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# Financial Policies and Procedures Manuals for Nonprofit Organizations: Applying Best Practices to the Environmental Health Strategy Center

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**Capstone Project**
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**Edmund S. Muskie School of Public Service**
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**Why Do Nonprofit Organizations Need a Financial Policies and Procedures Manual?**

Nonprofit organizations are exempt from taxation specifically because they do not distribute profits to shareholders or owners. It is expected that their purpose is to benefit the public good. Nonprofit organizations rely on public trust to raise the funds needed to carryout their work and to recruit and retain board members and volunteers who can amplify their efforts. This level of public trust means that – perhaps even more than their for-profit counterparts – nonprofit organizations are held to a high standard of integrity, transparency, and accountability. They must be particularly vigilant in guarding against any appearance of impropriety, misappropriation of funds, waste, or fraud. On top of this, nonprofit organizations often operate on very narrow financial margins, with a mandate to invest as much of their resource as possible in delivering mission-related services. This makes efficiency in their operations and the ability to make good and quick management decisions a top goal. Finally, because of their special status, nonprofit also organizations must comply with various rules and regulations governing their operations, many of which also deal with transparency and accountability to the public.

For each of these reasons – the need to safeguard assets from fraud to preserve public trust, the need to operate efficiently, and the need to ensure external compliance – it is essential that nonprofit organizations have sound financial policies and procedures that are recorded in a written document. *Policies* are simply the rules that a nonprofit uses to govern its activities. Hankin, Seidner, and Zietlow (1998) define policy as a "set of guidelines or principles defining an organization's philosophy toward how business shall be conducted" (p.559). They can serve an internal purpose, such as clarifying common understandings (e.g. the role of the board) or articulating internal principles (e.g. organizational ethics), and they can also ensure compliance with external rules and standards (e.g. tax reporting requirements). *Procedures*, Hankin, Seidner, and Zietlow continue, then form the "Steps and/or actions to be taken to comply with a specific policy" (p. 559). Foley (2008) suggests thinking of policies as "intent" and procedures as the mechanics to carry out the intent. Together, policies and procedures should tell every staff and board member involved with the organization how financial transactions are handled and the roles and authorities of different parties in carrying them out.

**Safeguarding Organizational Assets from Fraud**

Strong policies can create public trust and convey integrity by ensuring the sound stewardship of organizational assets, accountability, transparency, and ethical practices. *Internal controls* should be incorporated into financial policies and procedures as a tool for achieving these goals.

The Nonprofit Risk Management Center defines internal controls as "the system of practices, procedures and policies intended to safeguard the assets of the organization from fraud or error and ensure accurate recordkeeping."[1] Internal controls also address risks by specifying security procedures and plans to protect against damages and loss. The Center breaks internal controls into four main categories: authorization and approval, documentation and accurate recording, physical security, and early detection.[2] Authorization and approval includes having a budgeting and financial planning process and plan that is followed, as well as having a system to determine and approve proper expenditures. Documentation and recording involves having proper backup for every expenditure or purchase to ensure legitimate purposes. Security involves

[1] Herman, M.L. (2008). *Financial Risk Management: A Guide for Nonprofit Executives*. Nonprofit Risk Management Center. Retrieved from http://www.nonprofitrisk.org/store/pub_detail.asp, p. 118.
[2] Nonprofit Risk Management Center. Protecting Assets with Sound Internal Controls. Retrieved from http://www.minnesotanonprofits.org/nonprofit-resources/financial-management/budgeting/protecting-assets-with-sound-internal-controls.

both physical and electronic measures like locking up blank checks and protecting financial data with passwords, as well as having specific procedures related to bank transactions to limit fraud. Early detection involves creating checks and balances to ensure that more than one person is engaged in any financial transaction, as well as engaging independent review such as an annual audit.

There is no single standard for internal controls, and individual organizations can have different control structures that are equally valid depending on their structure. As Levin notes in a document prepared for the Maine Association of Nonprofits, “Every nonprofit organization does not have to adopt every single practice… rather, enough of them must be adopted so that you’ve formed a solid and credible system.”[3] However, some common internal controls include measures such as having more than one person handle receipt of gifts or cash, ensuring that checks are endorsed “For deposit only” immediately upon receipt, retaining records of all expenditures with backup documentation, segregating duties such as bookkeeping from check signing so that funds cannot be misappropriated and records manipulated, ensuring that more than one person examines bank statements, tracking inventory consistently, instituting computer and office security, and engaging in external audits.

A key element of internal controls is *segregation of duties*. Segregation of duties creates a system where no one person carries out a single transaction from start to finish – for example, receiving money and depositing it in the bank, or approving payment on an invoice and signing a check. This creates checks and balances intended to decrease opportunities for fraud or catch fraud early.

[3] Levin, R.H. *INTERNAL CONTROLS FOR NONPROFITS*. Maine Association of Nonprofits. Retrieved from http://www.nonprofitmaine.org/blob_view.asp?blob=73.

Hayes (1995) writes that fraud often starts as an accident, when an employee makes a mistake and then finds there are no consequences.  The discovery of loose internal controls then creates an opportunity for further abuse. This suggests that the world is not simply broken down into "good" and "bad" people who will and will not steal, but that fraud may actually be situational, based on opportunity. In fact, Hayes argues that there are three kinds of people: those who would never steal anything (a relatively small group, he says), those who will steal given the right circumstances ("opportunists"), and those who will steal no mater what.  Hayes writes that the largest group is those who will steal under the right circumstances, and that "fraud happens because almost anyone can move to the opportunist level" with the right combination of personal circumstances and situational opportunity. Internal controls and segregation of duties can discourage fraud by reducing opportunistic attacks. They may not prevent theft by those who would steal under any circumstance, but they can reduce fraud that happens opportunistically.

The Association of Certified Fraud Examiners *2010 Report to the Nations on Occupational Fraud and Abuse* reports that the typical organization loses 5 percent of its annual revenue to fraud, and that the median fraud lasts 18 months before being detected. Despite the fact that their work is altruistic in nature, nonprofit organizations are not immune from fraud.  In fact, because so many nonprofits have very small staffs where each employee may "wear many hats", they may be even more vulnerable.

Despite the challenges in creating and maintaining them, sound internal controls are key to maintaining public support. Petrovits, Shakespeare, and Shih (2011) found that the disclosure of internal control weaknesses is associated with a decline in public support and government contributions.  Internal control information, they write, "appears to affect, either directly or indirectly, …funders' giving decisions" (p.354).  In fact, the authors estimate that organizations with internal control problems receive 3.8 percent less public support and 2.1 percent less government support.

While engaging an external auditing firm for annual review is a key way to provide accountability and transparency to the public, Hayes cautions that management cannot rely on external auditors alone to find fraud. In fact, the Association of Certified Fraud Examiners *2010 Report to the Nations on Occupational Fraud and Abuse* reinforces this argument. The study found that an external audit was responsible for uncovering only 4.6 percent of all cases of fraud, whereas internal tips, management review, and internal audits were much more likely to uncover instances of abuse. Hayes also cautions that an internal control structure cannot prevent loose management, and that there is a danger in a culture of frequent management override for efficiency or other reasons. Therefore, it is very important that management institute and enforce a culture of compliance with internal control practices, even when they seem cumbersome, to ensure that they are followed throughout the organization. Spelling them out in written policies and procedures documents is the first step.

**Providing Efficiency and Accuracy for Sound Management**

A policies and procedures manual should specify how financial planning will be conducted, what kinds of financial reports will routinely be produced and distributed, and how other routine tasks will be carried out. The ability to make sound financial plans in the form of budgets and then generate timely and accurate financial reports to measure performance is a key element of creating organizational efficiency. As Herman (2008) writes, the failure to produce accurate reports hinders the ability of board and staff members to make good decisions, and can reduce credibility with board members or donors when it happens repeatedly. Accurate reports facilitate tracking of income and expense so that board members and managers understand how their activities are being carried out and can make adjustments in response to trends and to ensure mission alignment. Accurate reports also facilitate timely external reporting to comply with grantor or government guidelines, a key element of maintaining continued support and credibility.

In addition, procedures ensure efficiency at a basic level simply by stating how routine tasks will be completed. If there were no written procedures, employees could possibly have to make a new plan or system every time they needed to complete a task such as recording income or paying a check, wasting considerable time. In addition, without any standard systems for completing and tracking tasks, certain reports to on past activities would be difficult to generate consistently because information could have been generated and entered in various different ways.

**Ensuring Compliance with External Regulations and Standards**

Finally, financial policies and procedures can incorporate the key practices needed to ensure compliance with minimum legal and regulatory requirements and accepted accounting standards. The primary external regulations affecting nonprofit organizations are the IRS Form 990, the Sarbanes-Oxley Act, and the accounting standards set forth by the Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants (AICPA), and the U.S. Federal Office of Management and Budget (OMB).

### *IRS Form 990*

The IRS Form 990 is the annual return that most federally tax-exempt nonprofit organizations must file annually with the IRS. It is intended to provide transparency and accountability to the public and ensure that nonprofit organizations are fulfilling their tax-exempt purposes. In addition to capturing basic financial information, the form was recently updated to include a series of questions related to governance and organizational policy. Starting with returns filed in 2009 for the 2008 tax year, the form was substantially redesigned and the IRS began requesting additional disclosures relating to items such as accountability, governance, and fraud prevention. The form now includes questions in policies related to conflict of interest, executive compensation, decision-making, and whistleblower protections, among others.[4]

According to the IRS (2011), the purpose for these additional governance and accountability questions is to "help ensure that the organization's assets will be used consistently with its exempt purposes."[5] In addition, the IRS writes, "well-governed and well-managed organizations are more likely to be transparent with regard to their operations, finances, fundraising practices, and use of assets for exempt and unrelated purposes."[6] Thus, while many of the governance policies asked about on the Form 990 are not actually required, the request for disclosure makes it clear that the IRS and many members of the public believe that organizations who have such policies in place will be more transparent, accountable, and well-run. For this reason, it is advisable for most nonprofits to consider adopting the policies discussed on the form.

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[4] See part VI of the 2010 Form 990 for a complete listing: http://www.irs.gov/pub/irs-pdf/f990.pdf.
[5] Internal Revenue Service (2011), retrieved from http://www.irs.gov/charities/article/0,,id=176674,00.html.
[6] Internal Revenue Service (2011), retrieved from http://www.irs.gov/charities/article/0,,id=176674,00.html.

***Sarbanes-Oxley Act***

The Sarbanes-Oxley Act was passed in 2002 to rebuild public trust in the wake of corporate accounting scandals. It created new standards for governance, financial transactions, and audit procedures in publicly traded companies. Although most of the law's provisions apply only to publicly traded companies, many organizations in the nonprofit sector have adopted the recommended standards in anticipation of future legislation. BoardSource and Independent Sector have made recommendations on how charities and foundations can voluntarily incorporate certain provisions of the Act into their operations in their publication, *The Sarbanes-Oxley Act and Implications for Nonprofits*.[7] They include recommendations related to managing conflicts of interest, external audits, certification of financial statements such as the IRS Form 990, disclosure, whistleblower protection, and document destruction. Importantly, two provisions of the Sarbanes-Oxley Act apply to all entities, including nonprofit organizations, because they are amendments to the federal criminal code: the whistleblower policy and the document destruction policy. Therefore, among other recommendations, these two policies should be included in any financial policies and procedures manual.

***Professional Standards – FASB, AICPA, and OMB***

[7] Available at: http://www.nonprofitmaine.org/blob_view.asp?blob=49 and http://www.boardsource.org/clientfiles/sarbanes-oxley.pdf.

There are three entities that issue standards for nonprofit financial accounting: the Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants (AICPA), and the U.S. Federal Office of Management and Budget (OMB) (for organizations that receive federal grants). These standards are what auditors and other regulators use when assessing the appropriateness of a nonprofit organization's financial accounting. FASB and AICPA standards together form what are called generally accepted accounting principles (GAAP), principles and standards that govern the preparation of financial reports.

FASB has issued only a small number of standards specific to nonprofit organizations, but they are important. FASB No. 116, "Accounting for Contributions Received and Contributions Made," requires nonprofits to record contributions according to whether they increase permanently restricted net assets, temporarily restricted net assets, or unrestricted net assets. FASB No. 117, "Financial Statements of Not-for-Profit Organizations," sets standards for external financial statements, including that all nonprofit organizations provide a statement of financial position, a statement of activities, and a statement of cash flows. It also requires nonprofit organizations to classify expenses by "functional expense categories" (program services, management and general, and fundraising, at minimum).

The AICPA's Statement of Auditing Standards 112 (known as SAS 112) was instituted in 2007 and emphasizes that management staff are responsible for establishing and maintaining internal controls. It further requires external auditors to convey in writing any control deficiencies or material weaknesses that they observe to be present in the course of their audit.  This increased level of transparency about deficiencies in internal controls should create an impetus for nonprofit organizations to improve their internal controls in the interest of having a "clean" management letter attached to their audit.

Nonprofit organizations must ensure that they are following accepted generally accepted accounting principles as laid out by these entities to ensure public trust. Financial policies and procedures should indicate an organization's compliance with GAAP and should create systems to ensure that GAAP recommendations are followed.

**Challenges for Small Organizations**

Small organizations face particular challenges developing financial policies and procedures that can effectively prevent fraud and ensure efficiency. The Association of Certified Fraud Examiners *2010 Report to the Nations on Occupational Fraud and Abuse* found that 31 percent of all frauds were committed against small organizations, the highest rate in any category. The study also found in almost half of the instances of fraud at small organizations (47 percent), lack of internal controls was indicated as the factor that contributed most to the abuse. Petrovits, Shakespeare, and Shih (2011), too, found that internal control deficiencies are more common in small nonprofit organizations.

A small organization cannot institute the kinds of internal controls that a large organization can. For example, a larger organization might have entirely separate departments to handle different aspects of cash receipts (opening mail, recording cash, entering into financial software, depositing in the bank), whereas a small organization may have only one administrative staff person who is responsible for opening the mail, keeping records, performing bookkeeping duties, and overseeing the bank account. Despite these limitations, it is important and possible even for small organizations to institute segregation of duties at a meaningful level. For example, Giganti (1998) suggests basic measures such as having someone other than the person making bank deposits see a copy of the monthly bank statement (even if they are not the person doing the bank reconciliation), and having a person other than the one who makes bank deposits open the mail and record receipts (even if their primary function is not administrative). Procedures such as these may seem meaningless to those who are not familiar with fraud prevention, but they are vitally important steps to ensure financial integrity.

**Key Elements of a Financial Policies and Procedures Manual**

Depending on the specific characteristics and activities of an organization, the financial policies and procedures manual may include the following elements:

**Business Conduct Principles, Policies, and Procedures**

- ***Ethics Statement* –** States the basic ethics and values of the organization related to financial management and conduct. BoardSource recommends that all nonprofits develop and publicize organizational ethical standards because "these and other steps that heighten transparency demonstrate a commitment to community and to operating in a manner worthy of the public trust."[8]

- ***Overall Compliance and Government Returns* –** Clarify commitment to meeting all external regulations such as those reflected in the IRS Form 990 and Accounting Standards articulated by FASB. The document should also incorporate and spell out procedures that will ensure compliance and proper review.

- ***Conflict of Interest Policy* –** Ensures that the personal interests of board or senior staff members does not interfered with their acting in the best interest of the organization's charitable purpose. The policy should outline which conflicts of interests must be disclosed, and procedures for annually disclosing and addressing conflicts should be outlined.

- ***Whistleblower Policy* –** Explains how complaints from employees about perceived misuse of organizational financial resources would be addressed and protected.

- ***Document Retention and Destruction Policy* –** Sets rules for storage and destruction of electronic and hard files, including back-up procedures.

- ***Mandatory Vacation for Financial Staff* –** Specifies required amount of vacation annually for financial management personnel. This prevents fraud by ensuring that staff members are occasionally seeing financial records and practices of their peers.

- ***Gift Acceptance Policy* –** Provides a framework for deciding whether a donation to the organization meets the organization's needs or conflicts with any restrictions. This could prevent an organization from accepting a gift that would cause an undue burden (for example, a car if the maintenance costs would be to high), or from accepting money from an entity that conflicted with their mission (for example, a contribution from the tobacco industry to a smoking cessation organization). The policy should outline procedures for review of unusual gifts.

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[8] BoardSource. Organizational Core Values and Statement of Ethics. Retrieved from http://www.boardsource.org/AboutUs.asp?ID=17.276.

- ***Unrelated Business Activity* –** States whether income from activities not related to the organization's charitable purpose are allowed, and if so, how they will be handled to ensure compliance with tax law. Any resulting tax liability should be considered when planning and budgeting for such activities.

**Roles and Responsibilities of Board and Staff**

- ***Board Roles*** - Defines the role and levels of authority for the full governing board, the executive committee, the board treasurer, and any board committees involved in financial management (e.g., Audit Committee, Finance Committee)

- ***Staff Roles* –** Defines the roles and levels of authority for the Executive Director, senior financial managers such as a CFO, Finance Director, or Managing or Operations Director, other senior managers or department heads, and other staff involved in finance and administration, such as bookkeeping, accounting, payroll, and other administrative staff.

**Budgeting and Reserves**

- ***Budgeting Procedures* –** States who will prepare budgets for review and through what process they will be formally adopted.  May clarify how budget performance will be monitored and how deviations from budget plans should be handled, including a process for making formal budget revisions or approving specific expenditures that exceed budgeted amounts.

- ***Reserve Policies* –** Specify if there is a target for unrestricted funds that can stabilize revenue in the case of unforeseen events or fund large expenditures. This policy can set a target for how much should be set aside and how it can be used.

**Financial Reporting**

- **Financial Statements –** States which reports will be produced (such as an income and expense statement and a statement of cash flows), the frequency of preparation (monthly, quarterly, annually), and which members of the board and staff will regularly receive and review the various statements.

- **Financial Ratio Analysis –** Articulates financial ratios that will be used to analyze financial performance and any desired standards.

**Basic Information Regarding Financial Accounting System**

- ***Fiscal year* –** The fiscal year cycle of the organization (e.g., calendar year, July-June, etc.).

- ***Accounting Method* –** Whether the organization will use a cash- or accrual-based accounting system. The cash basis of accounting records income when it is received and expenses when they are paid. An accrual-based accounting system recognizes income when it is earned or promised and expenses when they are incurred or obligated, regardless of when the cash transaction occurs.

**Accounts Receivable and Cash Receipts**

- ***Receiving Cash*** **–** Outlines procedures for processing checks and cash received in the mail or in person. The procedures should specify the staff members who will be involved and authorized to make decisions or record information at each stage of the transaction and how backup documentation will be retained. This policy should incorporate segregation of duties to prevent fraud.

- ***Bank Deposits*** **–** Outlines the process and timeline for depositing cash in the bank account once it has been properly recorded in the accounting system. This policy should incorporate segregation of duties to prevent fraud.

- ***Processing of Credit Card Contributions*** **–** Outlines procedures for processing credit card contributions received online, by phone, or in person. The procedures should specify the staff members who will be involved and authorized to make decisions or record information at each stage of the transaction and how backup documentation will be retained. This policy should incorporate segregation of duties to prevent fraud.

- ***Accounts Receivable*** **–** Outlines procedures to ensure that money owed to the organization is received in a timely and efficient manner. Should state how outstanding obligations will be reviewed and handled. Should clarify roles and responsibilities of those involved in billing and invoicing. Should clarify any accepted level of receivables that will not come in.

**Accounts Payable and Cash Disbursements**

- ***Accounts Payable*** **–** States the schedule on which money that is owed by the organization will be paid, procedures for authorization of expenditures, and requirements related to supporting documentation such as invoices and receipts (e.g., is there an amount below which receipts are not required, must all receipts be original, etc.). The procedures should specify the staff members who will be involved and authorized to make decisions or record information at each stage of the transaction and how backup documentation will be retained. This policy should incorporate segregation of duties to prevent fraud.

- ***Cash Disbursement*** **–** Clarifies who has check writing authority, who has check signing authority, and who may void checks. Should state the timeline for check writing and any policies related to deviating from the regular check-writing schedule. Should clarify if checks over a certain threshold will require more than one signature. The procedures should specify the staff members who will be involved and authorized to make decisions or record information at each stage of the transaction and how backup documentation will be retained. This policy should incorporate segregation of duties to prevent fraud.

- ***Employee Expense Reimbursement Policy* –** Clarifies which business-related expenses will be reimbursed for employees, such as mileage, meals, and so on, and outlines the timeline and process for employees to request reimbursement for those expenses.

- ***Petty Cash* –** Outlines special procedures related to petty cash to ensure security and appropriate use of the funds.

**Payroll**

- ***Payroll Administration and Process* –** Clarifies whether payroll will be handled internally or by an outside firm. Outlines backup documentation required (e.g. timesheets), timeline for transmission and payment of payroll, and approval authority and procedures. May clarify procedures for recording leave time. The procedures should specify the staff members who will be involved and authorized to make decisions or record information at each stage of the transaction and how backup documentation will be retained. This policy should incorporate segregation of duties to prevent fraud.

- ***Salary Policy* –** Clarifies how salaries will be determined for all employees, ensuring fairness, market competitiveness, and shared understanding across the organization.

- ***Executive Compensation Policy* –** States how compensation will be determined for the chief executive and other senior employees. In order to avoid IRS sanctions from a determination that executive compensation is not reasonable, instructions for the IRS Form 990 indicate that the review process must include (1) review by an independent body (e.g. personnel committee); (2) use of "comparability data," such as market research; and (3) documentation of the board's consideration and approval (e.g. in meeting minutes).

**Purchasing**

- ***General Purchasing or Procurement Policy* –** Outlines procedures for purchasing supplies and equipment to ensure maximum value, proper authorization, and appropriateness for all purchases. May specify procedures for soliciting quotes, evaluating bids or proposals, comparing prices, and so on.

- ***Credit Card Policies* –** Clarifies which staff may be issued organizational credit cards, which expenditures may be charged to organizational cards, and cardholder responsibilities, such as monthly review and reconciliation, provision of backup documentation, and appropriateness of purchases.

**Contractor and Vendor Policies**

- ***Vendor Verification* –** Outlines procedure for ensuring that all new vendors are legitimate and authentic, preventing illegitimate vendors from receiving payment fraudulently (e.g., an employee's spouse).

- ***Authority* –** Clarifies who on staff has the authority to approve and sign contracts with vendors or individuals.

**Asset / Property and Equipment Policies and Procedures**

- ***Capitalization Policy* –** Outlines criteria that will be used to determine which assets should be reported as capital, so that they can be accounted for on financial statements and depreciated appropriately. Should state criteria such as a cost threshold and timeline of useful life, and the deprecation schedule.

- ***Fixed Asset Inventory* –** States how an inventory of all fixed assets (even those below the capitalization threshold, if appropriate) will be created and maintained, including what information will be maintained and how it will be reviewed.

**Security Measures**

- ***Storage of Files* –** States which files and records will be kept where, and what procedures will be undertaken to ensure their security and confidentiality, such as locking file cabinets.

- ***Office Security* –** States security procedures that will be undertaken to ensure the safety of files and records as well as equipment and supplies.

- ***Computer Security* –** Specifies procedures to protect and secure electronic records, for example with passwords. This ensures that confidential records are not accessed and that records cannot be tampered with by unauthorized personnel. May also specify procedures for backup to ensure that records are not lost.

**Auditing**

- ***Engaging and Selecting an External Auditor* –** States how often the organization will engage the services of a professional CPA firm for a review or audit. Outlines the process for selecting an auditor, including how often the organization will rotate auditing firms.

- ***Audit Review* –** Outlines how the audit will be reviewed by the staff and board, including whether the board will establish a separate audit committee.

**Risk Management**

- ***Insurance Guidelines* –** States any minimum insurances that will be retained, such as Directors and Officers Liability Insurance or Commercial Property Insurance.

**Liabilities**

- **Assumption and Authorization of Debt –** States whether the organization will establish debt and how it will be managed and repaid.

**Investment Policies**

- ***Investment Policy* –** Outlines goals for the rate of return, desired liquidity (availability) of funds, types of investment vehicles, prohibitions on any investments, and how a portfolio manager will be selected and supervised. This is particularly important for an organization with an endowment.

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**Writing a Financial Policies and Procedures Manual for the Environmental Health Strategy Center**

The Environmental Health Strategy Center (EHSC) is an environmental public health organization whose mission is to promote human health and safer chemicals in a sustainable economy. Founded in Maine in 2002, the organization works for systemic change by blending science-based advocacy and creative constituency development with strong coalition organizing and strategic issue campaigns. The organization has two major program areas: "Healthy People," which seeks to improve health through safer chemical policy reform at the federal and state levels, and "Sustainable Economy," which models a green chemistry economic development strategy to produce bioplastics from Maine potatoes and other biomass.

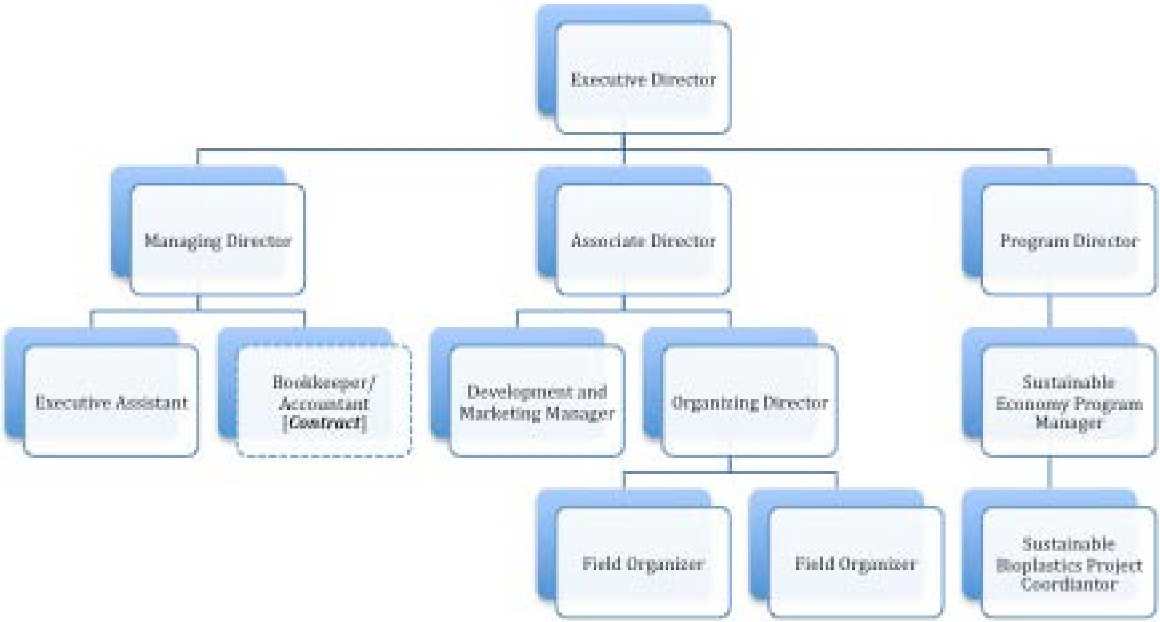
EHSC launched its operations under a fiscal agency relationship as a project of the Tides Center, a national organization based in California that provides back office services to start-up nonprofits. This allowed EHSC to ramp up its activities quickly without having to focus on the operational details of setting up an organization, such as legal incorporation, filing for tax-exempt status with the IRS, setting up bookkeeping systems, and hiring and managing administrative staff. This model enabled a small staff of two to accomplish a great deal in a short time without having to manage a back-office. After nine years, however, EHSC's operations reached a scale that made incorporation as an independent 501(c)3 preferable. The organization now has eleven staff members, two successful programs, and a strong track record of internal management. The organization also now has a Managing Director who, as a liaison with the Tides Center, essentially provides the same services she would if the organization were an independent nonprofit (approving expenditures, reviewing financial reports, ensuring legal compliance) but does so without the autonomy to set policies or design reports for the organization independent of the Tides Center.

The organization has decided to "spin-off" from the Tides Center as an independent nonprofit in 2011. This shift will enable the management team to better monitor key organizational metrics and customize them to their most efficient application for the organization (such as financial reports), more efficiently execute routine tasks (such as writing checks), retain more of EHSC's resources in-state rather than sending an overhead percentage out of state (currently 9 percent of all revenue), and ensure that there is no ambiguity for partners and funders in-state that the organization is indeed a Maine-based organization with independent governance. EHSC legally incorporated an independent Maine entity in 2008 and received IRS approval as a 501(c)3 tax-exempt organization in 2010. In 2011, the organization must develop the internal systems and protocols to enable the spinoff of operations from the Tides Center by year-end.

A key element of preparing to operate independently is setting up independent a financial management infrastructure. The draft policies and procedures document that follows creates a framework for how financial management and all related transactions will be carried out by the existing staff.

**What is the Staffing Available to Help with Financial Management?**

As a small organization, a key challenge for EHSC is creating sufficient segregation of duties and internal controls. In addition, the organization has two physical offices. The largest is in Portland (8 staff) and the smaller is in Bangor (3 staff). EHSC's organizational chart looks like this:




***Management Staff***

The Executive Director works from the Bangor Office. Although the Executive Director must play a lead role in financial oversight as the primary person having responsibility for organizational health, having him work outside of the primary office creates logistical challenges and makes it inefficient to have him involved in day-to-day transactions that cannot be completed electronically (opening mail, writing checks).

The Managing Director is the lead staff person responsible for financial management, playing the role of a Chief Financial Officer or Finance Director, including designing and utilizing budgets and financial reports, recording and tracking revenue, approving expenditures, purchases, and contracts, and ensuring compliance with all required procedures, both internal and external.

The Executive Director, Managing Director, Associate Director, and Program Director make up the "Management Team." Each of these people has senior-level authority for making decisions within their area of responsibility. However, it would be inefficient to have all of them involved in managing financial information on a daily basis because it could lead to inconsistent decision-making and would weaken efforts to centralize information. For this reason, division directors other than the Managing Director will a role in financial management primarily limited to making budget and expenditure decisions within their department, creating appropriate segregation of duties when most necessary, and creating a backup system for cases when, for example, the Managing Director or Executive Director is on vacation.

### *Other Staff*

Other staff can be called on to play a role in financial management include the Bookkeeper/Accountant, the Executive Assistant, and the Development and Marketing Manager. The Bookkeeper/Accountant is a contractor hired to provide weekly bookkeeping services and monthly financial analysis, and to ensure compliance with accounting standards. The Executive Assistant, located in Bangor, can be called upon to provide administrative services in the Bangor office (such as opening the mail) and support for the Executive Director in executing his duties. The Development and Marketing Manager, located in Portland, will have a lead role in processing and recording donations, including opening the mail in the Portland office and recording gifts before they are entered into the financial system or deposited in the bank.

## Ensuring Segregation of Duties With a Small Staff

EHSC must ensure above all else that no one staff member has sole control over cash receipts, payroll, bank reconciliations, accounts payable or other accounting functions. For sound internal controls, the check signer cannot be the same person who approves expenditures, records bookkeeping entries, or prepares checks for signing. Bank statements must be seen by at least one person other than the person performing the reconciliation. Bank deposits must be made by someone other than the person recording the income. In addition, financial management staff, in this case primarily the Managing Director, should be required to take annual vacation. Mandatory vacation ensures that other staff are occasionally involved in transactions that could other wise go unnoticed.

The Executive Director will be the primary person authorized to sign checks. This provides a check against any inappropriate spending decisions that the Managing Director might authorize. However, the Executive Director will not approve expenditures and he will not prepare checks for signature. This ensures that he will not make any unauthorized payments. Every spending decision will involve at least two people, the Managing Director who authorizes it, and the Executive Director who signs it. (When the Executive Director is not available, the Associate Director or Program Director may sign checks to ensure that there remains a segregation of duties.)

The Managing Director will approve expenditures (except for her own, which will be approved by the Executive Director), but will not make entries into the bookkeeping system or prepare or sign checks. This ensures that she is not able to tamper with financial records after checks are written, or prepare and sign checks for expenditures that only she has authorized.

The Bookkeeper/Accountant will make entries into the bookkeeping system and prepare checks, but only when they are accompanied by proper authorization and documentation from the Managing Director. Although she can prepare checks, she will not have check signing authority. No one will be able to make or alter bookkeeping entries except the Bookkeeper/Accountant. However, although the Managing Director will not be an authorized user to make changes, she will be able to access bookkeeping records at any time, and will review them at least on a monthly basis. The Bookkeeper/Accountant will perform the monthly bank reconciliation, but the Board Treasurer or Executive Director will also review an original copy of the bank statement to ensure that the Bookkeeper/Accountant cannot tamper with it.

The Executive Assistant and Development and Marketing Manager will open mail and record gifts before sharing the information with the Managing Director. They will not make the bank deposits.

**Other Features of EHSC's Policies and Procedures**

The document outlines a process for organizing financial information in budgets and financial reports and states how performance will be reviewed regularly. The monthly review process ensures that all senior managers and all members of the board can fulfill their oversight responsibilities and make sound decisions on behalf of the organization. The organization does not currently have accepted standards for financial ratios that will be used to assess performance, but this could be added at a later stage of organizational maturity.

The policies and procedures for receiving funds ensure that all in-coming funds are properly recorded and safeguarded through separation of duties and proper documentation. The policies for approving disbursements of cash ensure that cash is disbursed only with proper authorization, for legitimate business purposes, and with proper documentation.

Payroll policies and procedures ensure that access is limited to accounting staff responsible for payroll processes. Payroll is processed by the Managing Director but approved by the Executive Director. The outside payroll service is responsible for tax payments and reports. The bookkeeper/accountant verifies the payments at the end of each month by analyzing the payroll service reports and the bank reconciliation statement.

The organization doesn't regularly make large purchases or hire subcontractors, so a detailed purchasing policy with bidding requirements is not necessary. However, the purchasing policy as written does indicate that bids should be sought for large contracts and prices compared for major purchases. The Managing Director will be the primary person authorizing purchases and contracts, to ensure that there is a consistent and fair process and that risk exposure is managed. The organization does not typically receive nonstandard gifts, so the gift acceptance policy provides general guidance and grants the board permission to review unusual gifts, without setting specific standards or restrictions.

The organization doesn't currently have any unrelated business activity or long-term debts. Policies would be drafted and adopted when the need arose. The organization doesn't have an endowment or a large enough reserve for investment of assets, so a formal investment policy is not needed at this time. The introduction states that the policies and procedures will be reviewed every two years. This ensures that any minor changes (such as changes in organizational staffing) or new policies (such as an investment policy) that are needed can be completed and the document kept up to date.

Certain policies that the organization has already adopted, such as an employee expense reimbursement policy, policy on receipts, conflict of interest policy, whistleblower policy, and others, are included as appendices.

**NOTE: The purpose of this draft policies and procedures document is to apply accepted best practices for nonprofit financial policies and procedures to a specific organizational context for the Environmental Health Strategy Center. The following set of draft policies and procedures was adapted from the best practices outlined in the following models. Portions of language included in the draft may be copyrighted by its originators and should not be used or redistributed without written permission:**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**[DRAFT]**

# Financial Policies and Procedures Manual for the Environmental Health Strategy Center

## Introduction

The board and staff of the Environment Health Strategy Center (EHSC) are committed to ensuring the sound management of organizational assets in the interest of achieving the organization's mission.

The policies and procedures contained herein are intended to:

- Protect the assets of the Environmental Health Strategy Center
- Put in place basic accounting, billing, and cash control policies and procedures
- Ensure the maintenance of accurate records of the organization's financial activities
- Create a framework for operating standards and behavioral expectations
- Ensure compliance with all federal and state procedures and reporting requirements

The Executive Director, working with the Managing Director, is responsible for administering these polices and ensuring compliance. Changes to these policies may be made by the Board of Directors at any time. A full review of the policies should be conducted every two years. Every member of the organization's management team and administrative staff is expected to be familiar with and in compliance with these policies.

The Environmental Health Strategy Center's accounting policies and procedures are intended be consistent with Generally Accepted Accounting Principles (GAAP). If this manual conflicts with specific federal or State regulation or with other organizational policies that have been adopted or updated more recently, the regulations or more recent board policy shall prevail.

Approved: Updated:

## Ethics[9]

The Environmental Health Strategy Center is committed to responsible stewardship of organizational resources. The organization will spend a reasonable percentage of its annual budget on programs in pursuance of its mission and on administrative expenses to ensure effective accounting systems, internal controls, fundraising, competent staff, and other expenditures critical to professional management and organizational sustainability. The organization will not accumulate excessive operating funds but will maintain a responsible level of reserves to enable our organization to respond to philanthropic trends and opportunities to better serve the organization's mission.

Members of the board and staff of EHSC are committed to the following ethical practices:

- Acting in the best interest of the organization rather than on the basis of personal interests or the interests of third parties.
- Practicing sound financial management and compliance with legal and regulatory requirements.
- Employing financial systems to ensure that accurate financial records are kept and that financial resources are used to further the organization's mission and charitable purposes.
- Creating and maintaining financial reports on a timely basis that accurately portray financial status and activities, provide timely internal financial statements, and explain any material variation between actual and budgeted revenues and expenses.
- Providing employees and others with a confidential means to report suspected financial impropriety or misuse of its resources.
- Having written financial policies governing use of its assets, internal control procedures, and purchasing practices.
- Complying with laws and regulations related to fund raising; licensing; financial accountability; human resources; lobbying and political advocacy; and taxation.
- Respecting the interests and intentions of its donors, volunteers, and the general public and managing them with the highest level of professionalism and integrity.
- Using solicitation and promotional materials that are accurate and truthful and identify the organization, its mission, and its intended use of solicited funds accurately.
- Ensuring that contributions are used in accordance with donors' intentions and obtaining explicit consent before altering the intended use of a restricted gift.

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[9] Language adapted from BourdSource "Organizational Core Values and Statement of Ethics", retrieved from http://www.boardsource.org/AboutUs.asp?ID=17.276 and Utah Nonprofits Association "Standards of Ethics", retrieved from http://www.utahnonprofits.org/knowledge/standard-of-ethics.

## Roles and Responsibilities / Authority[10]

The Board of Directors will assume responsibility for ensuring the financial health and sound management of organizational assets. The board will employ management staff members who are capable of producing, analyzing, controlling, reporting, and interpreting financial information. The Management Team of the organization currently consists of the Executive Director, Associate Director, Managing Director, and Program Director.

Board of Directors

The Board of Directors has the authority to execute any policies it determines to be in the best interest of the organization within the parameters of the organization's articles of incorporation, bylaws, or federal, state, and local law. The Board of Directors will approve the annual budget, the audit, and the Form 990. The board delegates administration of the financial policies to the Executive and Managing Directors, but reviews operations and activities regularly.

Executive Committee

The Executive Committee has and may exercise, when the Board is not in session, all of the powers of the Board of Directors in the management of the organization except the authority to amend the bylaws, adopt a plan of merger or consolidation, sell, lease, exchange, mortgage, pledge or make any other disposition of all or substantially all of the property and assets of the organization.

Treasurer

The Treasurer has the authority to choose the auditor, perform regular, in-depth reviews of the organization's financial activity, and oversee the development of the annual budget.

Executive Director

The Executive Director has the authority to make spending decisions within the parameters of the approved budget, employ and terminate personnel, determine salary levels within the approved salary policy, make decisions regarding the duties and accountabilities of personnel and the delegation of decision-making authority, enter into and contractual agreements, and sign checks.

Most Senior Financial Manager (Currently Managing Director)

The Managing Director has whatever authority as may be designated by the Executive Director, including to design the organization's accounting system and chart accounts, make spending decisions within the parameters of the approved budget, make fixed asset purchase decisions, approve expenses and make decisions regarding their cost allocation, hire the

[10] Language in this section adapted from Nonprofit Financial Center (2000). SAMPLE Financial Policies and Procedures Handbook. Retrieved from http://www.nonprofitmaine.org/blob_view.asp?blob=45.

bookkeeper/accountant, and sign and approve contractual agreements. The Managing Director will *not* sign checks or make bookkeeping entries.

Division Directors (Currently Associate Director and Program Director)

Division Directors have whatever authority as may be designated by the Executive Director, including to make spending decisions within the parameters of the approved department or program budget subject to the approval of the Managing Director, and to sign checks or contracts in rare circumstances when the Executive Director is not available.

Bookkeeper/Accountant

Bookkeeping and accounting services will be provided by a contracted individual who is hired and supervised by the Managing Director. This person will make bookkeeping entries, prepare checks for signature, and perform the bank reconciliation. The bookkeeper will *not* approve expenditures or sign checks.

**Finance and/or Audit Committees of the board may be established at any time as they are needed, and given proper authorities.

**Indemnity Policy**[11]

To the full extent permitted by applicable law, EHSC may indemnify any past, present or future Director, Officer, Employee or Agent of against all costs, expenses and liabilities, including attorneys' fees, actually and necessarily incurred by or imposed upon them in connection with or resulting from their involvement with the organization.

No such reimbursement or indemnity shall relate to any expense incurred or settlement made in connection with any matter arising out of their negligence or misconduct as determined either by a court of competent jurisdiction or, in the absence of such a determination, by EHSC acting on the advice of counsel.

EHSC shall purchase and maintain insurance on behalf of any person who is or was serving at the request of EHSC, as a Director, Officer, or Senior Manager against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such.

[11] Language in this section adapted from Nonprofit Financial Center (2000). SAMPLE Financial Policies and Procedures Handbook. Retrieved from http://www.nonprofitmaine.org/blob_view.asp?blob=45.

**Budgets**

Budgets provide a standard by which to measure performance, encourage planning, and allocate resources in accordance with funding source requirements.

- Budgets should use reasonable assumptions of income and expenses. Budgets should be balanced, and should lead to the accumulation of reasonable reserves, which can be used to ensure cash flow over time.
- The Board should be notified when cash reserves are below 3 months regular operating expenses.

  Procedures
  - The organization budget is prepared by the Managing Director, in consultation with the Management Team, beginning no later than September of every year.
  - Budgets are approved by the Executive Director prior to submission to the Board of Directors for formal adoption.
  - The Executive Director will submit an annual organization budget to the Board of Directors for their approval in December. The Board will also approve a Capital budget.

**Budget Revisions**

From time to time it will be necessary to deviate from the spending plans captured in organizational budgets.

- Non-budgeted expenditures that exceed $10,000 will be recommended by the Executive Director to the Board for approval and to consider a formal revision of the approved annual budget
- Non-budgeted expenditures between $1,000 and $9,999 that cannot be easily accommodated by shifting expenses from another budget line should prompt a discussion within the Executive Management Team to justify the expense, how it will be financed, and how other budgeted expenses may be affected. Executive Director may make final decision.
- Non-budgeted expenditures less than $1,000 do not require discussion if they are approved by the Executive Director or the Managing Director.
- Within any budgeted expense category, expenditure changes that do not exceed the total budgeted amount are within the discretion of the appropriate Division Director. (For example, funds allocated to Program may be redirected for other Program purposes as long as the total line item amount is not exceeded.)

  Procedures
  - The Managing Director should exercise the right to express disagreement and dissent with a decision by the Executive Director, and should seek to resolve such disagreements informally.
  - When that is not possible, in consultation with the Management Team, the Managing Director may appeal to the Board Treasurer when the Executive Director overrules

her/his dissent and the Managing Director desires Board review of the expenditure decision.

- The Board may overturn the decision of the Executive Director within their fiduciary responsibility for the organization.
- Instances of actual fraud or illegal activity are also covered by the Environmental Health Strategy Center's Whistleblower Protection Policy.

**Financial Records and Reports**

The organization will employ a regular process for assessing the status of organizational finances and assets. The Board of Directors and Management Team will ensure that timely and accurate financial information is available, understood, and used to guide decision-making.

- The fiscal year for the organization will be January 1 – December 31.
- The financial records of the Environmental Health Strategy Center will be maintained using the accrual basis of accounting.
- Annual budgets will be prepared by the Managing Director and the Management Team and will be approved by the Board.
- A Chart of Accounts will be used to code receipts and disbursements to the proper accounts to enable proper tracking.
- The bookkeeper will reconcile the bank statement with bookkeeping records monthly. The Treasurer or Executive Director will also review an original copy of the bank statement.
- At a minimum, the bookkeeper will prepare the following monthly financial reports for review by the Managing Director and Management team: Balance Sheet, Income Statement, Budget-to-Actual comparison, and Cash Flow Report.
- The Managing Director will make a monthly presentation on the above noted reports to the Treasurer and the Management Team.
- The Executive Director will review a report on monthly journal entries for reasonableness.
- The Board of Directors will review a budget-to-actual presentation and financial report prepared by the Managing Director and Treasurer at every meeting. Any budget variances above 10% will be explained in writing.
- The Board of Directors will review the auditor's report and Form 990 annually.
- At least every two years, an audit or review will be conducted by an independent CPA, to be made available to members of the public.

**Segregation of Duties**

The Environmental Health Strategy Center is committed to sound internal controls that ensure segregation of duties to create accountability and prevent misuse of organizational assets. The most important of these include the following:

- There will be separation of financial duties and responsibilities so that no staff member has sole control over cash receipts, payroll, bank reconciliations, accounts payable or other accounting functions.
- The check signer will not be the same person who approves expenditures, records bookkeeping entries, or prepares checks for signing.
- Bank statements will be reviewed by at least one person in addition to the person performing the reconciliation.
- Bank deposits will be made by someone other than the person recording receipts.
- Financial management staff will be required to take annual vacation of at least five days.

**Safeguarding Assets**

The follwing policies will ensure the security of organizational resources:

- The Managing Director shall have primary responsibility for ensuring that proper Financial Management procedures are maintained and that the policies of the Board are carried out.
- The Board of Directors will provide fiscal oversight in the safeguarding of the organizational assets and shall have primary responsibilities for ensuring that all internal and external financial reports fairly present its financial condition.
- A proper filing system will be maintained for all financial records.
- Actual income and expenditures will be compared to the budget on a monthly basis.
- All funds will be kept at Bangor Savings Bank.
- All excess cash will be kept in an interest bearing account.
- No bank account should contain more than the FDIC insured amount.
- Bank statements will promptly reconciled on a monthly basis by the bookkeeper/accountant.
- The board of directors shall approve annually any new signers for each bank account and any new and necessary bank accounts.
- The Managing Director is responsible for promptly notifying financial institutions of any changes to authorized signers on organizational accounts.
- Documents on all fixed assets will be kept in a locked file.
- Appropriate insurance for all assets will be maintained.

  <u>Procedures</u>

  - On a monthly basis, the bookkeeper/accountant will reconcile the bank statements to the general ledger, and notify the Managing Director of any discrepancies.

- The Managing Director will resolve all discrepancies with the assistance of the bookkeeper/accountant, and the bank, if necessary.
- Independently, the Executive Director or Treasurer will receive a copy of the monthly bank statement for review of reasonableness.

**Funds Received / Receipts Polices**

The follwing policies govern how funds received by the organization will be processed:

- In each office, mail is to be opened promptly and distributed by development or administrative staff (currently the Development and Marketing Manager or Executive Assistant).
- All checks are stamped with a "For deposit only" stamp immediately upon receipt.
- All cash receipts are recorded on pre-numbered receipts.
- The Development and Marketing Manager will record all receipts in the donor database.
- The Managing Director will be responsible for preparing the documentation on receipts for deposits and making weekly deposits to the bank.
- The Development and Marketing Manager will prepare the detailed cash listing to be posted to the general ledger (amount, date received, account number, etc.).
- This listing is compared to the cash journal to ensure all postings equal amounts deposited.
- A copy of the deposit slip from the Bank is compared and attached to the corresponding receipt copies and cash listing.

<u>Procedures</u>

- All checks and cash receipts received through the mail or in person are restrictively endorsed immediately by the Development and Marketing Manager and recorded in the cash receipts log maintained as a spreadsheet, listing the date received, payor, check #, and amount received, as well as in the fundraising database.
- The Development and Marketing Manager will restrictively endorse the back of any checks received prior to distributing checks to designated staff.
- The Development and Marketing Manager will make a copy of each cash receipt, and deliver all cash received and copies to the Managing Director. Cash and receipts will be stored in a locked file cabinet for deposit.
- The Managing Director shall prepare the bank deposit weekly, attaching a copy of the deposit slip and deposit receipt to the cash receipts copies, and forward the entire package to the bookkeeper/accountant.
- The Managing Director will retain a copy of each cash receipt.
- For gifts received online or by credit card, the Development and Marketing Manager will post the transaction to a third-party vendor through the organizational database.

- When the deposit is confirmed, the Managing Director will print a copy of the confirmation to be given to the bookkeeper/accountant for entry into the journal on a weekly basis.
- The Managing Director shall code all cash receipts according to the chart of accounts.
- The bookkeeper/accountant prepares the cash receipts journal on a timely basis, using the cash receipts summary sheet.
- The bookkeeper/accountant posts the cash receipts journal to the general ledger monthly.

**Accounts Payable and Fund Disbursement Policies**

The follwing policies govern how funds disbursed by the organization will be approved and processed:

- The Managing Director will approve expenditures within the parameters set by the annual operating budget as approved by the Board, with the exception of the Managing Director's personal expense reimbursement items, which must be approved by another person having check signing authority. The Executive Director may approve expenditures in rare instances when the Managing Director is not available.
- The Executive Director has single signature authority up to and including $5,000. Checks above $5,000 require a second signature. The Associate Director or Program Director has signing authority in rare instances when the Executive Director is not available or when a second signature is required.
- The Managing Director approves check requests after comparing to supporting documentation. The bookkeeper prints the pre-numbered checks only with approved requests. The unsigned check, support and request are presented to the authorized check signer (usually the Executive Director) for his/her signature. The signer compares information on checks to support for accuracy and appropriateness.
- All disbursements, except petty cash, are made by check or credit card and are accompanied by substantiating documentation. Credit card statements will be reconciled to substantiating documentation monthly.
- All checks are pre-numbered and accounted for monthly.
- Blank checks are stored in a locked drawer.
- The bookkeeper is responsible for invoices and check requests being marked "PAID" once they have been.
- Vouchers are required for all petty cash disbursements. The petty cash fund is reconciled (beginning amount less voucher amounts) before the fund is replenished. Checks are written only after an approved check request has been presented.
- Blank checks may never be signed in advance.
- Electronic banking allows wire transfers, electronic transfers, stop payments on checks, and account balance inquiries be initiated and completed via computer or telephone. Wire transfers, electronic transfers, and stop payments cannot be set up and approved by the same person. The Managing Director may approve a transaction that is to be completed by the bookkeeper/accountant.

- When a wire transfer, electronic transfer, or stop payment has been set up by the accounting staff, the documentation supporting the transaction is given to the Managing Director for verification and approval before the transaction is initiated.

  Procedures

  - All invoices received are stamped with the date received by the Managing Director and placed in the unpaid open invoice file.
  - The Managing Director approves all invoices and expenditures and prepares check requests weekly.
  - Check requests and support documentation are delivered to the bookkeeper/accountant for check writing weekly.
  - The bookkeeper/accountant immediately records all disbursements in the accounts payable ledger.
  - The bookkeeper prepares all checks for the approved expenditures, using pre-numbered checks.
  - The checks, with support documentation (approved invoices, check requests), are forwarded to the Executive Director. The Executive Director reviews all checks and supporting documentation prior to signing checks. Any check for amounts over $5,000 need a second signature. The Managing Director will be responsible for obtaining the second signature from an authorized signer.
  - After the checks are signed, the Executive Assistant stamps the check request and all supporting documentation "PAID", noting check number and date. The Executive Assistant will then make a copy of each check and check request. The check copies and supporting documentation is then submitted to the Managing Director. The Executive Assistant is responsible for mailing all checks.
  - The Managing Director will file a copy of the check, with supporting documentation attached, in numerical order.
  - The bookkeeper/accountant prepares the cash disbursements journal on a timely basis, using the check file.
  - The bookkeeper/accountant posts the cash disbursements journal to the general ledger on a timely basis, using the cash disbursements journal.
  - The bookkeeper/accountant reconciles the accounts payable ledger to the general ledger on a monthly basis.

**Petty Cash Fund**

The follwing policies govern how the Petty Cash Fund will be managed:

- The Petty Cash Fund is maintained on an imprest basis, which means that the amount spent will be reimbursed.
- The Managing Director will act as the custodian of the petty cash fund.
- The purpose of the Petty Cash Fund is to facilitate small purchases or reimbursements needed in the day-to-day operations of the organization, without going through the check writing process, or to provide change for an event requiring cash transactions.

- Petty cash disbursements are limited to $50 in amount.
- Any advances to employees from the petty cash fund must be authorized by the Managing Director.

  Procedures

  - Any employee receiving petty cash must sign a petty cash voucher. The petty cash voucher must list the amount received, the purpose for which the cash is needed, and the date of the purchase. In addition, receipts for goods/services purchased must be attached to the petty cash voucher.
  - The Managing Director must submit a check request for reimbursement of the petty cash fund to the bookkeeper/accountant. All petty cash vouchers used must be attached to the check request as supporting documentation.
  - All checks for reimbursement of the petty cash fund must be made payable to the custodian of the petty cash fund.
  - Periodically, the Executive Director and/or the Treasurer will make surprise counts of the petty cash funds.
  - The petty cash fund will be kept in a locked file cabinet.

**Payroll**

The follwing policies govern how payment of all employees will be processed:

- Personnel files will be maintained at organizations' Portland office for all employees in a locked file cabinet. Access is limited to the Managing Director and may be accessed by an employee’s supervisor upon request.
- Personnel files will include at minimum: employment application/resume, dates of employment, letter of hire, job description, salary and salary changes, authorization of payroll deductions, W-4 withholding information, I-9 employment eligibility form, performance reviews and/or disciplinary action, and termination data, when applicable.
- Changes in payroll data will be approved by the Executive Director before files are updated.
- An outside payroll processing firm will be used to process the payroll and ensure compliance with all applicable laws.
- Payroll will be processed twice per month.
- The Managing Director will notify the payroll service of any changes to the payroll master file.
- The payroll service will generate the payroll register, payroll checks and tax deposit checks, and sends them to the organization.
- The Managing Director reviews the payroll register for proper processing of amounts.
- The payroll and tax deposit checks are sent directly to the Executive Director, who is responsible for comparing the checks to the payroll register before manually signing the checks (unless using direct deposit).

  Procedures

- All personnel salaries/wage rates are authorized by the Executive Director and/or the Board of Directors.
- The Managing Director maintains all personnel records.
- The Managing Director monitors the usage of vacation and sick time, and maintains the attendance records.
- Each supervisor reviews and approves all time and attendance records for their employees. The approved time records are submitted to the Managing Director for review.
- The Managing Director shall prepare the payroll, using the approved time records and salary/wage rates for each employee, and transmit to the payroll service after approval by the Executive Director. Payroll data is maintained online and transmitted to the payroll service for processing.
- Payroll is recorded in the bookkeeping system by the bookkeeper/accountant.
- An electronic transfer of funds to cover payroll is made to the payroll service by EHSC's bank at the request of the payroll service.
- The payroll service prepares checks to vendors for employee deductions such as contributions to 403(b) accounts, garnishments, and donations.
- Paychecks are directly deposited to the employees' bank accounts. Employees receive duplicate vouchers that detail all deductions.
- All payroll taxes are paid when due by the payroll service.
- The bookkeeper/accountant verifies the payments at the end of each month by analyzing the payroll service reports and the bank reconciliation statement.

**Purchasing**

The following policies govern how purchasing decisions will be made:

- Only the Managing Director is authorized to make purchasing decisions for regular supplies and large equipment, including furniture, computers, and software.
- Bids should be sought for goods and services exceeding $3,000.
- Some form of cost or price analysis shall be made in connection with every procurement action.
- Price should be one of the factors in the evaluation of responses, but the organization is not required to take the lowest price if other factors are important to the decision. Environmental and sustainability factors should also be considered.

**Organizational Credit Cards**

EHSC authorizes credit cards for the purpose of facilitating online and business purchases, including business travel that is not easily handled through normal disbursement processing. The use of organizational credit cards creates the opportunity for expenditures to be made without prior approval. The following policies govern how these transactions will be handled:

- Due to the potential for theft, misuse, and auditing problems, use of credit cards is monitored carefully. Only the Executive Director and Managing Director will be issued an organizational credit card. Other staff may request that purchases be made for business purposes on their behalf using one of these cards.
- In every instance of credit card usage, the individual using the card will be held personally responsible in the event that the charge is deemed personal or unauthorized.
- All credit card purchases above $50 must be reconciled and attached to supporting documentation on a monthly basis.
- The Managing Director and Executive Director will both review all credit card purchases monthly and must approve all payments.
- The bookkeeper/accountant will enter all credit card transactions into the accounting software monthly.
- Misuse of credit cards or failure to follow these procedures will lead to restrictions or loss of credit card privileges.
- The Managing Director must be notified immediately if a card is lost or stolen.

**Vendor and Contractual Agreements and Leases**

The following policies govern how decisions to enter into agreements with vendors or contractors or leases will be conducted:

- Only the Executive Director or Managing Director may sign a contractual or vendor agreement or lease.
- The Managing Director will maintain a secure file of all vendor, contract, and lease agreements according to the document retention policy.
- All vendors must submit an IRS Form W-9 Request for Tax Payer Identification and Certification or equivalent prior to payment.
- A determination is made by the bookkeeper/accountant on the need to file an annual IRS Form 1099-Misc. on payments made to vendors.

**Gift Acceptance Policy[12]**

The following policies govern how nonstandard gifts will be handled:

- EHSC solicits and accepts gifts that are consistent with its mission.
- Donations will generally be accepted from individuals, partnerships, corporations, foundations, government agencies, or other entities, without limitations.
- In the course of its regular fundraising activities, EHSC will accept donations of cash, marketable securities, bequests, life insurance policies, commercial annuities, retirement plans, and in-kind services.
- Certain types of gifts must be reviewed prior to acceptance due to the special liabilities they may pose. Examples of gifts that may be subject to review include gifts of real property, gifts of personal property, and gifts of securities.

[12] Language in this section is adapted from Nonprofit Risk Management Center. SAMPLE Gift Acceptance Policies. Retrieved from www.nonprofitrisk.org/tools/hallmarks/.../1gift-acceptance-policies.doc.

- All decisions to solicit and/or accept potentially controversial gifts will be made by the Executive Committee of the Board in consultation with the Executive Director. The primary consideration will be the impact of the gift on the organization.
- EHSC will not accept gifts that (a) would result in violating its corporate charter, (b) would result in losing its status as an IRC § 501(c)(3) not-for-profit organization, (c) are too difficult or too expensive to administer in relation to their value, (d) would result in any unacceptable consequences, or (e) are for purposes outside EHSC's mission.

**Fixed and Capital Assets and Depreciation**

The following policies govern how fixed and capital assets will be treated:

- EHSC has established a capitalization threshold of $1,000 for property expected to benefit the operations of the organization for multiple years to be considered a fixed asset.
- Property purchased meeting the fixed asset definition is tagged with a pre-numbered asset tag noting EHSC and added to the list of assets maintained by the Managing Director.
- This inventory list will include the description, serial numbers, asset number, date of purchase or receipt, date of installation, cost including taxes, and life expectancy for depreciation purposes. A copy of the invoice(s) should be maintained with these asset records until asset is sold or deleted.
- The purpose of depreciation is to recognize the decreased value of the property over time (useful life) and to quantify this usage as an expense to each year deriving benefit from its use.
- Fixed assets are depreciated according to the EHSC Depreciation Policy. The Depreciation Policy sets the useful life of property types.
- Depreciation Schedules are prepared for the full fiscal year utilizing the guidelines of the Depreciation Policy.
- As depreciable property is purchased, it is added to the depreciation schedule in the month following purchase/installation.
- A recurring journal entry is set up for posting each month, charging the depreciation expense to the appropriate program(s).

**Security and Computer Controls**

The following policies govern the security procedures that will be taken to ensure the safety of physical and electronic records:

- The bookkeeper is responsible for inputting the financial data into the computer and bookkeeping software for generating financial reports. Only the bookkeeper will have access to the password required make changes the system. The Managing Director may have access to review or print information from the system, without making changes.
- Batch totals are calculated prior to input and compared to batch totals calculated by the system. Any errors made during the inputting of information will be corrected.

- Detailed printouts of cash receipts and cash disbursements are to be obtained. The Managing Director is responsible for comparing the detailed printouts to source documents for accuracy.
- All subsidiary account balances are reconciled to the control accounts monthly.
- A trial balance on the general ledger totals should be obtained and compared to detailed reports for accuracy of balances.
- Access to computer or on-line systems for accounting, personnel, payroll, and online and phone banking is controlled by the Managing Director. Within each system, access permission is set to allow the appropriate level of access depending on staff positions and job duties.
- The bookkeeper will perform a backup of electronic records on a weekly basis to assure that data is secure and will not be lost in the event of a computer failure.
- All organizational offices will be kept locked when not in use. Only staff members will have office keys.
- All confidential and financial information will be kept in locked files, including personnel files, financial records, invoices or expenses to be paid, cash or gifts to be deposited, fixed asset listings, and petty cash funds.

**External Audit**

- EHSC will have an audit or review prepared by an external CPA firm at least biannually.
- The selected auditing firm will not be used for non-auditing services except tax form preparation.
- Every three years, a Request for Proposal will be sent to audit firms qualified to provide the type of audit that meets EHSC and/or funder need.
- The Managing Director is responsible for soliciting bids, interviewing firms and making the recommendation to the Board Treasurer and Board of Directors when selecting the firm to be awarded the audit contract. Acceptance of the audit contract will be evidenced by a signed audit engagement letter.
- The audit is reviewed in detail by the Treasurer, but presented to the board by the auditor and accepted by the Board of Directors based upon recommendation by the Treasurer.

**IRS Form 990 Preparation**

- An external CPA firm or individual will prepare the organization’s annual Form 990 for submission to the IRS to ensure accuracy.
- The Managing Director and Treasurer will oversee preparation of the form, with the bookkeeper/accountant.
- The Board will review and approve the form before submission to the IRS.

**Risk Management**

- EHSC will insure those risks which the Board deems appropriate using an insurance professional who is knowledgeable about the market, who understands or is willing to learn about EHSC's operations, is an assertive advocate for EHSC's interests, and is organized and responsive to EHSC's needs.

- The Managing Director will approve purchase of insurance policies, as directed by the Board.
- The board will review insurance policies and needs annually in December.

APPENDIX A

## Employee Expense Reimbursement Policies

FY 2011 Travel Reimbursement Policy

For fiscal year 2011, due to budget considerations the Environmental Health Strategy Center (EHSC) cannot reimburse all business-related expenses as defined or allowed under IRS regulations. Employees are encouraged to track their un-reimbursed employee business expenses in the event that they may be itemized on individual tax returns [See: http://www.irs.gov/pub/irs-pdf/p463.pdf and http://www.irs.gov/taxtopics/tc511.html].

Mileage

In 2011, EHSC will reimburse mileage at a rate of $.25/mile. Employees should make an effort to carpool with other employees, volunteers, or allies whenever practicable to minimize mileage expenses.

Mileage is reimbursed for legitimate business-related travel by personal vehicle, excluding travel between home and office. All mileage expenses should be calculated from your office location (Bangor or Portland) and not from your home, even if you left from your home for the trip, unless the distance you traveled from your home is actually less than the distance from your office, in which case you would use the actual miles traveled. (Note: If your trip is on the way to the office and you were headed to the office anyway, it's not reimbursable.) For example…

Your home is further away from your destination than the office…

- If you work in the Portland office but live in Kittery, and you drive from your house to a meeting in Augusta, you would reimburse for the distance between the Portland office and Augusta.

Your home is closer to your destination than the office:

- If you work in the Bangor office but live in Waterville, and you drive from your house to a meeting in Augusta, you would reimburse for the distance between Waterville and Augusta, not Bangor and Augusta.

Buses and local transportation

When traveling in-state by bus, employees should attempt to take a local bus or get a ride from other staff to travel from the bus station to the office whenever practicable. Taking a taxi is discouraged, and should be done only when other solutions are not practical.

Airfare

Employees should generally seek the lowest cost airfare that reasonably allows them to reach their destination efficiently.

Overnight Accommodations

Some employees' job descriptions require occasional overnight travel, and a few require frequent travel.

For occasional travelers, accommodations should be sought with colleagues, allies, or friends to reduce costs for hotels, particularly for in-state travel. Employees must seek prior approval from their supervisor before scheduling any overnight travel that requires paid accommodations.

For frequent travelers, or when paid accommodations have been approved in advance, employees should generally select a low or average cost hotel.

Meals

For *out-of-state* travel, employees may reimburse for actual meal expenses, with receipts, up to a daily maximum not to exceed 80% of the federal per diem rate for the location (see http://www.gsa.gov/portal/category/21287).

For FY 2011, employees will not be reimbursed for meals while traveling *in-state* on trips that do not involve an overnight, except in rare circumstances with prior approval. For *overnight* travel in-state when bringing a meal would not be practical, employees may reimburse according to the per diem same rates indicated above out-of-state travel.

For partial travel days when it becomes necessary to determine the reimbursement amount for individual meals (from the per diem rate), the following calculations should be used, rounded to the nearest dollar:

- The breakfast portion is 20% of the set daily per diem.
- The lunch portion is 24% of the set daily per diem.
- The dinner portion is 51% of the set daily per diem.

Employees are not to pay for meals for volunteers or donors, except when unavoidable or with prior approval of employee supervisor or Executive Director.

*Any deviations from this policy require approval by supervisor prior to reimbursement.*

APPENDIX B

Cell Phone Expense Reimbursement Policy

Minutes

- The organization will reimburse all staff a flat $40 per month toward the cost of plan minutes.
- For staff who have a prepaid phone plan rather than a monthly contract, the organization will reimburse for actual work minutes used, up to an agreed upon amount, to be determined at the time the phone is purchased.
- The organization will not reimburse for expenses incurred by using minutes over plan allowances. In extreme cases, staff may seek prior approval from the Managing Director if an overage is likely.

Data

- For staff members whose workflow is significantly shaped by external demands (e.g. legislative events, media opportunities, etc.), the organization will reimburse up to $30 per month for data service.
- Staff currently falling into this category are the Executive Director, Associate Director, and Campaigns Director.

Equipment and Supplies

- The organization will reimburse 70% of the cost of new phone purchase one time every 2 years.
- Staff shall be responsible for other expenses.

Documentation and Reimbursement

- All staff with a monthly phone plan shall provide one copy of a cell phone bill or agreement to be held on file by the Managing Director.
- Staff are expected to submit cell phone reimbursement requests monthly on regular expense reimbursement forms.
- For staff that are only reimbursed for minutes ($40), documentation is not required on a monthly basis (per existing policy only requiring receipts for purchases over $50).
- For staff that are reimbursed for minutes and data ($70), the original monthly statement must accompany reimbursement requests.

APPENDIX C

## Substantiating Documentation / Receipts Policy and Process

Reminders will be sent on the first of every month to submit expenses from the previous month. Employees should submit expenses no later than 1-month from the date of the expense. *Notify the Managing Director immediately if there are large expenses that are more than 1 month old that have not been submitted.*

Employees are responsible for collecting receipts for all expenses and credit card charges throughout the month in a file. When preparing monthly expense reports, collected receipts should be used to complete your check request/expense reimbursement form.

Once the check request form is complete, employees will always **email** check request/expense reimbursement form (and mileage form, if applicable) to the Managing Director.

<u>Expenses / receipts over $50</u>

Employees must submit original receipts for expenses over $50.

Original receipts for all expenses over $50 should be attached to 8.5x11 paper and stapled to a print-out of the check request/expense reimbursement form.

A copy should be made and retained by the employee.

A hard copy of the check request/expense reimbursement form with the original receipts attached should be submitted by mail or in person to the Managing Director.

<u>Expenses / receipts under $50</u>

Receipts are not required for expenses below $50. Originals should be retained by employees in a file, attached to a copy of your check request/expense reimbursement form.

Expense reimbursement requests with no expenses above $50 may be submitted electronically.

APPENDIX D

# CONFLICT OF INTEREST POLICY

## Article 1 – Purpose

The purpose of the conflict of interest policy is to protect **Environmental Health Strategy Center** ("the Organization") interest when it is contemplating entering into a contract, transaction or arrangement that might benefit the private interest of an employee, independent contractor, officer or director of the Organization, or might result in a possible excess benefit transaction under the Internal Revenue Code. This policy is intended to supplement but not replace any applicable state and federal laws governing conflicts of interest applicable to nonprofit and charitable organizations.

## Article 2 - Definitions

**1. Interested Person**
Any employee, independent contractor, director, principal officer, or member of a committee with governing board delegated powers, who has a direct or indirect financial interest, as defined below, is an interested person.

**2. Financial Interest**
A person has a financial interest if the person has, directly or indirectly, through business, profession, investment, or family:

**a.** An ownership or investment interest in any entity with which the Organization has a contract, transaction or arrangement,

**b.** A compensation arrangement with the Organization or with any entity or individual with which the Organization has a contract, transaction or arrangement, or

**c.** A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the Organization is negotiating a contract, transaction or arrangement.

**3.** C**ompensation**
Compensation includes direct and indirect remuneration as well as gifts or favors that are not insubstantial.

**4. Conflict of Interest**
A conflict of interest exists when the interests of an interested person have the potential to be at odds with the best interests of the Organization. The interested person's interests may be personal (for example, the consideration of a family member for employment) or professional (such as affiliation with a potential supplier to the association). A financial interest is not necessarily a conflict of interest. Under Article 4, Section 3, a person who has a financial interest may have a conflict of interest only if the appropriate governing board, committee or decision maker decides that a conflict of interest exists.

## Article 3 - General Principles

**1. Interests in conflict**

Interested persons may have interests in conflict with those of the Organization. The duty of loyalty requires that a director, officer or employee be conscious of the potential for such conflicts at all times and act with candor and care in dealing with such situations. Conflicts of interest involving an interested person are not inherently illegal, nor are they to be regarded as a reflection on the integrity of the interested person, Board of Directors, or the Organization. It is the manner in which the interested person, and those making decisions for the Organization, deal with a disclosed conflict, that determines the propriety of the transaction.

**2. Awareness and disclosure**

An interested person should be sensitive to any interest he or she may have any decision to be made and, as far as possible, recognize such interest prior to the discussion or presentation of such a matter before the Board of Directors or other decision making entity or person When an interested person has an interest in a transaction being considered, the interested person should disclose the conflict at the earliest time practical before a decision is made on the matter. Upon disclosure by the interested person, the decision making entity or person should provide a disinterested review of the matter as described in this policy.

**3. Insider transactions**

Sometimes, the Organization may decide to choose to deal with an inside supplier of goods or services (i.e., involving an interested person) because of familiarity with the supplier's reliability or for another reason. Although such association with an interested person or their business or family in providing services may result in extra benefits for the Organization, the record of the decision must show that the best interests of the Organization were the overriding consideration in deciding to use such a supplier.

## Article 4 - Applicability and Procedures

**1. Applicability**

In the case of interested persons who are employees or independent contractors, the same procedures described below as to directors and committee members apply, except it is the interested person's supervisor or the Executive Director to whom disclosure must be made, and who must deal with the disclosed conflict, not the directors and members of committees with governing board delegated powers. The person's supervisor or the Executive Director, as appropriate, shall then make such disclosures of the conflict that are proper, to the directors and members of committees.

**2. Duty to Disclose**

In connection with any actual or possible conflict of interest, an interested person must disclose the existence of the financial interest and be given the opportunity to disclose all material facts to the directors and members of committees with governing board delegated powers considering the proposed transaction or arrangement. The officer presiding over the meeting has a duty and is expected to make inquiry if any such conflict appears to exist and the affected board member has not made it known.

**3. Determining Whether a Conflict of Interest Exists**

After disclosure of the financial interest and all material facts, and after any discussion with the interested person, he/she shall leave the governing board or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining board or committee members shall first decide if a conflict of interest exists, and if one does exist, the rest of this article applies. If a conflict does not exist, the interested person shall resume normal participation in the meeting.

**4. Procedures for Addressing the Conflict of Interest**

The remaining board or committee members shall follow the following procedures if a conflict of interest exists:

**a.** An interested person may make a presentation at the governing board or committee meeting, but after the presentation, he/she shall leave the meeting during the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest.

**b.** The chairperson of the governing board or committee shall, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.

**c.** After exercising due diligence, the governing board or committee shall determine whether the Organization can obtain with reasonable efforts a more advantageous transaction or arrangement from a person or entity that would not give rise to a conflict of interest.

**d.** If a more advantageous transaction or arrangement is not reasonably possible under circumstances not producing a conflict of interest, the governing board or committee shall determine by a majority vote of the disinterested directors whether the transaction or arrangement is in the Organization's best interest, for its own benefit, and whether it is fair and reasonable. In conformity with the above determination it shall make its decision as to whether to enter into the transaction or arrangement.

**5. Violations of the Conflicts of Interest Policy**

If a member of the Board of Directors or committee suspects a violations of the Conflicts of Interest Policy, he or she must bring the matter to the attention to the board or committee, which shall deal with it as follows:

**a.** If the governing board or committee has reasonable cause to believe a member has failed to disclose actual or possible conflicts of interest, it shall inform the member of the basis for such belief and afford the member an opportunity to explain the alleged failure to disclose.

**b.** If, after hearing the member's response and after making further investigation as warranted by the circumstances, the governing board or committee determines the member has failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action.

## Article 5 - Records of Proceedings

The minutes of the governing board and all committees with board delegated powers shall contain:

**a.** The names of the persons who disclosed or otherwise were found to have a financial interest in connection with an actual or possible conflict of interest, the nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the governing board's or committee's decision as to whether a conflict of interest in fact existed.

**b.** The names of the persons who were present for discussions and votes relating to the transaction or arrangement, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and a record of any votes taken in connection with the proceedings.

## Article 6 - Compensation

The following policies apply to compensation-related matters:

**a.** A voting member of the governing board who receives compensation, directly or indirectly, from the Organization for services is  precluded from voting on matters pertaining to that member's compensation.

**b.** A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Organization for services is precluded from voting on matters pertaining to that member's compensation.

**c.** No voting member of the governing board or any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Organization, either individually or collectively, is prohibited from providing information to any committee regarding compensation.

## Article 7 - Annual Disclosure Statements

Each employee, independent contractor, director, principal officer and member of a committee with governing board delegated powers shall annually sign and any potential director before election shall sign a statement that affirms such person:

**a.** Has received a copy of the conflicts of interest policy,

**b.** Has read and understands the policy,

**c.** Has agreed to comply with the policy, and

**d.** Understands the Organization is charitable and in order to maintain its federal tax exemption it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.

## Article 8 - Periodic Reviews

To ensure the Organization operates in a manner consistent with charitable purposes and does not engage in activities that could jeopardize its tax-exempt status, the Board of Directors or its designee(s) shall conduct periodic reviews. The periodic reviews shall take place at least biennially, and, at a minimum, include the following subjects:

**a.** Whether all compensation arrangements and benefits are reasonable, based on competent survey information, and the result of arm's length bargaining.

**b.** Whether disclosure statements are being properly used; partnerships, joint ventures, and financial arrangements with interested persons conform to the Organization's written policies, are properly recorded, reflect reasonable investment or payments for goods and services, further charitable purposes, and do not result in inurement, impermissible private benefit or in an excess benefit transaction.

## Article 9 - Use of Outside Experts

When conducting the periodic reviews as provided for in Article 8, the Organization may, but need not, use outside advisors. If outside experts are used, their use shall not relieve the governing board of its responsibility for ensuring periodic reviews are conducted.

Approved: November 22, 2008

APPENDIX E

## DOCUMENT RETENTION & DESTRUCTION POLICY[13]

Environmental Health Strategy Center takes seriously its obligations to preserve information relating to litigation, audits, and investigations. From time to time, the Executive Director may issue a notice, known as a "legal hold," suspending the destruction of records due to pending, threatened, or otherwise reasonably foreseeable litigation, audits, government investigations, or similar proceedings. No records specified in any legal hold may be destroyed, even if the scheduled destruction date has passed, until the legal hold is withdrawn in writing by the Executive Director.

**The following table provides the minimum requirements.**

| Type of Document | Minimum Requirement |
|---|---|
| Accounts payable ledgers and schedules | 7 years |
| Audit reports | Permanently |
| Bank Reconciliations | 2 years |
| Bank statements | 3 years |
| Checks (for important payments and purchases) | Permanently |
| Contracts, mortgages, notes and leases (expired) | 7 years |
| Contracts (still in effect) | Permanently |
| Correspondence (general) | 2 years |
| Correspondence (legal and important matters) | Permanently |
| Correspondence (with customers and vendors) | 2 years |
| Deeds, mortgages, and bills of sale | Permanently |
| Depreciation Schedules | Permanently |
| Duplicate deposit slips | 2 years |
| Employment applications | 3 years |
| Expense Analyses/expense distribution schedules | 7 years |
| Year End Financial Statements | Permanently |
| Insurance Policies (expired) | 3 years |
| Insurance records, current accident reports, claims, policies, etc. | Permanently |
| Internal audit reports | 3 years |
| Inventories of products, materials, and supplies | 7 years |
| Invoices (to customers, from vendors) | 7 years |
| Minute books, bylaws and charter | Permanently |
| Patents and related Papers | Permanently |
| Payroll records and summaries | 7 years |
| Personnel files (terminated employees) | 7 years |
| Retirement and pension records | Permanently |

[13] Adapted from Maine Association of Nonprofits SAMPLE DOCUMENT RETENTION & DESTRUCTION POLICY, ©2004 National Council of Nonprofit Associations, retrieved from www.nonprofitmaine.org/documents/MANPDocumentRetensionPolicy.doc.

| | |
|---|---|
| Tax returns and worksheets | Permanently |
| Timesheets | 7 years |
| Trademark registrations and copyrights | Permanently |
| Withholding tax statements | 7 years |

*In addition to the above, the organization will annually update an electronic archive containing final versions of key public program documents.*

***1. Electronic Documents and Records.***

Electronic documents will be retained as if they were paper documents.  Therefore, any electronic files that fall into one of the document types on the above schedule will be maintained for the appropriate amount of time. If a user has sufficient reason to keep an e-mail message, the message should be printed in hard copy and kept in the appropriate file or moved to an “archive” computer file folder. Backup and recovery methods will be tested on a regular basis.

***2. Emergency Planning***

Environmental Health Strategy Center’s records will be stored in a safe, secure, and accessible manner. Documents and financial files that are essential to keeping Environmental Health Strategy Center operating in an emergency will be duplicated or backed up at least every week and maintained off-site.

***3. Document Destruction***

The Executive Director is responsible for the ongoing process of identifying its records which have met the required retention period and overseeing their destruction.  Destruction of financial and personnel-related documents will be accomplished by shredding.

Document destruction will be suspended immediately upon any indication of an official investigation or when a lawsuit is filed or appears imminent. Destruction will be reinstated upon conclusion of the investigation.

***4. Compliance***

Failure on the part of employees to follow this policy can result in possible civil and criminal sanctions against Environmental Health Strategy Center and its employees and possible disciplinary action against responsible individuals. The Executive Director and Board Chair will periodically review these procedures with legal counsel or Environmental Health Strategy Center’s certified public accountant to ensure that they are in compliance with new or revised regulations.

Approved:	June 18, 2010

APPENDIX F

## WHISTLEBLOWER POLICY[14]

### POLICY

It is the policy of the Environmental Health Strategy Center to abide by all applicable federal, state and local laws, rules and regulations, and to have all of its employees do the same.

### PROCEDURE

In accordance with this policy and applicable law, an employee will be protected from discrimination and retaliation if the employee reports to the Executive Director or the President any good faith concern regarding Environmental Health Strategy Center practices or conditions which the employee has reasonable cause to believe are in violation of any federal, state or local law, rules or regulation, or which the employee has reasonable cause to believe risk the health or safety of that employee or any other individual. Environmental Health Strategy Center will promptly investigate each complaint to determine its merits and the appropriate action to be taken. Confidentiality will be maintained to the extent practical and appropriate under the circumstances. If an investigation reveals that unlawful conduct has taken place, appropriate disciplinary action will be taken, up to and including suspension or discharge.

Environmental Health Strategy Center will not discharge, threaten, discriminate or otherwise retaliate against an employee who submits a good faith complaint to Environmental Health Strategy Center, participates in any investigation or legal proceeding arising from any such complaint, or on the basis of any other lawful actions of such employee in submitting a good faith report relating to real or perceived unlawful conduct. This statement applies even if an investigation proves that there has been no unlawful activity involving Environmental Health Strategy Center or any of its employees.

In order to receive the protections under the Maine Whistleblowers' Protection Act, the employee who has reported or caused to be reported a violation or unsafe condition or practice to a public body must first bring the alleged violation, condition or practice to the attention of the Executive Director or the President, and must allow Environmental Health Strategy Center a reasonable opportunity to correct that violation, condition or practice, unless the employee has specific reasons to believe that a report to Environmental Health Strategy Center will not result in a prompt correction of the violation, condition or practice.

Any action considered to be discriminatory or retaliatory should be reported immediately to the Executive Director or the President. Environmental Health Strategy Center will not tolerate discrimination or retaliation against the complainant by any employee and will subject such employee to discipline, up to and including suspension or discharge from employment. Employees who are not themselves complainants, but who assist in an investigation relating to unlawful activity, will also be protected from discrimination and retaliation.

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[14] Adapted from Maine Association of Nonprofits SAMPLE WHISTLEBLOWER POLICY, retrieved from http://www.nonprofitmaine.org/documents/MANPWhistleblower.doc.

## RESPONSIBILITY

The administration of this policy is the responsibility of the Management Team.

## FILING INSTRUCTIONS

This policy supersedes all previous policies on this subject.  This policy will be filed in the Policies and Procedures Manual.

Approved:  June 18, 2010

APPENDIX G

## EXECUTIVE COMPENSATION POLICY[15]

**Purpose**

1. To assure that Environmental Health Strategy Center is able to retain high quality executive leadership by providing reasonable compensation.
2. To assure that decisions regarding executive compensation are made through a process free of potential conflicts of interest.

**Persons whose compensation is subject to this policy**

The Executive Director's compensation shall be reviewed under this policy.

**Process**

***Executive Committee***

The Executive Committee of the board is authorized to make recommendations to the Board regarding executive compensation. The Executive Committee shall make this determination at least every 2 years.

Only those members of the Executive Committee who are free of conflicts of interest may be involved in evaluation of executive compensation. Neither the Executive Director nor his/her subordinates shall be involved in the decision regarding compensation.

The Executive Committee will rely upon the Environmental Health Strategy Center's Salary Policy for guidance in determining compensation. That policy shall include consideration of appropriate data regarding market comparability, including the most recently available survey of nonprofit salary rates in Maine or similar data. The Executive Committee will contemporaneously place comparability data and other reasons for its recommendation in the minutes.

***Final Board Action***

The full Board will give final approval. Only those directors who are free of conflicts of interest may vote on executive compensation.

**Documentation**

All deliberations and decisions of the Executive Committee and the full Board shall be contemporaneously documented and preserved. The basis for the final determination of compensation will be documented not later than the next meeting of the Board, and it shall include (1) the terms of the compensation and date approved, (2) members of the Board who

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[15] Adapted from Montana Nonprofit Association Executive Compensation Policy, retrieved from http://www.mtnonprofit.org/uploadedFiles/Files/About/Executive_Compensation.pdf.

were present during debate and those who voted, (3) the comparability data that was relied upon by the Board, and (4) any actions by a member of the Board having a conflict of interest.

Approved: June 18, 2010

APPENDIX A

## Salary Policy and Schedule

**Principles**

- To be fair and equitable, positions of comparable level of responsibility should be assigned to the same salary range
- Wages should reward both relevant experience and level of responsibility, rising as either of those factors increase
- Salary rates should be highly competitive within the nonprofit sector in Maine for similar size organizations
- The process for determining salaries and rate increases should be transparent and based on objective criteria

**Policy**

1. PROCESS. The salary policy will be applied by the Executive Director for all existing and new employees (and by the Board for the Executive Director). All salary allocations and increases must be consistent with budget and available funding. The timing of salary adjustments will be at the discretion of the Executive Director except that for new employees the salary rate will be determined when a job offer is agreed upon and the Experience rate increase will occur on the annual anniversary date of employment with the Center. Salary determinations will be made in order according to the following sequence of steps.

2. MINIMUM. No employee will be paid less than the minimum salary rate specified for the job category associated with their position. Any current salaries below that rate shall first be raised to the minimum rate.

3. EXPERIENCE. Salary rates shall be adjusted annually to account for experience. Upon initial application of this policy, the experience adjustment will be made by increasing the minimum salary rate for the applicable job category by $500 (annual FTE rate) for each year equal to the difference between the total number of years of directly relevant work experience (and time spent acquiring a relevant advanced degree) minus the minimum years of experience required for that position. Any current salaries below that rate will be raised to that rate with years of experience rounded down through the most recent annual anniversary date of employment with the Center, which also establishes the baseline for salary offers to new employees. The same rate increase ($500 annual FTE) will be

applied to annual experience increases.

4. MARKET. The Executive Director may further adjust upward an individual salary rate to account for market rate differences with other comparable positions as documented in the most recently available survey of nonprofit salary rates in Maine or based on similar data. For new employees, the Executive Director may also consider prior salary history or counter-offers by other potential employers in determining a market-based adjustment in starting salary while maintaining relative parity with existing staff salaries.

5. ANNUAL RAISE. The Executive Director shall increase annual salary rates for all employees by an equal percentage amount above current salaries after making any applicable adjustments above unless such increase is suspended du to financial conditions. All employees whose work performance is satisfactory or better shall qualify for an annual raise.

6. BONUS. The Executive Director may award one-time salary bonuses for exceptional performance above and beyond expectations. Where practicable, any bonus should be awarded to all members of a team on the basis of team performance.

7. CHANGE. This policy may be periodically revised by the Executive Director to reflect changes in market conditions, job categories or other relevant factors after providing a reasonable opportunity for staff input.

**Salary Schedule:**

| **Job Category (Minimum years experience req'd)** | **Current Positions** | **Annual Salary Rate, Starting Range, FTE ($)** | |
|---|---|---|---|
| Chief Executive (10 years) | Executive Director | 70,000 | 90,000 |
| Division or Program Director (5 years) | Associate Director<br>Managing Director<br>Program Director | 45,000 | 60,000 |
| Project Manager (3 years) | Outreach & Organizing Director, Coordinator, Sustainable Bioplastics Technology Manager, Sustainable Bioplastics | 37,500 | 47,500 |

| | | | |
|---|---|---|---|
| | Project, Executive Assistant & Communications Coordinator | | |
| Project Associate (2 years) | Development & Marketing Associate | 30,000 | 40,000 |
| Admin. Support (0 years) | Administrative Assistant | 25,000 | 35,000 |
| Entry Level / Intern (0 years) | | 15,600 | 25,000 |

Approved: May 2010