

Chapter Thirteen: Establishing a Procedure for the Handling of Funds

On the whole, overseeing the financial responsibilities of an association is one of the most important responsibilities of the board. To significantly decrease the risk of funds being misplaced or mishandled, the board should maintain an active role in providing checks and balances.

Approving the Financial Institution

The most important consideration in deciding on a financial institution for the association is that it be federally insured by the Federal Depository Insurance Company (FDIC), or its equivalent. To be federally insured means that accounts held at that particular financial institution are insured by a federally supported program up to \$100,000. To check if your association's bank is federally insured, a search may be conducted at www.fdic.gov.

Associations are not permitted to use in-house banking. All association accounts must be maintained at an insured bank or credit institution, in the name of the association.

Designating Board Members to Sign for Withdrawals

In choosing signatories for withdrawals, the board must first satisfy bonding requirements before considering convenience. To ensure bonding protection of association funds, signatories on an association account must be board members, at least 18 years of age, and not immediate family members. In addition, all withdrawals must have at least two signatures. Associations are encouraged to allow more than two board members to serve as signatories as this allows for greater flexibility. If one individual is out of town, etc., money can still be withdrawn.

An association may face a situation in which a payment or withdrawal must be made in an expedient manner. For this reason, convenience should be a consideration when board members are chosen to act as a signatory.

Making financial decisions based exclusively on convenience, however, is not advisable. A board should not authorize, for example, checks to be pre-signed.

Ensuring All Money is Deposited Within Seven Days

Being able to verify deposits begins with ensuring that the association manager is keeping meticulous records of money received by the association. If the association manager is not issuing a receipt for all money paid to the association (as required), verifying that all money has been deposited will be virtually impossible.

To verify that all money has been deposited, a record of deposit must be compared to all receipts that have been issued. Furthermore, the deposit date should be compared to the date of each receipt to verify that deposits were made in a timely manner. Should the money and receipts not balance, the association manager should be able to provide documentation of the difference.

Authorizing Expenditures

When making decisions regarding money, board members are obligated to keep in mind the association purpose and the best interest of the members.

Many expenditures that an association faces are routine – for example, if an association maintains an office, it may incur property taxes, utility bills, etc. The payment of routine bills such as these needs only be authorized once by the board. Despite this, board members should continually keep themselves informed of these costs, and immediately question any discrepancies and/or something not accounted for or approved by the board.

For convenience, the board may choose to authorize all expenditures under “x” dollars, or grant a blanket authorization for specific expenditures. If these practices are used, however, the expectation remains that the board review all expenditures.

The use of a debit card by an association is NOT recommended due to the ease and nature of potential misuse, but if a debit/credit card is ultimately used it should be addressed by the board prior to utilization. Again, as mentioned in the previous paragraph, the board may choose to authorize all debit/credit card transactions under a specific amount (“x” dollars), or grant a blanket authorization for specific expenditures. If the practice of using a debit/credit card is implemented, however, the expectation remains that the board reviews all expenditures and the association president perform a proper monthly bank verification to confirm proper use of the debit/credit card

Ensuring the President Verifies the Association Accounts

While the president verifies association accounts monthly, the board provides an extra financial check by ensuring this verification takes place. Asking the president to provide a summary report of his/her findings is one method of satisfying this duty.

Ensuring All Required Financial Reports are Filed

The board has a responsibility to familiarize themselves with the specific Internal Revenue Service (IRS), payroll, state, and local forms/reports that are required of the association, and ensure that the association manager files all applicable documents in a timely manner.

Choosing not to verify that all applicable forms/reports have been filed is a significant risk as a board member. If the IRS performs an audit on the association and determines money is due, each member of the board can be held legally responsible.

To familiarize yourself with the most common IRS and payroll forms that apply to 501(c)(3) organizations, reference Chapter 4 of the USBC Association Policy Manual and USBC Association.