

ASTD-Cascadia Chapter

Executive Summary

Independent CPA Report on Cash Management Procedures and Practices Conducted September 2003

Overview

The ASTD-Cascadia Chapter believes in applying the concept of best practices to all areas of operations. The leadership of the Chapter has worked diligently over the past several years to streamline operations and to design and implement processes that will ensure accurate and appropriate financial reporting. The Chapter has a policy that an independent CPA will perform an external review at least every two years and the results published to the members.

To meet this obligation to our members, the Board asked the Chapter's CPA and tax preparer, Cheryl Morgan of Germundson and Co., for a referral. Ms. Morgan gave the Chapter the name of Tara Sims, CPA, LLC. The Treasurer contacted Ms. Sims and engaged her for the review. She was asked to conduct a cash management practices and operational review. This was not a full audit.

The review was performed in September 2003 in several parts. Initially, the CPA obtained organizational documents provided by the Business Manager (articles of incorporation, bylaws, web site documents, financial guidelines from National ASTD, previous financial statements, previous audit reports). After reviewing the documentation and discussing them with the Business Manager, the CPA met with the Business Manager and Treasurer on September 11, 2003.

Agreed Upon Procedures

Ms. Sims performed the procedures enumerated below, which were agreed to by the Chapter. These procedures were solely to assist the Chapter with respect to the accounting records of the Chapter as of September 11, 2003. The Chapter's management is responsible for the organization's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, Ms. Sims makes no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. Items examined and reported on include the following:
 - A. Prior findings and follow-up
 - B. Approved financial policies and procedures
 - C. Articles of incorporation
 - D. Bylaws
 - E. Web site documents
 - F. Financial guidelines from National ASTD
 - G. Current period financial statements
 - H. Internal control understanding and analysis

Ms. Sims provided the review at a substantially discounted rate to the Chapter. We thank her for her generosity and professionalism in providing this important service. Ms. Sims can be reached at 503-784-1884, tara@tarajsims.com.

The CPA profession requires that Ms. Sims report to the Chapter that she was not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion, on the accounting record. Accordingly, she did not express such an opinion. Had she performed additional procedures, other matters might have come to her attention that would have been reported to the Chapter.

This report is intended solely for the information and use of American Society for Training and Development - Cascadia Chapter and is not intended to be and should not be used by anyone other than those specified parties.

The overall findings of the review indicate that the Chapter is basically operating in accord with appropriate cash management procedures. Below is the list of the CPA's findings and the Board's response to each finding. The Board's responses were reviewed and approved at the Board meeting on December 16, 2003.

CPA Findings and Board Responses

Follow up on 2001 External Review Findings

- A. Articles of Incorporation – Change reference to Oregon Revised Statute Chapter 65 – Not Done

Article 6 of the Articles of Incorporation should be amended to refer to ORS Chapter 65 instead of Chapter 61. This has not been completed based upon the documentation provided.

Board Response: It is the Board's intent (and so expressed in 2001) that the next time the Articles of Incorporation are amended, this specific reference will be updated. Until then, it is assumed by the Board that any numerical references as changed in the ORS are automatically changed in the Chapter articles.

- B. Bylaws - Name of Organization

The Bylaws have been amended so that the name of the organization agrees with the IRS determination letter.

- C. Bylaws - Definition of Full Board Size

Article III of the Bylaws has been amended to define a full board size.

- D. Bylaws - Proxy Vote Not Allowed

Article III of the Bylaws have been amended so that board members may no longer vote by proxy.

- E. Bylaws – Change Audit Requirement to Agreed-upon Procedures Engagement Requirement

Based upon advice from the National Chapter, the board has agreed that at least every two years a CPA will be retained to perform, at a minimum, a comprehensive cash management practices review. In CPA terms, this means an agreed-upon procedures engagement. It should be noted that *Financial Management for Chapters, a Leader's Guide* (Guide) does not refer to this option. The Guide only refers to an audit or a review. There are four reports that Certified Public Accountants can issue – an audit, a review, a compilation and agreed-upon procedures report – with the level of assurance descending from an audit report (highest) down to an agreed-upon procedures report (lowest). A Comprehensive Cash Management Review is really an agreed-upon procedures report that provides the lowest level of assurance that a CPA can report on. A Comprehensive Cash Management Review should not be construed as being equal to a financial review nor should it be construed that it is providing a level of assurance of a financial review (just below that of an audit).

Board Response: The Board understands that the language used by the national organization in their financial management guidelines is not technically accurate according to standard accounting principals. In discussions with the financial managers at

the national organization, they understand that chapters will most likely not be engaging and paying for a full audit or review. National's expectation is that some form of financial review takes place on a regular basis. The Cascadia Chapter has opted to have a bi-annual external review of some sort by a CPA and an internal review on alternating years. National agrees that this practice meets their requirements.

- F. Web Site – Filing IRS Return
The web site has been changed to reflect that the Chapter is required to file an annual return with the IRS.
- G. IRS Form 990 – Use Complete Name
The Chapter is now using its' complete name when completing IRS Form 990.
- H. Public Benefit Organization vs Mutual Benefit Organization
Based upon advice from National ASTD, the Chapter has determined that it is a public benefit organization with regard to the organization's 501(c) (3) tax status and has changed its articles of incorporation accordingly.
- I. Treasurer should receive a list of checks each month – Not done
Given that the Treasurer already signs every check each month, this recommendation was deemed to be unnecessary.
- J. Treasurer should mail checks after they are signed – Not done
Management believed this finding to be impractical and therefore it was not implemented.
- K. Financial software password should be applied to previous year's data – Not done
Management believed this finding to be impractical because the Business Manager frequently goes back into past year's data for financial analysis and budget development.
- L. Backup of financial data should be stored off-site
Financial data is backed up at least once a week on tape and stored offsite in a safe deposit box. However, the other recommendation – that once a month, after the bank reconciliation is completed, the business manager should e-mail a copy of the financial database to the Treasurer – had not been done.

Board Response: The current financial database is maintained in Quicken Premier 2003 for Business. The outgoing Treasurer did not have compatible software to be able to read the files. If the Chapter determines that another software would better serve the financial accounting processes, it will be one that would have file compatibility. See the final recommendation about software at the end of this report.
- M. Document Chapter monthly and annual accounting process
The Business Manager has developed a detailed timeline of financial transactions and recordkeeping in the event of a succession disaster.
- N. Bank reconciliation should be compiled as of the end of the month and not the day of the reconciliation
This procedure has been implemented.
- O. Stop payments should not be issued for checks dated older than 6 months
This procedure has been implemented.
- P. IRS Form 1099-Misc should be issued to the Business Manager each year
This procedure has been implemented.

CPA Recommendations on Current Processes

A. POLICIES AND PROCEDURES MANUAL – Segregation of Duties

Consider adding a paragraph that the Board of Directors acknowledges that, because of the nature of the size of the Chapter, that there is an inherent segregation of duties risk and that management, in designing any accounting policy or procedure, should reduce the risk as much as is practical.

A fundamental element of accounting internal control is the segregation of certain key duties. The basic idea underlying this element is that no person or group of persons should be in a position both to perpetrate and to conceal errors or irregularities in the normal course of their duties. In general, the principal incompatible duties to be segregated are:

- 1) Custody of Assets (equipment, cash)
- 2) Authorization or approval of related transactions affecting those assets, and
- 3) Recording or reporting of related transactions.

Ideally, one person should be responsible for no more than one of the three duties. For example, the person making cash deposits should not also be the same person recording them, in an ideal situation. Obviously, in a small organization, it is often impractical to separate these duties among several individuals.

Board Response: The Board realizes that there is an inherent risk in having the Business Manager process all forms of payment. As a practical matter, however, the Board also acknowledges that it would not be feasible to separate processing from custody and will maintain the current practice of processing money and checks.

B. POLICIES AND PROCEDURES MANUAL – Limit Access to Savings Account

In an effort to minimize segregation of duties risk related to the Chapter's savings account, consider modifying the Chapter's policy by eliminating the Business Manager's access to transfer money from the savings account to the cash account or vice-versa. Consider having only the Treasurer and one other board member having this authority.

Board Response: It is the current Chapter practice that the Business Manager has no capability to withdraw funds from the checking or savings accounts. The Board recommends that such a practice be made policy and put in writing in the Policies and Procedures Manual. The checking and savings accounts will be notified of this policy in writing and steps will be taken to ensure that such withdrawals or transfers can only be made by an authorized Board member. The Board also recommends that such withdrawals or transfers (except for routine bill paying via checks) must be approved by the Board.

C. POLICIES AND PROCEDURES MANUAL – Limit Cash Balances

Consider adding a policy to require that minimum cash balances be maintained (\$500 to \$1,000). Consider requiring the Business Manager, based upon cash flow forecasts, to regularly (weekly, semi-monthly, monthly) transfer excess cash funds to the savings account. This will maximize the Chapter's interest income and further minimize the Chapters' risk of misappropriation of cash.

Board Response: Currently, the Board regularly reviews cash balances and determines if funds should be transferred from the checking to the interest-bearing savings account. A minimum of operating capital of \$5 – \$10K would need to be kept in the checking account for routine bill paying. Having a process whereby the Treasurer routinely transfers money from checking to savings would require that the Treasurer review the

cash balances and expected bills with the Business Manager, have phone access to both checking and savings accounts and provide written documentation of the transfer. Such a procedure would need to be included in the policy developed under recommendation B just above.

D. POLICIES AND PROCEDURES MANUAL – Include Approved Budgets with Board of Directors Meeting Minutes

Given the importance of the approved budget to the Board of Directors' control over the Chapter, consider including in the board-approved budget any reviewed and supporting documents (and all other approved documents) with the board of directors' minutes. These documents should all be kept with the organization's other historical documents.

Board Response: This recommendation will be implemented.

E. POLICIES AND PROCEDURES MANUAL – Secretary should have custody of the Meeting Minutes of the Board of Directors

Consider having the Secretary of the Chapter maintain custody of the Meeting Minutes of the Board of Directors rather than the Business Manager. This will reduce the segregation of duties risk of custody of assets (the Minutes) and recording of the approved transactions (budget).

Board Response: The Secretary has electronic custody of the minutes and sends out a complete copy of the minutes to all Board members. A copy is also prepared as a PDF file and placed on the web site. The Business Manager maintains a copy as well in the historical files. The issue here is to not have a copy that can be altered so that an accurate record of the meeting is always available.

F. POLICIES AND PROCEDURES MANUAL – Investment Policy

Given the balance held in the Chapter's savings account, the board of directors should consider amending its present investment policy defining what types of investments the Chapter can participate in with its excess cash and what type of risk the Board is willing to accept.

Board Response: The Board will ask that the new Treasurer take on this task and provide the Board with investment options.

G. POLICIES AND PROCEDURES MANUAL – Reserve Policy

Consider developing a Reserve Policy per National's recommendation on page 22 of *Financial Management for Chapters, a Leader's Guide* (Guide). As stated in the Guide, there are three reasons for having a reserve policy: to cover obligations to members, to allow for shortfalls in revenue and/or unforeseen expenses, and to build funds for capital expenditures. The Guide further details several methods for determining the target balance of the reserve fund: as a percent of one year's operating costs, as a specific dollar amount, or as the amount associated with a specific program or area.

Board Response: The Board will ask that the new Treasurer take on this task and provide a specific reserve policy that will be written and publicized. The current policy is non-specific and is already included in the Policies and Procedures Manual.

H. POLICIES AND PROCEDURES MANUAL – Amend "mini-audit" sentence

On page 33 of *ASTD Cascadia Chapter Policies and Procedures*, revised May 2003, under Accounting Procedures, it was noted that the Treasurer "performs regular and periodic mini-audits of the accounting process". Consider adding the following to the end of this sentence, "in accordance with National's guidelines outlined in *Financial Management for Chapters*".

Board Response: The Policies and Procedures Manual will be amended to include the suggested statement.

- I. POLICIES AND PROCEDURES MANUAL – Agreed-upon Procedures Report
On page 33 of *ASTD Cascadia Chapter Policies and Procedures*, revised May 2003, under Financial Reviews, paragraph three, consider rewording the paragraph to reflect that the Chapter is required, at a minimum, to have a bi-annual comprehensive cash management practices review (with an agreed-upon procedures report issued by a qualified CPA). As stated previously, this is substantially different in scope from a financial audit or review engagement.

Board Response: The Policies and Procedures Manual will be amended to include the suggested statement.

- J. POLICIES AND PROCEDURES MANUAL – Use of the word “Permanent”
On Page 36 of *ASTD Cascadia Chapter Policies and Procedures*, revised May 2003, under Record Maintenance, it states that National ASTD requires particular records be maintained permanently. These records include accounts receivable spreadsheets, bank statements, accounts payable spreadsheets, checks, financial statements, audits, tax returns, payroll records, and organizational documents. “Permanent” is a strong word. This requirement is usually reserved only for organizational documents (articles of incorporation, bylaws, IRS determination letter, etc.). All other documents are typically only required to be kept for 7 to 10 years. If these records are kept permanently, storage costs will eventually become prohibitive. If deemed appropriate, consider discussing this issue with National.

Board Response: The Board will ask the Secretary to review this issue with National ASTD and get a written ruling on what exactly must be kept.

- K. IRS FORM 990EZ – Change None to Part Time for Officers & Directors
Consider on subsequent IRS Form 990-EZ's, Part IV, List of Officers, Directors, Trustees and Key Employees, changing the indication that the average hours devoted per week is “part time” rather than “none”.

Board Response: The CPA who prepares the Chapter taxes will be asked to revise this portion of the tax form.

- L. ACCOUNTING SOFTWARE – Consider Updating for Better Financial Reporting
The Chapter presently utilizes Quicken as its accounting software. This software is targeted towards individual use and was not originally designed for business reporting purposes. If the Chapter upgraded to Quickbooks or Peachtree, the Board of Directors would have access to business financial reports that are easier to read. It should be noted that because the Chapter provides business education to its members, it may be eligible to purchase Quickbooks at a significantly reduced rate through an organization called TechSoup via the worldwide web.

Board Response: The Executive Team should review the possibilities and desirability of changing financial management software. Currently, there is no charge to the Chapter for the Quicken database since that software is maintained by The Connor Group. The greatest disadvantage of Quicken is that the file formats are not easily transferable.