



# Financial Management

## INTRODUCTION

Sound financial management begins with an organization's commitment to providing high quality services relative to its mission or purpose. Leadership creates a culture of honesty and ethics in all areas of organizational practice, including the management of the organization's finances and the manner in which it conducts financial affairs. Accountability is established through clearly defined lines of authority and responsibility, and personnel, including both staff and volunteers, receive a clear message from the top that internal control responsibilities are to be taken seriously. Additionally, the attention and commitment of the governing body and its audit committee to their fiduciary responsibilities are essential to ensuring that the organization's financial practices enable it to achieve operational effectiveness and efficiency, accurate and reliable financial reporting, and compliance with applicable laws, regulations, and contracts.

**Note:** Please see [CA-FIN Reference List](#) for a list of resources that informed the development of these standards.

**Note:** COA's Financial Management standards do not apply to public agencies. Public agencies should see COA's CP-FIN standards.

**Note:** COA's Financial Management standards do not apply to for-profit organizations. For-profit organizations, see COA's Administration and Financial Management (CA-AFM) standards.

## Table of Evidence

### Self-Study Evidence

- Describe the overall health of your organization's finances:
  - a. Have you experienced any significant budget/funding reductions or challenges in the last two years? If yes, how has your organization adjusted in response to these challenges?
  - b. Have you had any significant budget/funding increases in the last two years?
  - c. Do you anticipate or expect significant funding changes in the next two years?
- Describe 2-3 actions that your governing body and/or senior management has taken to enhance your organization's financial viability. (E.g., In response to recent recommendations of the organization's auditors, the board approved a plan to strengthen the organization's system of internal control.)

### Purpose

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

- Provide any additional information that would increase the Peer Team's understanding of how your organization's financial practices contribute to the achievement of its mission.

### **On-Site Evidence**

No On-Site Evidence

### **On-Site Activities**

No On-Site Activities

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



# Financial Management

## CA-FIN 1: Governing Body Financial Responsibilities

The organization's governing body or designated committee of the governing body, as appropriate:

- a. approves the annual budget and any revisions to the budget;
- b. reviews quarterly and annual financial statements/summaries provided by management;
- c. reviews accounting policies and procedures;
- d. reviews recommendations of the organization's auditors, and management's response to the recommendations; and
- e. annually evaluates the executive director's management of the organization's financial affairs.

**Related:** CA-FIN 4

**Interpretation:** *An organization's governing body is ultimately responsible for the financial health of the organization. Minutes of governing body and its committee meetings should reflect active oversight of the organization's finances.*

*In order to effectively and efficiently fulfill this fiduciary responsibility, governing bodies must regularly review the organization's finances, and oversee the annual audit. The governing body must have an audit committee and may establish other permanent and ad hoc committees as needed.*

*The Audit Committee is an independent oversight committee. The audit committee oversees the integrity of the organization's financial management system and financial reporting, ensures the independence of the annual audit, and confirms that internal controls are in place to prevent or detect financial mismanagement or fraud. Staff members, including the CEO and CFO, cannot sit on the audit committee. (See CA-FIN 6.04 and CA-FIN 7.)*

### **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - One of the elements are not fully addressed.
- 3) Practice requires significant improvement; e.g.,
  - Two elements are not fully addressed; or
  - One element is not addressed at all; or

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

- An internal control manual is not present, but procedures loosely exist for some of the elements.
- 4) Implementation of the standard is minimal or there is no evidence of implementation at all; e.g.,
  - Three or more elements are not fully addressed; or
  - Two elements are not addressed at all.

### Table of Evidence

#### **Self-Study Evidence**

- See budget planning procedures (CA-FIN 5)
- Operating budget for current fiscal year

#### **On-Site Evidence**

- Governing body minutes demonstrating financial oversight

#### **On-Site Activities**

- Interview:
  - a. Governing body members
  - b. Board treasurer
  - c. Audit and other committee members
  - d. CEO/CFO

#### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



# Financial Management

## (FOC) CA-FIN 2: Internal Control Environment

The organization establishes an internal control environment that promotes ethical financial management and includes mechanisms for:

- a. review and oversight by the governing body's audit committee;
- b. conducting ongoing monitoring of the effectiveness of internal control policies and procedures;
- c. management review by more than one individual;
- d. assuring that management directives are carried out
- e. prevention of error, mismanagement, or fraud;
- f. safeguarding and verification of assets;
- g. segregation of duties to the extent possible; and
- h. governing body or designated committee approval of unanticipated financial transactions that have a significant impact.

### Rating Indicators

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - Two of the elements are not fully addressed.
- 3) Practice requires significant improvement; e.g.,
  - Three elements are not fully addressed or one element is not addressed at all; or
  - An internal control manual is not present, but procedures loosely exist for some of the elements.
- 4) Implementation of the standard is minimal or there is no evidence of implementation at all; e.g.,
  - Fraudulent practices or serious financial mismanagement has occurred have occurred, and problems have not been remediated; or
  - Four or more elements are not fully addressed, or at least two elements are not addressed at all.

### Table of Evidence

#### Self-Study Evidence

- Internal financial control policies and procedures

#### Purpose

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



# Financial Management

## On-Site Evidence

- Governing body/audit committee minutes

## On-Site Activities

- Interview:
  - a. Governing body audit and finance committee members
  - b. CEO/CFO

## Purpose

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



# Financial Management

## (FOC) CA-FIN 3: Financial Risk Assessment

The governing body and management evaluate the organization's financial capacities, risks, and resources needed to provide services.

**Interpretation:** *Financial risk assessment involves the identification of factors or conditions related to funding and financial health that may pose a threat to the achievement of an organization's objectives, and mission and focuses on:*

- *the effectiveness and efficiency of financial operations; and*
  - *the reliability of financial reporting.*
- The following is a list of areas of known financial risk that or may not apply to the organization:*

- *fraud, misuse of funds, and potential conflicts of interest;*
- *investments;*
- *tax liabilities;*
- *physical assets and financial information;*
- *fundraising practices;*
- *compliance with laws and regulations;*
- *funding of benefits, including health retirement benefits, pensions, etc.;*
- *inadequate insurance coverage;*
- *deferred revenue; and*
- *contingent liabilities such as long-term leases.*

*Review of financial capacities and resources should be part of the organization's long-term planning and annual short-term planning processes. Review of financial risk should be part of the organization's annual risk prevention and management assessment as defined in CA-RPM 2.01.*

### **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.

A thorough review of capacities, risks, and resources needed to provide services is integrated into long-term and annual planning.

- 2) Practices are basically sound but there is room for improvement.

- 3) Practice requires significant improvement; e.g.,

- The risk assessment is not integrated into the organization's annual or long-term planning; or
- Risk assessment takes place but not on an annual basis.

- 4) Implementation of the standard is minimal or there is no evidence of implementation at all; e.g.,

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

- For the prior three years the organization has ended the fiscal year in deficit without a board approved corrective action plan.

### **Table of Evidence**

#### **Self-Study Evidence**

No Self-Study Evidence

#### **On-Site Evidence**

- Governing body minutes, including management letter
- Documentation of annual risk management review

#### **On-Site Activities**

- Interview:
  - a. Governing body
  - b. CEO/CFO

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.





## Financial Management

### (FOC) CA-FIN 4: Oversight of Investments

An organization that invests funds has controls to ensure the proper management of investments, including a committee established by the governing body, as appropriate, that:

- a. follows, and biennially reviews, an investment policy that outlines acceptable levels of risk, criteria for contracting with investment advisors or firms, and protocols for making investment decisions;
- b. oversees and reviews both the investment of funds and the management, purchase, or sale of real estate, securities, and other assets;
- c. ensures practices conform to applicable legal and regulatory requirements; and
- d. reports the status of investments and investment recommendations to the governing body.

**Related:** CA-FIN 1, CA-GOV 6.06

**NA** *The organization does not invest funds.*

#### **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - The investment policy was reviewed or updated between two and three years ago.
- 3) Practice requires significant improvement; e.g.,
  - Management manages investments with little oversight of the governing body.
  - Investment policy has not been reviewed or updated within the last three years.
- 4) Implementation of the standard is minimal or there is no evidence of implementation at all; e.g.,
  - The governing body plays no role in investment oversight; or
  - There is no investment policy.

#### **Table of Evidence**

#### **Self-Study Evidence**

#### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

- Investment policy

### On-Site Evidence

- Governing body and/or committee meeting minutes
- Most recent investment review

### On-Site Activities

- Interview:
  - a. Governing body finance committee members
  - b. CEO/CFO

### Purpose

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



# Financial Management

## CA-FIN 5: Financial Planning

Planning for the current fiscal cycle is organization-wide and involves key stakeholders.

**Related:** CA-RPM 5, CA-GOV 7.01, CA-GOV 7.02, CA-GOV 7.03

**Interpretation:** *Organizations should develop or utilize a financial planning model that provides a framework for:*

- a. *determining the financial impact of strategic initiatives and longer term financial goal;*
- b. *clarifies the linkage between planning and budget resource allocation decisions; and*
- c. *supports and promotes long-term financial sustainability.*

### Rating Indicators

- 1) The organization's practices fully meet the standard, as indicated by full implementation of the practices outlined in the CA-FIN 5 Practice standards.
- 2) Practices are basically sound but there is room for improvement, as noted in the ratings for the CA-FIN 5 Practice standards.
- 3) Practice requires significant improvement, as noted in the ratings for the CA-FIN 5 Practice standards.
- 4) Implementation of the standard is minimal or there is no evidence of implementation at all, as noted in the ratings for the CA-FIN 5 Practice standards

### Table of Evidence

#### **Self-Study Evidence**

- Annual budget
- Budget planning procedures
- List of revenue sources with percentage of each to total budget
- Most recent executive report on organization finances
- Sample of monthly analysis of financial performance (CA-FIN 5.05)
- Operating reserves policy (CA-FIN 5.05)
- Sample of unit cost analysis and description of methodology (CA-FIN 5.06)

#### **On-Site Evidence**

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

- Governing body minutes
- See long-term or strategic plan

### On-Site Activities

- Interview:
  - a. Governing body members
  - b. CEO/CFO
  - c. Finance personnel

### CA-FIN 5.01

An annual budget serves as a plan for managing the organization's financial resources.

### Rating Indicators

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - The annual budget serves as a plan for managing the organization's financial resources but lacks sufficient information for some departments and/or programs.
- 3) Practice requires significant improvement; e.g.,
  - The written budget is insufficient in detail or clarity to serve as a plan for managing its financial resources.
- 4) The organization does not have a written budget.

### CA-FIN 5.02

The organization pursues stable, predictable sources of revenue through diversification and balance in funding streams consistent with the organization's mission or purpose and programs.

**Related:** CA-RPM 3.03, CA-RPM 4

**Interpretation:** *Organizations meet the intent of the standard if they can demonstrate that they are actively pursuing stable and predictable sources of revenue, even if they have not yet achieved that goal.*

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



# Financial Management

## **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - The organization makes active efforts to diversify or strengthen resources but still relies primarily on one or two major funding sources.
- 3) Practice requires significant improvement; e.g.,
  - Minimal efforts have been made to expand, diversify or strengthen the organization's resource base.
- 4) The organization has no "fallback" position and has made little or no effort to protect itself from the consequences of dependence on a single source of revenue.

## **CA-FIN 5.03**

The annual planning and budget cycle includes participation of management, the governing body, and other relevant organization participants and is based on:

- a. direct and indirect operating expenditures;
- b. contractual requirements;
- c. changing costs and conditions; and
- d. anticipated revenue for the program year.

## **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - The governing body and management, and program/department managers join in budget planning based on priorities, a realistic appraisal of funding, and costs, but the process could be made more comprehensive or changing conditions could be better addressed.
- 3) Practice requires significant improvement; e.g.,
  - The budget planning process is not comprehensive or formalized in one of the standard's elements; or
  - Either the governing body or management body does not participate and there are no steps taken to remedy this; or

## **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

- There is no documentation of review of either the governing body or management team.

4) Implementation of the standard is minimal or there is no evidence of implementation at all.

### **CA-FIN 5.04**

The chief executive officer provides a quarterly executive report on the organization's finances to the governing body that includes:

- a. current financial performance and any anticipated problems;
- b. a review of budget projections and areas of risk; and
- c. discussion of other financial matters, as necessary.

### **Rating Indicators**

1) The organization's practices reflect full implementation of the standard.

2) Practices are basically sound but there is room for improvement; e.g.,

- Element (a) or (b) is not fully addressed.

3) Practice requires significant improvement; e.g.,

- Element (a) or (b) is not addressed at all; or
- Reports are provided less than quarterly.

4) Implementation of the standard is minimal or there is no evidence of implementation at all.

### **CA-FIN 5.05**

Financial information is routinely analyzed and the information includes:

- a. a monthly and annual analysis of financial performance against budget projection with budget-to-actual variance analyzes performed on interim financial statements of activities;
- b. cash reserves in alignment with an operating reserves policy;
- c. service revenues and actual service delivery costs; and
- d. an annual inventory of significant assets, including securities.

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



# Financial Management

## **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - The organization routinely analyzes financial information but is not always stringent about comparing it with data about actual service delivery costs; or
  - Financial analyses are conducted at least quarterly and annually.
- 3) Practice requires significant improvement; e.g.,
  - Analysis of financial performance is not performed at least quarterly; or
  - An annual analysis is not conducted; or
  - The organization does not analyze service revenue information and service delivery costs.
- 4) Implementation of the standard is minimal or there is no evidence of implementation at all; e.g.,
  - The organization makes no attempt to either keep adequate service revenue information or to analyze it.

## **CA-FIN 5.06**

The organization annually conducts a cost analysis of its services and uses the information to:

- a. analyze the effectiveness and efficiency of operations and service delivery; and
- b. monitor trends, current activities and changes in costs.

**Interpretation:** *Examples of measures related to cost analysis include:*

- *the fixed and variable costs of each unit of service at each program and service delivery site;*
- *the average costs or charges of treatment or services for identified groups of service recipients; and*
- *the contribution of services to the overall revenue base.*

## **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,

## **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

- The organization analyzes the comprehensive unit cost of providing each of its services less than annually but at least every two years; or
  - The organization uses the information for only one of the two listed areas.
- 3) Practice requires significant improvement; e.g.,
- The organization analyzes the unit cost of providing each of its services less regularly than every two years.
- 4) The organization does not analyze the unit cost of providing its services.

### Purpose

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.





# Financial Management

## **(FOC) CA-FIN 6: Financial Accountability**

The organization is accountable for the management and performance of its finances to its governing body, the community, and applicable regulatory and contractual bodies.

### **Rating Indicators**

- 1) The organization's practices fully meet the standard, as indicated by full implementation of the practices outlined in the CA-FIN 6 Practice standards.
- 2) Practices are basically sound but there is room for improvement, as noted in the ratings for the CA-FIN 6 Practice standards.
- 3) Practice requires significant improvement, as noted in the ratings for the CA-FIN 6 Practice standards; and/or
  - CA-FIN 6.02 received a rating of 3 or 4.
- 4) Implementation of the standard is minimal or there is no evidence of implementation at all, as noted in the ratings for the CA-FIN 6 Practice standards.

### **Table of Evidence**

#### **Self-Study Evidence**

- Most recent audit and management letter
- List of audit committee members and other committee members
- Annual report of fiscal, statistical and service data
- Written certification by executive and financial officers (CA-FIN 6.04)

#### **On-Site Evidence**

- Governing body minutes
- Minutes of audit committee

#### **On-Site Activities**

- Interview:
  - a. Governing body
  - b. CEO/CFO

### **CA-FIN 6.01**

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

The organization makes available an annual report of fiscal, statistical, and service data that includes summary information regarding its financial position, that is provided upon request.

### Rating Indicators

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - The organization is committed to full disclosure when requested and has data available but does not disseminate or publicize the report.
- 3) Practice requires significant improvement; e.g.,
  - The organization provides limited information about its financial position in written form, although it does provide some fiscal and service data.
- 4) The standard has not been implemented; e.g.,
  - The organization does not disclose such information to the public.

### CA-FIN 6.02

The organization receives an audit of its financial statements that is conducted within 180 days of the end of each fiscal year by an independent, certified, public accountant.

**Interpretation:** *There are three levels of financial statement services offered by CPAs: audits, reviews, and compilations, each of which should be conducted by an independent CPA. In order to receive a 2 rating, the organization must conduct either the audit or review. Each results in a formal written report. An organization that is pursuing reaccreditation can receive a 2 rating if it has completed an audit or review of financial statements for the most recent auditable year but did not conduct an audit or review for any or all of the intervening years since their last accreditation. All new organizations must have an audit or review of financial statements from their most recent auditable year in order to receive a 2 rating.*

**Interpretation:** *Credit counseling organizations are required to have an annual audit to achieve accreditation.*

**Research Note:** *Best practices in the financial industry indicates that an independent auditor, who is a certified public accountant (CPA) or chartered*

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

*accountant (CA), examines the financial records and business transactions of a company with which s/he is not affiliated to avoid conflicts of interest and to ensure the integrity of the services performed. Following an audit or review the CPA provides a formal report that indicates their findings.*

An **audit** provides the highest level of assurance on an organization's financial statements. An audit provides assurance that an organization's financial statements are free of material misstatement and are fairly presented based upon the application of generally accepted accounting principles. An audit includes:

- *confirmation with outside parties*
  - *testing selected transactions by examining supporting documents*
  - *completing physical inspections and observations*
  - *considering and evaluating the internal control system of the organization*
- Following an audit the CPA issues a formal report that expresses an opinion on whether the financial statements are presented fairly, in all material aspects, in accordance with the applicable financial reporting framework; and indicate any significant or material weaknesses in the internal control.*

A **review** provides limited assurance on an organization's financial statements. During a review, inquiries and analytical procedures present a reasonable basis for expressing limited assurance that no material modifications to the financial statements are necessary; they are in conformity with generally accepted accounting principles. Following a review engagement, the CPA will issue a formal report that includes a conclusion as to whether, based on the review, he is aware of any material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.

A **compilation** provides no assurance on an organization's financial statements and does not meet the requirements of the standard.

### **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.

Organizations seeking reaccreditation have completed audits for each intervening year since their last accreditation.

- 2) Practices are basically sound but there is room for improvement; e.g.,

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

- The organization undergoing reaccreditation completed an audit or a review of financial statements for the most recent auditable fiscal year; however it did not conduct one for any or all of the intervening years since their last accreditation;
  - The organization completed the audit or review of financial statements; however it was not completed within eight months of the end of the fiscal year, but the organization has implemented procedures to ensure timely completion for future audits.
- 3)** Practice requires significant improvement; e.g.,
- The audit for the most recent auditable year is scheduled but has not been completed; or
  - The most recent audit was completed more than eight months after the end of the fiscal year.
- 4)** An audit for the most recent auditable year not been completed nor has one been scheduled.

### **CA-FIN 6.03**

The governing body has an independent audit committee that:

- a. oversees the financial reporting process;
- b. selects an independent auditor;
- c. meets with the auditor to review the findings of the audit, accompanying financial information, and any accompanying management letter;
- d. formally accepts the auditor's report within 180 days of the close of the fiscal year;
- e. reports the findings and makes recommendations at the next official meeting of the governing body;
- f. ensures that the executive director promptly acts upon recommendations in the management letter, if any; and
- g. does not include organization staff or relatives of staff.

**Interpretation:** *Best practice recommends that an auditing firm not provide both auditing and non-auditing services, such as bookkeeping and actuarial services, to the same organization.*

### **Rating Indicators**

- 1)** The organization's practices reflect full implementation of the standard.
- 2)** Practices are basically sound but there is room for improvement; e.g.,

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

- The audit committee is not fully independent as per the interpretation.
- 3)** Practice requires significant improvement; e.g.,
- Organization staff or relatives of staff are members of the audit committee; or
  - Documentation of the audit process is vague or incomplete; or
  - The governing body has acted on some of the recommendations in the management letter, but has not addressed others.
- 4)** Implementation of the standard is minimal or there is no evidence of implementation at all; e.g.,
- No steps have been taken to act on serious recommendations contained in a critical management letter; or
  - There is no audit committee and the audit process is managed by staff.

### **CA-FIN 6.04**

The chief executive officer and financial officers confirm in writing that, to the best of their knowledge, financial statements are accurate and fairly represent the financial condition and operations of the organization.

**Interpretation:** *The Chief Executive Officer and financial officer of nonprofit organizations should review the appropriate returns required by the three levels of government and any contractors before they are submitted to ensure that they are accurate, complete and filed on time.*

### **Rating Indicators**

- 1)** The organization's practices reflect full implementation of each of the standard's elements.
- 2)** Practices are basically sound but there is room for improvement.
- 3)** Practice requires significant improvement; e.g.,
- There is no documentation of CEO and/or CFO review.
- 4)** Implementation of the standard is minimal or there is no evidence of implementation at all.

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



# Financial Management

## CA-FIN 7: Financial Management System

Positive financial outcomes are achieved through a financial management system that receives, disburses, and accounts for funds consistent with sound financial practices.

### Rating Indicators

- 1) The organization's practices fully meet the standard, as indicated by full implementation of the practices outlined in the CA-FIN 7 Practice standards.
- 2) Practices are basically sound but there is room for improvement, as noted in the ratings for the CA-FIN 7 Practice standards.
- 3) Practice requires significant improvement, as noted in the ratings for the CA-FIN 7 Practice standards; and/or
  - CA-FIN 7.08 has been rated 3 or 4.
- 4) Implementation of the standard is minimal or there is no evidence of implementation at all, as noted in the ratings for the CA-FIN 7 Practice standards.

### Table of Evidence

#### **Self-Study Evidence**

- Financial management and accounting procedures
- Job description and resume of the person responsible for managing financial accounts
- Cost allocation plan
- Procedures regarding protection of client funds and assets

#### **On-Site Evidence**

- Documentation of training on the use of the accounting system (CA-FIN 7.07)

#### **On-Site Activities**

- Interview:
  - a. Governing body
  - b. CEO/CFO
  - c. Personnel at all levels
- Observe reporting and accounting system

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



# Financial Management

## **CA-FIN 7.01**

Annual financial statements are prepared in accordance with Generally Accepted Accounting Principles.

### **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement.
- 3) Practice requires significant improvement.
- 4) The organization's financial statements are not prepared according to the Generally Accepted Accounting Principles.

## **CA-FIN 7.02**

The organization's financial reporting system has the capacity to:

- a. define and measure financial performance;
- b. provide timely financial reports;
- c. predict future cash flows; and
- d. monitor its economic resources, claims to those resources (obligations), and the effects of transactions, events, and circumstances that change resources and claims to resources.

### **Rating Indicators**

- 1) The organization's practices reflect full implementation of each of the standard's elements.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - One of the elements is not fully addressed.
- 3) Practice requires significant improvement; e.g.,
  - Two elements are not fully addressed; or
  - One element is not addressed at all.
- 4) Implementation of the standard is minimal or there is no evidence of implementation at all.

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

### **CA-FIN 7.03**

Accounting practices and procedures include:

- a. prompt, accurate, and complete recording of transactions in the general ledger;
- b. preparation of journal entries;
- c. an inclusive and descriptive chart of accounts;
- d. monthly, quarterly and year-end financial close processes;
- e. information on all funds, including source information and pertinent regulations;
- f. timely payment of financial obligations;
- g. policies for recognizing revenues and expenses;
- h. disbursement and receipt of monies;
- i. cost allocation plan;
- j. tracking of fixed assets; and
- k. timely deposit of funds received.

**Interpretation:** *Please note that these procedures must address cash, checks, and other accounts.*

### **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - Up to two of the elements are not fully addressed.
- 3) Practice requires significant improvement; e.g.,
  - Three elements are not fully addressed; or
  - Two elements are not addressed at all.
- 4) The standard has not been implemented and little or no progress has been made toward implementation; e.g.,
  - Four or more elements are not fully addressed; or
  - Three elements or more are not addressed at all.

### **CA-FIN 7.04**

The organization seeks to conserve its financial resources by:

- a. taking advantage of tax exemptions, where applicable;
- b. maintaining sound practices regarding purchasing and inventory control;

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.





## Financial Management

- c. coordinating the purchase of goods or services among internal divisions; and
- d. using competitive bidding, when applicable, according to governing body policies and legal, regulatory, and contractual requirements.

### **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - One of the elements is not fully addressed.
- 3) Practice requires significant improvement; e.g.,

Two of the elements are not fully addressed; or  
One of the elements is not addressed at all.

- 4) Implementation of the standard is minimal or there is no evidence of implementation at all.

### **CA-FIN 7.05**

Accounting records are kept up-to-date and balanced on a monthly basis, as demonstrated by:

- a. timely reconciliation of bank statements and subsidiary records to the general ledger;
- b. up-to-date posting of cash receipts and disbursements;
- c. monthly updating of the general ledger; and
- d. review of the bank reconciliation by a person other than the person who performs the reconciliation and who is not authorized to sign checks.

**Interpretation:** *Subsidiary records include, but are not limited to: accounts receivable, accounts payable, and property plant and equipment.*

### **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - The organization has an occasional, minor problem in compliance such as short delays in posting receipts and disbursements or slightly overdue

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

updating of the general ledger.

- 3) Practice requires significant improvement; e.g.,
  - Bank reconciliation is not regularly reviewed by two people as required.
- 4) Implementation of the standard is minimal or there is no evidence of implementation at all.

### **CA-FIN 7.06**

The organization uses the accrual method of accounting, at least at the end of the year.

### **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement.
- 3) Practice requires significant improvement.
- 4) Implementation of the standard is minimal or there is no evidence of implementation at all.

### **CA-FIN 7.07**

Oversight and management of the organization's accounting system require:

- a. a financial officer or business manager who has prior accounting and bookkeeping experience, as well as a degree in accounting or business administration, and/or is a chartered professional accountant, chartered accountant, certified general accountant, or certified management accountant;
- b. all personnel who use the system to receive initial and ongoing training on its use;
- c. a proper audit trail; and
- d. secure access, controlled by user IDs, passwords, and permissible logon times.

### **Rating Indicators**

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - Ongoing staff training needs strengthening.
- 3) Practice requires significant improvement; e.g.,
  - The organization has a qualified financial officer, but the system is deficient in some significant regard, such as lack of training for some personnel.
- 4) There are flaws in the operation of the financial management system which create the potential for mismanagement and/or inability to detect fraudulent practices.

### **CA-FIN 7.08**

An organization that assumes fiduciary responsibility for, or disburses client funds:

- a. segregates client funds from other organization funds;
- b. protect client assets; and
- c. complies with applicable legal, regulatory, judicial, and contractual requirements.

**Interpretation:** *Examples of the types of funds that organizations may assume responsibility for or disburse to clients include:*

- allowances for children and youth in out-of-home care;
- funds under the control of the organization in guardianship cases;
- social security or SSI benefits when the organization serves as representative payee.

**NA** *The organization does not assume fiduciary responsibility for, or disburse client or non-fee-for-service funds to service recipients.*

### **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - Procedures for segregation of funds or protection of client assets need strengthening.
- 3) Practice requires significant improvement; e.g.,

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

- Two of the required elements need strengthening or one or more elements is not addressed at all.
- 4) Implementation of the standard is minimal or there is no evidence of implementation at all; e.g.,
  - The organization has no written procedures, and adequate protection and guidelines have not been developed to protect assets of persons served; or
  - There have been instances in which funds for which the organization had a fiduciary responsibility appear to have been misused, e.g., assets or funds have been inappropriately co-mingled or disbursed inconsistently.

### **(FP) CA-FIN 7.09**

The organization that provides services as a vendor establishes safeguards against over- and under-billing that include:

- a. an accurate account of units of service provided;
- b. timely submission of invoices and required documents; and
- c. compliance with applicable regulations.

**NA** *The organization is not a vendor of services.*

### **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - There are instances of less than timely submission of invoices and/or required documents.
- 3) Practice requires significant improvement; e.g.,
  - Procedures for accurately recording units of services provided is weak and impacts on timely submission of invoices or required documents.
- 4) Implementation of the standard is minimal or there is no evidence of implementation at all.

### **CA-FIN 7.10**

#### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

The organization determines the basis for any denial of coverage or payment under insurance or contractual arrangements and follows up with timely appeals and communication with appropriate parties and/or the service recipient, as applicable.

**NA** *The organization only accepts fee for service clients.*

### **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - The organization determines the basis for denial of coverage or payment, follows up appropriately, and files written appeals; however, it is sometimes slow to take action.
- 3) Practice requires significant improvement; e.g.,
  - The organization fails to follow up in a timely way in a significant percentage of cases where payment is denied, and/or does not file a written appeal.
- 4) Implementation of the standard is minimal or there is no evidence of implementation at all; e.g.,
  - The organization consistently fails to follow up appropriately in cases in which coverage or payment is denied; or
  - Written appeals are often not filed in a timely way or at all.

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



# Financial Management

## CA-FIN 8: Payroll

Payroll practices comply with federal and provincial or territorial labour codes and standards.

### Rating Indicators

- 1) The organization's practices fully meet the standard, as indicated by full implementation of the practices outlined in the CA-FIN 8 Practice standards.
- 2) Practices are basically sound but there is room for improvement, as noted in the ratings for the CA-FIN 8 Practice standards.
- 3) Practice requires significant improvement, as noted in the ratings for the CA-FIN 8 Practice standards.
- 4) Implementation of the standard is minimal or there is no evidence of implementation at all, as noted in the ratings for the CA-FIN 8 Practice standards.

### Table of Evidence

#### **Self-Study Evidence**

- Payroll procedures

#### **On-Site Evidence**

- Annual reconciliation reports

#### **On-Site Activities**

- Interview:
  - a. Payroll staff
  - b. CFO

### CA-FIN 8.01

Payroll practices include:

- a. review and approval of payroll expenditures, including time and overtime records;
- b. documentation of changes in time and overtime records;
- c. authorization of payment for new hires and severance for terminations;
- d. oversight for mandatory deductions and pay rates;

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

- e. separation of payroll funds; and
- f. timely deposit of withholding taxes.

### **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - A few minor record-keeping omissions exist, but general practice and procedural expectations require written authorization regarding payroll actions.
- 3) Practice requires significant improvement; e.g.,
  - The chief financial officer or designee frequently fails to review payroll expenditures; or
  - Written authorization regarding time and overtime records, hiring, terminating, and other personnel actions are lacking in a significant number of cases.
- 4) Implementation of the standard is minimal or there is no evidence of implementation at all.

### **CA-FIN 8.02**

The organization ensures annual reconciliation of gross pay with all statutory deductions and requirements.

### **Rating Indicators**

- 1) The organization's practices reflect full implementation of the standard.
- 2) Practices are basically sound but there is room for improvement; e.g.,
  - Practices conducts complies with wage and hour laws except on isolated occasions, and errors are immediately corrected as necessary.
- 3) Practice requires significant improvement; e.g.,
  - The organization does not seek legal counsel with respect to its payroll practices and several practices do not comply with applicable wage and hour laws.

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.



## Financial Management

4) Implementation of the standard is minimal or there is no evidence of implementation at all.

### **Purpose**

The nonprofit organization's financial accountability and viability are achieved through the application of sound financial management practices that accord with legal, regulatory and contractual requirements.