

Q & A for AGO Webinar on Banking Issues for Chapters 8-28-2020

Answers prepared by Eric Birk, FAGO, AGO Executive Assistant

From Justin Smith (NC District Convener):

What is the best way to change banking institutions? Can everything be simply updated in ONCARD once the transition is complete? Do you have any specific suggestions on how to make the change as smooth as possible?

This could be referring to the change in AGO Headquarters' record of the chapter's bank account or actually changing the bank used by the chapter. So I'll answer both. To update the account information with AGO Headquarters, the routing and account numbers can be entered in ONCARD (only by person coded in the system as chapter treasurer), but a message should be sent to the Accounts Payable person at AGO HQ so that we can be sure the banking information on our side is completed. Contact Molly Davey, Membership Assistant for help with this issue. For procedures to open an account at a new banking institution, see the August 28, 2020 recorded webinar and PDF handout, *Banking Issues for Chapters*.

Do you have any specific software that you recommend chapters use for financial tracking purposes? Do you have an account that chapters could use so we wouldn't have to pay a monthly fee to use software?

Most small to medium-size chapters don't require something as sophisticated as QuickBooks, Quicken, or other applications like that. If revenue and expenses are reportable on a cash rather than accrual basis, a simple spreadsheet can easily accomplish recordkeeping. Not every software application allows integration with your bank account, and if they do, that can be easily discontinued. The AGO has not purchased a product for chapters to use, because every treasurer will want to use what best works for the local situation. There are inexpensive one-time fee products such as simpleplanning.net which are available and helpful for small organizations like AGO chapters.

From Edward Walter (Cincinnati Chapter Dean):

1. Are Chapter bank accounts and certificates of deposit subject to an audit by an outside accounting firm? If so, how often?

If an outside accounting firm is engaged by the chapter to accomplish an audit, the statements of account status and the chapter's reconciliation records certainly are subject to the auditors' review. An independent audit by an accounting firm can be required part of the chapter's operating procedures. But it's best to be sure that what is required isn't too onerous to act upon, or it won't be followed, thereby defeating the original purpose of such a requirement. The charge for a professional audit can be expensive. It's best to have an independent audit and obtaining that *pro bono* is challenging because it's usually someone known well to individuals asking for the service or the organization that needs it. At the very least, it's best to have a periodic internal audit by two Executive Committee members not related to or living with the treasurer or other officers responsible

for the finances of the chapter, or who do not have regular access to the accounts and record keeping of the chapter.

2. Are checks issued on the Chapter's bank account supposed to have double signatures?

There is no requirement by the AGO for more than one signature on each check. The chapter can require it, but you must be sure that such a practice can be implemented without further risk. Some organizations that require two signatures end up having many blank checks on hand with one signature applied to avoid the inconvenience of getting two signatures. A stolen or lost signed check is greater risk than having only one signer on checks, adding the signature only when fully made out to the payee. Accounts that require two signatures may cost more in service fees and banks will often only allow themselves to be required to look for both signatures on checks over a certain amount. The bank will charge your chapter accordingly for that service. For checks over \$2,500, AGO HQ checks require two signatures. You might look into whether your bank offers a service called *positive pay*, where a list of check numbers, payees, and amounts is sent to the bank as checks are prepared so that any check not on the list will not be honored when presented for cash or deposit on your chapter account. That may be too costly and you have to always remember to alert the bank for each and every check, or one that is not turned in will be denied deposit, irritating your recipients.

3. What are the best practices from other Chapters?

We haven't collected best practices from other Chapters, as states have different requirements (sales tax, charities bureau reports, nonprofit filings). However, the Chapter Management Handbook has some basic best practices that seem to escape many chapters which you would be well-served to be reminded of:

1. Accountability – *Reports to Chapter Executive Committee and the chapter members! IRS filings and any state-required reporting should be kept up to date.*
2. Authorization – *Budgets, payments, and departures from financial plans should be approved by a person (such as: dean, treasurer, secretary) designated by the Chapter's Operating Procedures, Finance Committee, or the Chapter Executive Committee in advance to fill that role.*
3. Record Keeping – *That check register is not a ledger!!! Keep a log of all payments and deposits with paper backup (receipts, deposit slips, payment requests, contracts for services, etc.) for all transactions.*
4. Reporting to National Headquarters – *At the end of every fiscal year, send a balance sheet and income/expense statement to AGO National.*

These provide for the most basic accountability and transparency that build trust and encourage financial support by chapter members.

In addition, this and the other two questions bring up the subject of internal controls. Here are some basic ones to insist on at the chapter level as summarized in Andy Robinson's and Nancy Wasserman's

The Board Member's Easier Than You Think Guide to Nonprofit Finances (Emerson & Church Publishers, 2012):

- **Custody of assets (physical controls)**. Be sure blank checks, debit or credit cards attached to the chapter account(s), and all account passwords are kept under lock and key except when actually being used legitimately. NEVER carry a chapter ATM, debit, or credit card in a wallet or purse except when expressly needed. Do not keep printed account numbers or passwords on your person: lock them up in a secure place.
- **Separation of duties**. Have the dean approve all non-budgetary (and even budgeted) expenses before treasurer is allowed to pay them. (Make a form to ensure an audit trail or print out messages or approval letters or notes to file with the requests traced to the check record.) Have checks prepared by a bookkeeper that the treasurer then signs. Use two-person teams to count money received at events, using an income form that both counters sign and date before sealing cash, checks, and/or credit card payment authorizations to give to treasurer for deposit.
- **Transparency**. Financial reports should be made public to the membership, remembering that all governmental filings are a matter of public record (because charitable nonprofits are given tax-exempt status in exchange for serving the public good), and everyone who wants to know should, and will, know your business. Act like it.

From David Nichols (Seattle Treasurer):

1. Paper checks are great for accountability, the literal "paper trail" auditors love, even as the actual paper is transformed into images flowing through the banking system. For our Operations checking account, our bank converts the images back into paper with each monthly statement. Our Chapter Registrar picks up the mail at our PO box and looks through the statements before passing them on to me as Treasurer. If a question ever arises, he can say he saw every check I wrote on that account. Similarly, checks we write on our Vanguard money market funds require two signatures.

Thus, I have a witness for every Vanguard check I write.

On the other hand, debit cards are much easier to use online and for small purchases such as POE name tags. We have a debit card for the separate checking account we use for POE and similar activities. Those transactions appear along with POE checks on monthly bank statements. In those cases, though, only the date, the amount, and the payee are listed.

If we had a credit card, we would get a statement with the same information as debit card transactions on the POE account. Still, we don't feel as comfortable with a card that could obligate more money than we have on deposit, so we have decided, thus far, not to open a credit account.

Instead, we ask our members, myself included, to use their personal credit cards and apply for reimbursement by check. Sometimes there is a paper charge ticket I can file with the reimbursement request, but online payments usually generate only online receipts, another step away from the traditional paper trail.

Can you offer any guidelines for safe use of debit and credit cards in Chapter banking?

The topic your question brings up is about internal controls. There should always be at least one person familiar with the organization's mission and purpose, but with no role in the financial operations, checking the transaction record, viewing payments and canceled checks as well as verifying that deposits are legitimate and accounted for accurately in financial reports. Debit cards take away the same sort of paper trail that checks provide, but receipts should be obtained for each and every debit card transaction, and filed to reconcile with the bank statement or what is viewable by logging in online to the account to which the debit card is attached. Debit cards are good for direct transactions to avoid all of the reimbursement checks. It is better if the vendor can invoice you in advance, but often that is not possible.

Credit cards are usually not a good idea for small (less than \$100K in annual revenue) nonprofits. Even nonprofits with revenue at higher levels might be best served not having a credit card. The rules for credit and debit cards are the same for organizations as they are for individuals, but just like a bank account has a "holder of the account" (treasurer) which must be an individual, there most always is a name of a person with ultimate responsibility for an organizational credit card which must appear on the card, and that person will often have some financial responsibility which either requires credit-worthiness or some level of bonding. (Directors' and Officers' insurance protects chapters from bad actors, but not the bad actors from accountability!) Absent large cash reserves and a history of loan repayment, it is difficult for an organization to establish credit on its own. If a chapter doesn't need credit, it's probably best to avoid it. Grants and fund-raising are better options for nonprofits large and small. Chapters hosting national and regional conventions are a notable exception to this recommendation and will need to have a credit card on file for hotel and catering charges. That credit card should be attached to the convention account and will in most circumstances be in the name of the convention treasurer, whose own credit will be on the line.

2. A second question concerns online transfers among Chapter accounts. I feel comfortable moving money between our Operations and POE accounts when the Board votes to support an activity such as POE. These transfers appear on both account statements, and it doesn't seem a paper check would be any safer. For some reason, I feel less comfortable linking Operations checking to [Investment Company] money market funds. With just one exception, I have used paper checks for those transfers. However, the only real difference is the difficulty and expense of getting the second signature if it is a [Investment Company] check and of mailing an Operations check to [Investment Company] if the transfer is in that direction. The transfer is still between two accounts belonging to us, and it still appears on both statements.

Do you see any more risk in online transfers between funds belonging to us than in performing the same transfer with a paper check?

Believe it or not, the risk is actually greater from paper checks physically passing through the mail, offices, and the shelves waiting for the shredder than our online transactions are. That being said, you want to always make sure that the online transfers are done on a secure website (you should see the lock icon and the URL should begin with <https://>), and you should always retain a receipt or confirmation of the transaction in paper and digital form.

From Trish Rooney, new treasurer of the Rockford Chapter:

How long do I need to keep the records I have inherited?

Congratulations on inheriting records, as not all new treasurers experience this! The National Council of Nonprofits recommends that each organization develop a document retention policy. The policy of the AGO (including chapters), developed by legal counsel in 2013 (but not currently published on the website), is as follows:

Retain permanently:

Governance records – Charter and amendments, Bylaws, other AGO documents, governing board and board committee minutes.

Tax records – Filed state and federal tax returns/reports and supporting records, tax exemption determination letter and related correspondence, files related to tax audits.

Intellectual property records – Copyright and trademark registrations and samples of protected works.

Financial records – Audited financial statements, attorney contingent liability letters.

Retain for ten years:

Pension and benefit records -- Pension (ERISA) plan participant/beneficiary records, actuarial reports, related correspondence with government agencies, and supporting records.

Government relations records – State and federal lobbying and political contribution reports and supporting records.

Retain for three years:

Employee/employment records – Employee names, addresses, social security numbers, dates of birth, INS Form I-9, resume/application materials, job descriptions, dates of hire and termination/separation, evaluations, compensation information, promotions, transfers, disciplinary matters, time/payroll records, leave/comp time/FMLA, engagement and discharge correspondence, documentation of basis for independent contractor status (retain for all current employees and independent contractors and for three years after departure of each individual).

Lease, insurance, and contract/license records – Software license agreements, vendor, hotel, and service agreements, independent contractor agreements, employment agreements, consultant agreements, and all other agreements (retain during the term of the agreement and for three years after the termination, expiration, non-renewal of each agreement).

Retain for one year:

All other electronic records, documents and files – Correspondence files, past budgets, bank statements, publications, employee manuals/policies and procedures, survey information.

Exceptions to any of the above may be granted either by AGO National Council or the Executive Director, James Thomashower. You can also develop more stringent policies to items not covered above by using the recommendations of the National Council of Nonprofits online at: <https://www.councilofnonprofits.org/tools-resources/document-retention-policies-nonprofits>.

Bibliography

AGO Chapter Management Handbook – Available online at <https://www.agohq.org/wp-content/uploads/2019/05/CMH-with-ToC-Updated-5.25.19.pdf> (See excerpts on the Chapter Leadership Toolkits webpage at: <https://www.agohq.org/chapter-leadership-toolkits/>)

Robinson, Andy and Nancy Wasserman: *The Board Member's Easier Than You Think Guide to Nonprofit Finances* (Emerson & Church Publishers, 2012)

Online Resources

Financial Accounting Standards Board – fasb.org [Established in 1973, the Financial Accounting Standards Board (FASB) is the independent, private-sector, not-for-profit organization based in Norwalk, Connecticut, that establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations that follow Generally Accepted Accounting Principles (GAAP).]

National Council of Nonprofits – councilofnonprofits.org [The National Council of Nonprofits (Council of Nonprofits) is a trusted resource and proven advocate for America's charitable nonprofits. Connecting the policy dots across all levels and branches of governments, the Council of Nonprofits keeps nonprofits informed and empowered to create a positive public policy environment that best supports nonprofits in advancing their missions. Working with and through the nation's largest network of nonprofits—with 25,000-plus organizational members—we identify emerging trends, share proven practices, and promote solutions that benefit charitable nonprofits and the communities they serve.]

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