



The Accounting Policies and Procedures Manual: An Essential Document for Nonprofit Organizations

By Roberta Katz, MBA

Does your nonprofit organization have a formal *Accounting Policies and Procedures Manual* that is approved by senior management and the Board of Directors? A nonprofit organization that does not have documented policies and procedures which are implemented, enforced and updated regularly, is at risk of reporting inaccurate and unreliable financial results, being a victim of fraudulent activity and jeopardizing the ongoing operation of the accounting department. In addition, the CPA firm performing the annual audit will often cite the lack of a manual in their Management Letter with a recommendation to have it compiled and implemented.

What is an Accounting Policies and Procedures Manual?

An Accounting Policies and Procedures Manual documents the organization's policies for the operation of the accounting department and the procedures to be followed in order to carry out these policies. The manual serves as a guide for the accounting staff to follow in order to produce accurate, reliable and timely financial reports. It ensures that the organization's financial resources are properly safeguarded and used only for authorized purposes.

The structure of the manual will vary based on the budget size of the organization, the number of staff and the complexity of its financial operation. A well-written manual will accomplish the following:

- Ensure consistency in the processing and recording of financial transactions.
- Provide transparency in financial management and reporting.
- Establish internal controls, policies and procedures that mitigate the risk of fraud.
- Ensure compliance with regulatory requirements and adherence to proper accounting principles.
- Enable the ongoing operation of the accounting department.
- Serve as a training tool for new employees and during temporary absences of current employees.

How to Prepare an Accounting Policies and Procedures Manual?

Each section should include both the policies of the organization and the procedures to be followed in order to execute the policies. The compilation of the manual will require collaboration with key employees who have an in-depth knowledge of their areas of responsibility. The manual should be maintained by a senior level accounting staff and updated on a regular basis (e.g. annually) for approved changes to the policies and procedures of the organization.

The following Table of Contents lists sections that are commonly included in a nonprofit organization's *Accounting Policies and Procedures Manual*. Below the Table of Contents I am providing an example of what can be included in an Accounts Payable & Cash Disbursements section of the manual.

1. General Information
2. General Ledger & Chart of Accounts
3. Accounting Principles & Procedures
4. Accounts Receivable & Cash Receipts
5. Accounts Payable & Cash Disbursements
6. Bank Reconciliations
7. Month-End Accounting Procedures
8. Year-End Closing Procedures & Financial Audit
9. Investments
10. Debt
11. Reserves & Designated Funds
12. Internal Controls
13. Compliance
14. Budgeting

15. Computer System Access & Backup
16. Record Retention & Access
17. Conflicts of Interest
18. Maintenance of Accounting Policies and Procedures Manual
19. Preparation of Informational Returns
20. Property & Equipment Inventory Control
21. Grants & Contracts
22. Sample Forms

Example: Accounts Payable & Cash Disbursements

Policies

1. All invoices must be reviewed and approved (signature required) for payment by the Department or Program Manager. Invoices must be properly coded, have adequate supporting documentation and be matched to Purchase Orders and signed Proofs of Delivery, if applicable.
2. Completed invoices must be reviewed and approved (signature required) by the Accounts Payable Supervisor for proper documentation, accurate coding and approval by the Department or Program Manager, prior to payment.
3. The Chief Executive Officer, Chief Operating Officer and Chief Financial Officer are authorized to sign checks.
4. Checks issued for less than \$5,000 require the signature of one authorized signer. Checks issued for \$5,000 or more must be signed by two authorized signers.

Procedures

1. Invoices are date stamped by the Office Manager when received and distributed to the appropriate Department or Program Manager for review and approval.
2. The Department or Program Manager reviews the invoices for accuracy, codes the invoices and attaches supporting documentation. Purchase Orders and

Proofs of Delivery are matched to the invoices, if applicable. The Manager approves (signature required) the invoices and sends them to the Accounts Payable Supervisor.

3. The Accounts Payable Supervisor reviews the invoices for proper coding, supporting documentation and approval by the Department or Program Manager. The Supervisor approves (signature required) the invoices and forwards them to the Accounts Payable Associate for entering into the accounting software and printing of checks.
4. The electronic signature of an authorized check signer is secured and used for all checks. Checks issued for \$5,000 or more are presented to a second authorized signer for signature.

(Note: If automated software is used, these procedures should be incorporated into the setup and operation of the system.)

The Table of Contents and sample section provided in this article are a guide for nonprofit organizations to follow in the compilation of an *Accounting Policies and Procedures Manual*. The structure and content of the manual will vary based on the unique needs and components of your organization. The benefits of having such a manual will only be realized with the effective enforcement and monitoring of the documented policies and procedures.

Roberta Katz, MBA has worked in senior financial management positions at several major nonprofit organizations. She has successfully overhauled their Finance Departments, compiled Accounting Policies and Procedures Manuals and implemented the policies and procedures outlined in this article. Roberta is available for part-time and full-time consulting assignments. She can be contacted at robertapkatz@gmail.com.