

Private Foundations Bulletin

Is Your Accounting Policy Manual Up-to-Date?

Tips to Effectively Create and Update Your Manual

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Private foundations are unique, with various asset sizes, staffing and organizational structures. Regardless of the size or whether the accounting function is internal or outsourced, having an established and continuously maintained accounting policy manual is essential for any foundation.

Creating a formalized manual to document the policies and procedures will help standardize the foundation's accounting processes for financial reporting and maintain effective internal controls that are efficient and consistent. This manual will also aid in training any new employees and can serve as a comprehensive guidebook for management, employees and those charged with governance.

Below is a sample of recommended topics to include in your foundation's accounting policy manual:

- Revenue and Cash Receipts
- Expenditures and Disbursements
- Payroll and Related Policies
- Asset and Liability Accounts
- Financial and Tax Reporting
- Financial Management and Budgets

Revenue and Cash Receipts

Foundations typically generate revenue through investment activities; however, if a foundation accepts a contribution or receives revenue from other sources, there should be policies and procedures in place to establish the proper segregation of duties between the recording and retention of these receipts. Such policies might include a lead sheet accompanying the revenue source documentation, an approved journal entry posted to the general ledger and identification of the revenue recognition criteria – unrestricted, milestone or performance-based. In addition, identification of donor restrictions is critical when documenting on such lead sheets.

Expenditures and Disbursements

Depending on the size and volume of disbursements, the level of approvals may vary. A foundation can opt to establish a threshold for approvals over a certain dollar amount – such as requiring dual signatures for invoices before payments are issued.

For recurring payments, the foundation can create a list, which can be updated periodically to streamline the approval process. Grants are usually a significant area; most foundations document these specific policies and procedures in a separate manual created to ensure the performance of proper due diligence and adhere to grant compliance.

If the foundation has corporate credit cards, it benefits to set credit limits and establish procedures for collection of credit card receipts. This helps to confirm that receipts collected are for business-related purposes, as foundations often face scrutiny over potential self-dealing transactions.

Payroll and Related Policies

Payroll policies should include details on how the foundation's pay period operates and how payroll information is administered, reviewed and allocated in the accounting software. Additionally, the manual should list the types of forms maintained by the foundation, such as offer letters, authorized salary notices, employee applications, W-4 forms, I-9 forms, termination files and other required personnel documents. A separate employee handbook can also provide additional details on employee benefits and time-off policies, while helping communicate to employees the foundation's views on business practices and ethical behavior.

Asset and Liability Accounts

The foundation's cash accounts should be reconciled by a designated individual shortly after the month-end close and reviewed by another to establish a proper segregation of duties. Timely reconciliation of the cash activity will help safeguard the accuracy of the foundation's cash balances and identify any unusual transactions, errors or uncleared payments or deposits that require further investigation.

Similarly, the foundation's investment activity should be reconciled on a monthly or quarterly basis, depending on the size of the investment portfolio. This will ensure that all investment activity is appropriately captured since most foundations are subject to an excise tax on net investment income. It is recommended that the foundation also has a separate investment policy to document the financial and investment objectives, strategies, spending policies, asset allocations, endowment restrictions, etc.

If the foundation has significant physical assets, a capitalization policy can establish a threshold for capitalizing expenditures and ensure that assets are being depreciated appropriately.

The policies and accounting treatments for some common liability accounts for a foundation, including grants payable, accrued payroll or federal excise tax liabilities, may be referenced here or in other sections of the manual.

Financial and Tax Reporting

Having a clear and concise monthly and year-end checklist documenting the individuals responsible for completing required tasks and reviews can enhance transparency and accountability for each financial function. Preparing financial reports on a monthly and/or year-end basis helps management and those charged with governance gain a clear picture of the financial growth and health of the foundation.

Using appropriate accounting software that is suitable for the foundation can make this process more efficient and maintain a proper trail of financial transactions. If the foundation engages to undergo an annual financial statement audit or review, having these key elements is particularly beneficial.

The foundation should identify and document all filing requirements to ensure compliance with applicable laws and regulations. Compiling a list of the filings, such as Federal Form 990-PF, state charitable registrations, foreign filings, retirement plans forms, payroll tax filings, etc., can help foundations meet required deadlines. It is also useful to document the maintenance of these forms, including whether they are prepared in-house or externally.

Financial Management and Budgets

Proactively establishing the proper segregation of duties and internal controls helps the foundation prevent, identify and mitigate potential fraud risks. Management should report to those charged with governance how the implemented policies and procedures identify and respond to these risks. Separate insurance policies can be adopted to protect the foundation further, such as general liability insurance, directors' and officers' insurance, cybersecurity insurance, etc.

The budget for a foundation should function as a roadmap to aid in strategic planning by providing details of expected revenue and expenses. Financial planning helps the foundation monitor cash flow and project qualifying expenses for the year to meet the payout requirements.

These budgets should be reviewed in a timely manner and discussed during meetings to monitor the current actual versus budgeted expenses and to revise as needed.

Closing Observations

It is important for a foundation to have a robust accounting policies manual designed, implemented and maintained, including, but not limited to, the examples listed above. Having a comprehensive manual sets expectations and assists foundations in producing accurate and reliable financial data.

This manual is a working document that should be reassessed at least annually and approved by those charged with governance. A private foundation should consider performing a best practice assessment to evaluate the overall financial controls, systems and policies of the foundation and their effectiveness in design and operation.

Contact Us

We welcome the opportunity to answer any questions you may have related to this topic or any other accounting, audit, tax or advisory matters relative to private foundations. Please call 212.286.2600 or email any of the Private Foundation Services team members below:

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