flow for your organization.
- Neighborhood groups should perform their accounting on separate ledgers and journals -- the “payment request” form should be produced from the neighborhood’s accounting system.
- The NRP reimburses neighborhood organizations for costs incurred in implementing the contract. The reimbursement returns the funds available to the neighborhood to the level of the initial advance payment.
- An authorized neighborhood representative (staff, Treasurer, Chair, etc.) must sign the form before the NRP and MCDA can process it.
- NRP staff receives, reviews and approves the completed form. Staff may make changes to the form or request additional information from the neighborhood before approving the form for payment.
- Bob Cooper, MCDA, reviews and approves the form for payment.
- The MCDA accounting department reviews and approves the form for payment.
- The City Finance Department reviews the form and issues a check to the neighborhood organization.
- The entire NRP, MCDA and City review process can take up to two weeks.