



Faith-Based Finance Collaborative

# POLICY & PROCEDURE



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3. There will also be printable certificates available for you to download at the end of the conference. Please be sure to attend our last session to find out more!

Without these items we are not properly able to credit you for this course.





## MARCIA SUHLING

Controller, NFP  
AcctTwo

Marcia Suhling is a Certified Public Accountant with a degree in Accounting from Texas A&M University, Commerce. She has over 20 years of accounting experience working in both for profit and non-profit organizations. Her not-for-profit experience includes church organizations, mission sending organizations, and Christian camps. Marcia currently serves as a Controller for AcctTwo Shared Services.

# SESSION OBJECTIVES

**At the end of this session you will be able to:**

- Define and compare policies and procedures
- Explain the benefits of developing and enforcing effective policies and procedures
- Identify important policies and procedures for your organization

# POLICIES & PROCEDURES

What are they and why do we need them?

# WHAT ARE POLICIES AND PROCEDURES?

## POLICIES

Policies are statements about how your organization operates and are driven by your values, beliefs and standards. Policies are general and provide uniform treatment for a situation.

*Policies are 'what' an organization does.*

## PROCEDURES

Procedures are the processes followed to comply with a policy.

*Procedures tell us 'how' the task is done.*



POLICY = EXPECTATION

PROCEDURE = EXECUTION

*Together, policies and procedures allow us to define our standard operating processes and measure our success in meeting those objectives.*

# BENEFITS OF WRITTEN POLICIES AND PROCEDURES

*Why is it important to have policies and procedures in writing?*

- Clear Expectations
- Consistency
- Enforcement
- Training
- Performance Measurement
- Process Improvement

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**NM1**

Nicole Miller, 2/4/2019

# BENEFITS OF WRITTEN POLICIES AND PROCEDURES

Written Policies:

- set clear expectations

Procedures:

- provide clear direction



# EFFECTIVE POLICIES AND PROCEDURES

How do we develop and enforce effective policies and procedures?



# TIPS FOR DEVELOPING AND ENFORCING EFFECTIVE POLICIES AND PROCEDURES

Include all parties to ensure success

Tailor specifically to your organization

Publicize and make accessible to all employees

Use consistently in training processes

Be clear and specific - create an 'auditable standard'

Make the policy realistic

Review and update annually

Record employee acknowledgment

# ***ENFORCE!***

*Your policies are only as useful and effective as the enforcement.*

# IMPORTANT POLICIES AND PROCEDURES

What policies and procedures do we need?

## EXAMPLES OF POLICIES AND PROCEDURES

*Policies and procedures are often needed for separate categories.  
Examples include:*

- Personnel
- Leadership/Management
- Financial
- Facility
- General Administration
- Ministry

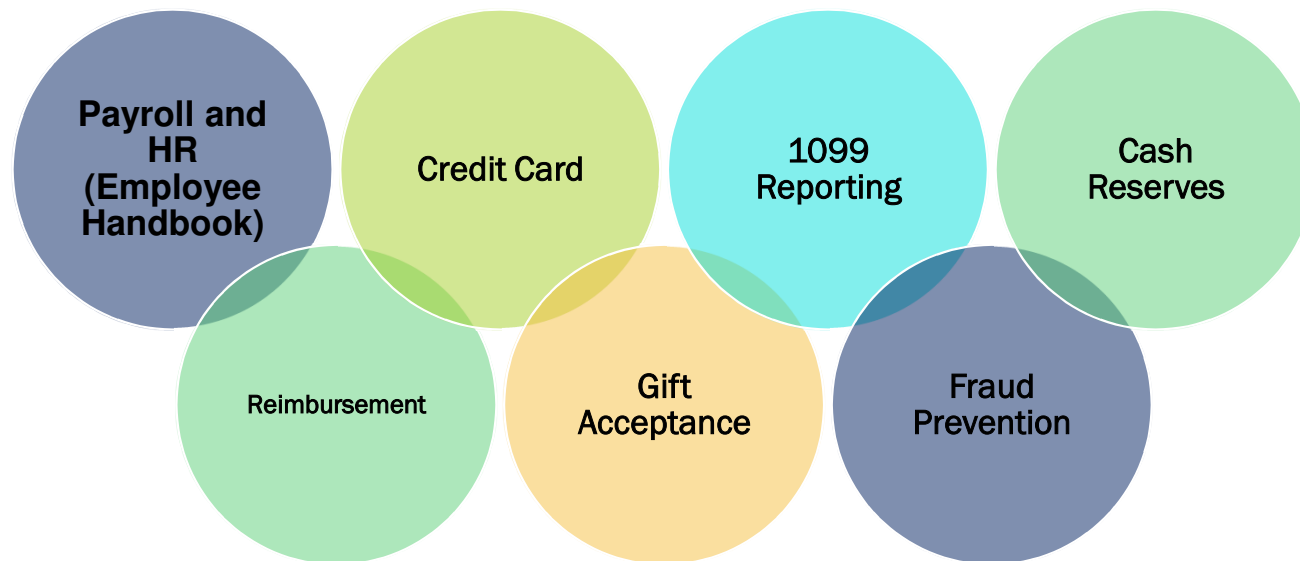
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**NM1**

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# FINANCIAL POLICIES







# EMPLOYEE HANDBOOK

# PAYROLL AND HR

Many organizations choose to address payroll and human resource policies and procedures in an employee handbook. An employee handbook is used to:

- Introduce employees to your culture, mission, values, and beliefs
- Communicate to employees what is expected of them and what they can expect from management
- Ensure compliance with federal and state laws
- Help defend against employee claims
- Let employees know where to turn for help

It is often wise to consult with professionals in this field.

# PAYROLL AND HR

## EMPLOYEE HANDBOOK POLICIES

- Staff Code of Conduct
- Benefits Eligibility
- Vacation and Leave of Absence
- Minister Housing Allowance
- Security, Computer, Email, and Software Use
- Social Media
- One-on-one Guidelines
- Background Checks
- Confidentiality
- Conflict of Interest Guidelines
- Sexual and Other Forms of Harassment
- Criminal Background Checks
- Grievances and Complaints
- Terminations

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**NM1**

Nicole Miller, 2/4/2019

## PAYROLL AND HR

- The employee handbook should be available to all employees at any time.
- Employees should be required to review and submit a written acknowledgement on an annual basis.



# REIMBURSEMENT POLICY





# REIMBURSEMENT POLICY

Employees and volunteers, acting on behalf of the church or organization, can incur expenses for which they should be reimbursed. Additionally, an employee or volunteer can be provided with a cash advance to cover anticipated expenses.

The IRS defines two types of reimbursement plans\*

- Accountable plan
- Nonaccountable plan

\*IRS Pub 535, Chapter 11

# REIMBURSEMENT POLICY

## Accountable Reimbursement Plan

Expenses are required to be substantiated with receipts prior to an employee or volunteer receiving reimbursement.

## Nonaccountable Reimbursement Plan

Expenses are not required to be justified to employer. All funds given to employee or volunteer must be reported as compensation.

# REIMBURSEMENT POLICY

To meet the criteria of an Accountable Reimbursement Plan\* your employees must:

1. Have paid or incurred deductible expenses while performing services as your employee
2. Adequately account to you for these expenses within a reasonable period of time
3. Return any excess reimbursement or allowance within a reasonable period of time

The IRS does allow for reimbursement of non-lodging expense of \$75 or less without substantiation. Your policy can follow that example or you can require substantiation for any amount.

\*IRS Pub 535, Chapter 11

# REIMBURSEMENT POLICY

Documenting Business Expenses require 3<sup>rd</sup> party evidence that the money was spent for a legitimate business reason. Examples - Canceled check, credit card slip, receipt, etc. Documentation should include the following:

- Why (business purpose)
- What (description, including itemized account of cost)
- When (date)
- Where (location)
- Who (names of those for whom the expense was incurred)

# REIMBURSEMENT POLICY

Reasonable period of time\*:

1. You give an advance within 30 days of the time the employee pays or incurs the expense.
2. Your employees adequately account for their expenses within 60 days after the expenses were paid or incurred.
3. Your employees return any excess reimbursement within 120 days after the expenses were paid or incurred.
4. You give a periodic statement (at least quarterly) to your employees that asks them to either return or adequately account for the outstanding advance within 120 days of the statement.

\*IRS Pub 535, Chapter 11

# REIMBURSEMENT POLICY

Procedures should include:

- Forms or software (Nexonia, Expensify, bill.com, etc.) to capture all required information
- Approvals necessary
- Reimbursement schedule

# CREDIT CARD POLICY



# CREDIT CARD POLICY

A corporate credit card policy is an internal agreement between an employer and the employees which outlines the acceptable and unacceptable use of ministry credit cards.

Cardholders should be required to sign an agreement indicating they accept these terms.



# CREDIT CARD POLICY

A credit card policy should include the following:

- Eligibility and spending limits
- Acceptable vs unacceptable purchases
- Personal use and reimbursement
- Expectation of substantiation of expenses and their due date
- Consequences of improper use, delinquent submission, and missing receipts

# CREDIT CARD POLICY

Credit cards should only be used for business purchases.

## ACCEPTABLE

Why  
What  
When  
Where  
Who

## UNACCEPTABLE

Personal Use  
Controlled Substances  
Weapons  
Contractual Agreements  
Capital Equipment  
Advances/Loans

# CREDIT CARD POLICY

## NO PERSONAL USE!

- Personal expenses must be reimbursed.
- Reimbursements must be made in a timely manner.
- Employee can provide payment by check or agree to employer initiating an ACH draft.
- Unreimbursed expenses must be included in the employee's W-2.



# CREDIT CARD POLICIES

Employees must submit detailed receipts in accordance with the policy deadlines.

Expenses should be reviewed for accuracy and approved by manager.

Credit card transactions should be reconciled to the credit card statement on a monthly basis.

**Recurring misuses and nonconformance to deadlines may/should result in cancellation of the card and withdrawal of credit card privileges!**

## CREDIT CARD POLICY

MISUSES & NONCONFORMANCE  
=  
CANCELLATION

# FRAUD PREVENTION POLICY



# FRAUD PREVENTION POLICY

- In our churches and ministries we expect behavior of a high standard. Our expectations can lead to a level of trust which can easily be abused. Per ECFA, *most fraud is committed by a faithful, long-serving volunteer or staff member.*
- Trust should not be characterized by the total lack of prudence and care
- Implementation of a few simple internal controls can remove temptations from employees and protect resources
- Periodic audit or review by a CPA firm is a deterrent
- Internal controls protect the organization's staff in addition to the organization's physical & financial resources

# FRAUD PREVENTION POLICY

## Accountability is key

- Proper approval of transactions
- Segregation of duties
- Timely reconciliations of all asset and liability accounts



# FRAUD PREVENTION POLICY

## Resources:

- ECFA's Fraud Prevention Checklist
- Fraud in Ministries: Real Examples and Red Flags, *by Rufus Harvey*, on ECFA website.
- Fraud in Ministries: How to Respond, *by Rufus Harvey*, on ECFA website



# GIFT ACCEPTANCE POLICY

# GIFT ACCEPTANCE POLICY

Gift acceptance policies outline the types and forms of donations that will be readily accepted by your organization. The policies should be tailored to the specific requirements of the organization, should further the mission of the organization, and enhance donor relationships.

## GIFTS ARE NOT ALWAYS BENEFICIAL

Accepting certain contributions could potentially cost the organization more than the value of the actual contribution and/or create unwanted reporting, liability, and tax issues.

Gift acceptance policies make it easier to decline a non-beneficial gift.

# GIFT ACCEPTANCE POLICY

## Noncash Gifts:

- Take longer to convert to cash.
- Require additional reporting requirements for both the ministry and the donor.

*It is important to research potential tax and liability issues before accepting noncash gifts.*

# GIFT ACCEPTANCE POLICY

## Noncash Gifts:

- Stock
- Vehicles – Form 1098C
- Real Estate
- Intellectual Property – Form 8899



# GIFT ACCEPTANCE POLICY

## Donor Restrictions:

Donors may designate or "restrict" the use of their donations to a specific exempt purpose while "unrestricted" donations may be used for any exempt purpose.

## Things to consider:

- Is the restriction consistent with the organization's charitable purpose?
- Does the restriction benefit the donor more than the gift benefits the organization?
- Does the organization have full control of the designated contribution?

# GIFT ACCEPTANCE POLICY

## Restricted vs Unrestricted:

- Restrictions are only made by donors.
- Board designations of unrestricted assets are not considered restricted contributions.
- Boards do not have the power to lift donor restrictions.

***To avoid being stuck with unwanted donor restricted gifts, consider adding a statement on offering envelopes and acknowledgment letters:***

*The organization maintains control and discretion over use of all donated funds.*

*The organization reserves the right to redirect designated funds to the area of ministry where needed most.*



# 1099 REPORTING POLICY





# 1099 REPORTING POLICY

The biggest challenge to 1099 reporting is determining who should receive 1099 compensation

- It is important to understand the difference between an employee and an independent contractor. Refer to IRS Publication 15-A for an in-depth discussion and additional guidelines.
- If you classify an employee as an independent contractor and you have no reasonable basis for doing so, the employer is liable for employment taxes for that worker and potentially interest and penalties.
- If you have identified workers or a class of workers who have been paid as contractors but should be employees, explore the IRS' Voluntary Classification Settlement Program (VCSP).

# 1099 REPORTING POLICY

**Clear policy and procedures can eliminate a lot of pain at year end!**

- Provide your AP staff with guidance to know when to question if a 1099 might be required
- Require a completed W9 PRIOR to making any payment to a vendor eligible to receive a 1099
- Upon receipt of a W9, use TIN Matching to verify that the 1099 payee information is accurate. This IRS service is free to organizations which have filed any 1099 form in at least one of the two past tax years.

# 1099 REPORTING POLICY

## The case of Childcare workers

- Are childcare workers paid for a service?
- Should their compensation be reported on a W2 or a 1099?
- Who is responsible for issuing the W2 or 1099?
- Are there additional risks to consider when paying childcare workers?

# CAPITALIZATION POLICY



# CAPITALIZATION POLICY

A capitalization policy is used by organizations to determine the treatment of capital asset purchases. It also sets a threshold for which items will either be capitalized or expensed.

Purchases above this threshold are recorded as fixed assets, while those below the threshold are classified as expenses. Capitalization allows organizations to spread the amount of the purchase over several years by recording depreciation each year, rather than recording one large expense.

# CAPITALIZATION POLICY

Capital Assets must meet two criteria:

- 1) have an economic useful life that extends beyond 12 months  
and
- 2) exceed the organization's capitalization threshold

Items meeting these two requirements must be capitalized and depreciated over the asset's useful life.

# CAPITALIZATION POLICY

Capitalization Policy includes the following:

- Acquisition cost, includes shipping and set up fees
- Asset categories and useful lives
- Invoice retention
- Depreciation method
- Impairments, write downs, and salvage values



# CASH RESERVES POLICY

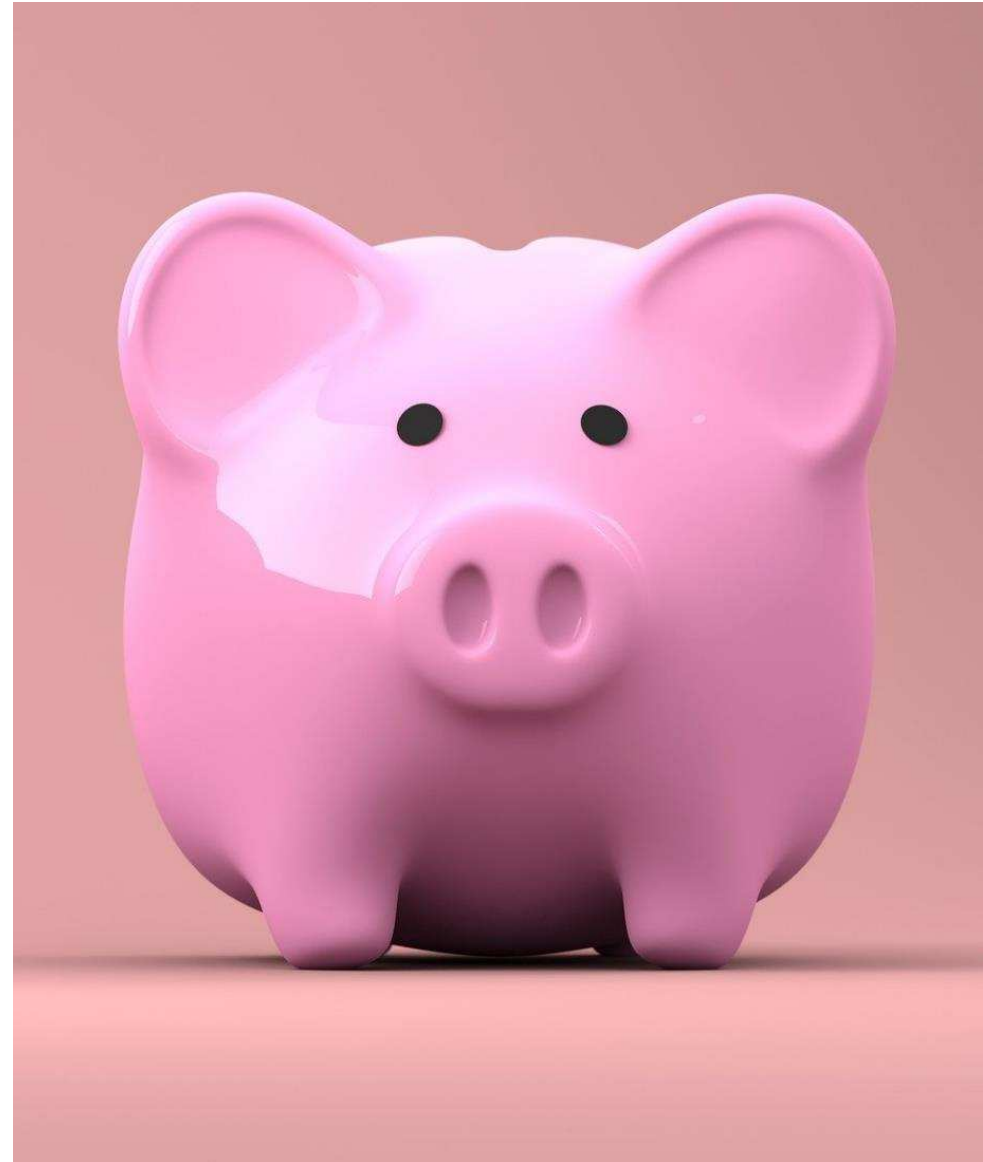




# CASH RESERVES POLICY

## Why have a cash reserve?

- Ensure operating expenses can be paid in a timely manner
- Meet the compliance requirements on a mortgage covenant
- Fund an emergency need – when AC goes out, in July!
- Embrace ministry opportunities
- Scripture emphasizes the importance of preparing Prov 6:6-8; 21:20



# CASH RESERVES POLICY

- How many months of cash should our church have in reserve?
- Unfortunately, there is no easy answer. 'None' and '12 months' are probably both incorrect, but where we should land between those two extremes can vary greatly depending on the organization.



# CASH RESERVES POLICY

## Considerations in determining the appropriate level of cash reserves

- Understand how important cash reserves are to faithful administration of church resources
- Build a cash reserve in good financial times
- Segregate cash related to designated funds and mortgage reserves
- Be specific with cash reserve goals
- Communicate the importance of cash reserves to the congregation

Gleaned from **Church Cash Reserves – How Much is Enough?**

*by Dan Busby and Michael Martin, ECFA*

Recommended: 9 Essentials of Church Cash Reserves, ECFA Church Essential Series

# RESOURCES



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- Collaborate on solutions and best practices
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- Network with mission-oriented people just like you

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**QUESTIONS?**