Show Me the Money!
Financial & Fiduciary Responsibilities for Leaders

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COMPETENCY: BUSINESS

• Competency progression levels:
  – Level 1: Foundational
  – Level 2: Mobilizing & Power Building

• Themes covered in this session:
  – Stresses the importance of fiscal responsibility
  – Ensures business policies reflect financial best practices
Agenda

• Introduction
• Code of Ethics
• Fraud
• Fiduciary Responsibilities
• Best Practices and Financial Policies
• Financial Statements and Audits
• Internal Revenue Service (IRS)
• Questions
Code of Ethics

• Exercise appropriate fiduciary responsibilities over affiliate resources
• Fully and fairly disclose and act appropriately in avoiding actual or apparent conflicts of interest
• Comply with applicable rules and regulations of the affiliate and government agencies
• Respect confidentiality of information acquired in the course of your work
• Provide association constituents with information that is complete, accurate and appropriate
Code of Ethics

- Carry out activities professionally, with honesty and integrity
- Not knowingly be a party of any illegal activity or breach of fiduciary responsibility
- Report violations in accordance with all applicable rules of procedure
- Institute due process policies for violations
- Be accountable for adhering to this code
Fraud

Newspaper Headlines . . .

Teacher’s Union raided in Miami-Dade (2003)

Ex-DC Teacher Union Boss Gets 9 Years for Massive Embezzlement (2004)

Former athletic director accused of stealing from teachers’ union (2005)

**Pequot teacher charged for $34,000 theft** (2011)

Onamia teacher charged with stealing funds from union (2012)
**Fraud**

**Definition**

*Any intentional or deliberate* act to deprive another of property or money by guile, deception or other unfair means.

**Two main types of fraud**

- **Misappropriation of assets** – theft of company assets
  - Overwhelmingly most common
- **Fraudulent financial reporting** – misrepresentations in financial reports
  - Committed by top management
  - More common among publically traded companies
Fraud

- Rationalization/Attitude
- Incentive/Pressure
- Opportunity
According to 2012 American Certified Fraud Examiners Report:

• 10% of frauds occur in not-for-profit organizations
• Typically lasts 18 months
• Approximately 55% were committed by single individual, median loss of $100,000
• Median loss for 2+ perpetrators was $250,000
  - Does not include lost revenue from bad publicity
Fraud

Behavioral red flags:

• Living beyond means
• Financial difficulties
• Unwillingness to share duties
• Addiction problems
• Refusal to take vacations
• Unusually close relationship with vendor/customer
• Wheeler-dealer attitude
Fiduciary Responsibilities

• Safeguard the assets
• Ensure resources are utilized to maximum benefit of members
• Preserve the tax status of your association
• Timely and accurate reporting to outside agencies
• Timely and accurate reporting to state affiliate
• Timely and accurate collection and remittance of dues
Fiduciary Responsibilities

- Act for the good of the association and exercise reasonable care in all decision-making
- Understand basic financial terminology
- Maintain complete, accurate and timely financial records
- On a monthly basis, present complete and meaningful financial reports to the governing board and members of the organization for their review and approval
Fiduciary Responsibilities

- Compare budget to actual amounts, note variances and recommend budget adjustments
- Assist with the annual audit
- Assist with annual budget
- Monitor cash flow
- Comply with federal, state and local reporting requirements including tax filings and political expenditure reports
Best Practices

- Adopt a budget prior to the start of the fiscal year
- Make deposits timely and keep detailed records of all deposit transactions
- Have proper supporting written documentation for every check written or transfer made
- Require two signatures for every check written
Best Practices

- Reconcile all bank accounts monthly
- Prepare and present complete and accurate financial statements to the governing board on a monthly basis
- Comply with all reporting requirements
Financial Policies

Adopt and implement policies regarding:

• Financial operating policies—Designed to support financial processes such as expense reimbursement, two signatures on every check, payment of stipends, etc.

• Conflict of Interest Policy—To exercise the duty of loyalty

• Record retention policy—To ensure that all records are kept for the recommended time
Financial Policies

Adopt and implement policies regarding:

• Credit card policy—To address authorized users, authorized and prohibited uses, expenditure amount limits, documentation requirements and monitoring compliance.

• Travel/Entertainment Policy – What is reimbursable from the local/state affiliate.

• Investment Policy - Provides guidelines for the management and investment of funds held by the local/state affiliate.
Financial Policies

Financial Operating Policies

• It is the responsibility of the affiliate governing board and officers to recommend financial policies for adoption that deal with such financial matters like:
  - Organizational Budget
  - Expense Reimbursements
  - Mileage Rate
  - Payment of Dues
Conflict of Interest Policy

- It is the responsibility of the affiliate governing board and officers to act in the best interest of the affiliate, rather than in furtherance of personal interests or the interests of third parties

- Adopt a conflict of interest policy
Financial Policies

Record Retention Policy

• Adopt a formal policy
• Match your records to the records on the retention schedule
• Key dates for keeping records is the fiscal year i.e. Sept. 1 - Aug. 31
Credit card policy should address:

- Authorized users
- Authorized/prohibited uses
- Expenditure amount limits
- Documentation requirements
- Monitoring compliance
Financial Policies

Travel/Entertainment policy should address:

- What is reimbursable vs what is not reimbursed.
- The 5 W’s: Who, What, When, Where, Why
- Original itemized receipts
- Mileage
- Tipping
Financial Policies

Investment policy should address:

- Defines the decision makers
- Defines the investment options
- Defines how to evaluate and monitor the investments
- Defines how to communicate with the stakeholders
Financial Statements

The reports must provide a complete and accurate picture regarding:

- How much money you have (Balance Sheet)
- How much money you have received (Income Statement)
- How much money you have spent (Income Statement)
- The financial activity compared to the budget (Income Statement)
Audits: Internal

Education Minnesota audit policy

- Audit requirements for locals
  - 2,500 members or more: Independent CPA **Audit**
  - 1,000 - 2,499 members: Independent CPA **Review**
  - Fewer than 1,000 members: **Internal Audit Committee**

- Audit reports
  - Publish report annually
  - File a copy with Education Minnesota within six months of the close of the affiliate’s fiscal year
Internal Audit Committee

- Annually appoint an internal audit committee of three to five members to review the finances
- Members can be selected from local governing board or general membership
- Treasurer, President or any other individual responsible for bookkeeping, handling cash, signing checks, etc. will **not** be part of the committee
- The audit should be done as soon as possible after the close of the fiscal year
Audits: Internal

Internal audit committee guidelines

• Review internal controls
• Review cash receipts (income)
• Review cash disbursements (expenditures)
• Balance the checkbook & other accounts
• Examine supporting documentation
• Verify accuracy of financial statements
• Write the report
Audits: Internal

Internal audit report includes:

- A statement signed by the local president
- Internal audit committee report signed by all committee members
- Statement of Financial Position (Balance Sheet)
- Statement of Activities (Income and Expenses)
Affiliate enforcement guidelines:
Failure to provide a copy of the audit report within six months of the close of the affiliate’s fiscal year--

- Engagement of an auditor at the expense of the affiliate
- Affiliate members will be notified immediately of such action
Certified Audits

• Purpose
  • Test accuracy of financial reports (not a verification)
    – Interviews and observation
    – Sampling transactions
  • Review of internal controls
  • Certify statements in accordance with generally accepted accounting principles (GAAP) and issue an opinion
Certified Audits

• Format

  • Opinion letter
  • Audited financial statements
    – Statement of financial position
    – Statement of activities
    – Statement of functional expenses (N/A)
    – Statement of cash flows
  • Notes to the financial statements
  • Management letter (not available to public)
Certified Audits

• An unqualified opinion is the desired outcome. If possible, the auditor will work with you to make changes to get that opinion (e.g. adjusting entries)

• A qualified opinion means that some departure from GAAP has been noted

• There are also disclaimers and adverse opinions, but these are very rare
Certified Audits

- The auditor considers the internal controls to design audit procedures but does not express an opinion on the effectiveness of the internal controls.

- Deficiencies, significant deficiencies, material weaknesses
  - Management decides whether to address issues cited.
  - Issues can be with internal control not being followed consistently or the design of the internal control.
  - A common deficiency noted in associations with a small staff is the segregation of duties.
Employer Identification Number (also referred to as Tax ID or Federal ID Number)

- Every affiliate must have an EIN
- Required when
  - Opening bank accounts
  - Organization has employees
  - Filing information returns (IRS form 990, 1099, etc.)
Tax-Exempt Status

- Labor unions and associations are “exempt” under IRC 501(c)(5) and 501(c)(6)
- “Exempt” means you do not pay income taxes on income generated from activities related to the purpose for which you were organized
- Subject to other taxes i.e. sales, payroll, etc.
Tax-Exempt Status

• IRS issues a determination letter approving your tax exempt status
• Refrain from activities that can jeopardize your affiliate’s tax-exempt status
Required returns include:

- Form 990-N, 990-EZ or 990
- Form 1099-MISC
- Form 1096
- Form 990-T
- Form 1120-POL

Note: State and local returns may also need to be filed
Form 990-N, 990-EZ or 990

- **All** affiliates must file an annual information return with the IRS
- The return to file will depend on your annual **gross receipts**
- What are **gross receipts**?
  - all revenue that the local receives excluding pass through dues (state/national/etc.)
  - includes local dues collected, interest income, grants, misc. income, etc
<table>
<thead>
<tr>
<th>Financial status</th>
<th>Form to File</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross receipts normally $\leq$ $50,000$</td>
<td>990-N (e-Postcard)</td>
</tr>
<tr>
<td>Gross receipts $&gt;$ $50,000$ and $&lt;$ $200,000$, and total assets $&lt;$ $500,000$</td>
<td>990-EZ or 990</td>
</tr>
<tr>
<td>Gross receipts $\geq$ $200,000$, or total assets $\geq$ $500,000$</td>
<td>990</td>
</tr>
</tbody>
</table>
Form 990-N (e-Postcard)

- Filed electronically (short, easy and free) – no paper version
- Cannot be filed until after the local’s fiscal year has ended
- Required information includes: EIN, local name & address, principal officer name & address, tax period, statement that annual gross receipts are normally $50,000 or less
- Due every year by the 15th day of the fifth month after the close of the affiliate’s tax period
- If you fail to file the required annual return for three consecutive years, your affiliate will **automatically lose its tax-exempt status**
Form 1099-MISC - Payments to individuals or attorneys of $600 or more paid during any calendar year

- Services
- Honorariums and stipends
- Forgiveness of dues in lieu of payment
- Unvouchered payments
- Issued to individuals by January 31

Form 1096 - Summary form for 1099’s

- Send to the IRS by February 28
Requested documents during an IRS examination:

- Organizing documents (constitution and bylaws, amendments, determination letter)
- Minutes of all governing board and committee meetings
- All books and records of affiliate assets, liabilities, receipts and disbursements
- Payroll records
- Copies of any federal or information returns
- Copies of newsletters, pamphlets, brochures and any other printed literature about the association
Session Outcomes

The content from this session can be used in the following ways in your current position/role:

• Awareness and examples of the policies and best practices that should be in place in a local affiliate.
• An understanding of how to read financial statements
• Compliance with IRS non-profit regulations.
Questions?

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Please complete the evaluation for this breakout session!