Stewardship Responsibilities for Councils

Boy Scouts of America

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<u>About this booklet</u>

Price Waterhouse has prepared portions of *Stewardship Responsibilities for Councils* especially for local councils of the Boy Scouts of America.

This booklet is prepared especially for council treasurers and board members, Scout executives, office managers, accounting specialists, and others with the responsibility for money and property entrusted to their control.

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Foreword

The stewardship of finances is a topic of critical importance for nonprofit organizations because it brings into focus several key issues:

- Fiscal accountability
- Legal responsibility
- Regulatory requirements
- Delegated responsibility

This manual has been developed to provide general guidelines for the stewardship of finances at the local council level. For specific regulations and requirements, local councils are advised to consult their independent accountants or attorneys.

Introduction

In evaluating the stewardship of finances at the local council level, give consideration to the environment in which volunteer organizations operate.

Local council executive boards are composed primarily of leading citizens that provide leadership, community visibility, fund-raising, and volunteer support. Typically, these leaders are involved in other business and civic activities that may limit the amount of time they may be able to devote to a council.

From a legal standpoint, the executive board of a local council is accountable for the property entrusted to its care. Although the board may empower others with managerial responsibilities, the board members continue to have the primary responsibility for operational and fiscal management. Consequently, individual board members assume ongoing liability for acts of negligence or willful mismanagement of the organization. Because council officers and board members assume a potential of liability, the National Council provides liability insurance for directors and officers of all councils of the Boy Scouts of America.

Because local councils raise money from the public, the councils and their board members can be subject to close scrutiny. Public expectations for fiscal accountability have never been higher. First-class stewardship is expected. Financial difficulties, misuse of funds, and any other stewardship failure can have an adverse impact on a local council's activities.

Most states have enacted some type of registration requirements for nonprofit organizations. Included in these requirements are limits on permitted activities, solicitation disclosures, and financial statement reporting requirements. Additionally, the federal government requires the filing of the 990 and 990T forms when appropriate, and many municipalities have local fund-raising requirements.

Board members and officers rely heavily on the delegation of day-to-day responsibility to the Scout executive and staff personnel. Therefore, the communication process among these various individuals is crucial to ensuring sound stewardship of finances.

Fulfilling Stewardship Responsibilities

At the local council level, the executive board, Scout executive, and staff must take the following necessary steps to ensure good stewardship:

Maintaining adequate and complete financial records

The maintenance of financial records is clearly a staff responsibility. Yet, the volunteer treasurer and the executive board have the ultimate financial responsibility. One dilemma is that the part-time, volunteer treasurer has a great deal of responsibility despite limited day-to-day contact and involvement. The treasurer must question, probe, and use other means to ensure that this responsibility is met.

Preparing accurate and meaningful financial statements

Again, this is a staff responsibility, but the treasurer and board must be satisfied that the function is being adequately performed. Included in this function are:

- The preparation of timely and adequate interim and year-end financial statements
- The inclusion of all funds of the council in financial reports
- The assurance that funds are properly accounted for and used for the purposes intended by donors
- The proper presentation of operational results detailing the amount of money spent for management and fund-raising, as well as program activities

Establishing budgetary control

A realistic budget is fundamental to the survival of a local council. The annual budget should clearly set out in appropriate detail proposed expenditures and sources of revenues. The budget should be prepared with considerable volunteer input, guided by the Scout executive and the council staff.

Once created, the council treasurer and executive board must review and approve the budget for the coming year by the end of the current year. This provides the authorization to make expenditures in the new year. The approved budget then becomes the guide in initiating financial action and for evaluating the financial results.

BSA policy requires a detailed budget for both the current year and next future year. A summary budget is created for the second and third future years. Changes in these future budgets are often created using a percentage increase (decrease), based on inflation and social and economic trends.

Anticipating future financial assets

The Boy Scouts of America uses a five-year long-range planning procedure. These plans, currently called benchmarks, are updated annually, and projected changes in social and economic trends help keep these benchmarks valid and reachable.

Safeguarding and managing financial assets

The executive board must ensure that adequate internal accounting controls exist so that receipts are properly recorded and controlled and that expenditures are made only upon proper authorization. In addition, liquid assets must be properly invested to maximize the return to the local council.

Complying with federal and state reporting requirements

Regulatory requirements relating to nonprofit organizations may pose a serious obligation for the treasurer and the board. Councils must file timely and accurate tax reports, if needed. The council's independent auditor can be of great assistance in correcting any fiscal errors and providing accounting suggestions through the annual management letter, a document required by the National Council as part of the audit.

The Task of Volunteers

Volunteers should have a good understanding of the council operations. They can help to discharge the weighty responsibility of stewardship, ensuring that fund-raising and other activities are in the council's best interest and are in compliance with local ordinances and United Way guidelines. A concise, comprehensive, and timely report detailing the financial activity of each major area of operation should be available to provide assurance concerning the propriety of reported transactions.

Volunteers should also understand the council's system of internal control and organization.

Attend board meetings regularly. The board meetings should include full disclosure of financial results and should reflect all council activities. Make sure a written, permanent record of all board minutes and actions is maintained.

Adopt and comply with the conflict-of-interest policy. Volunteers have the duty to be free, in fact and appearance, from the influence of any conflicting interest when they act on behalf of the council or represent it with third parties.

Ensure that the council maintains good credit and financial standing in the community. A good relationship with the United Way, other contributors, and vendors is essential for long-term financial viability. The same holds true for relations with federal and state regulatory bodies.

Pursue warning signs. Any unusual matter that comes to your attention, alerting you that something may be amiss, should be pursued to your satisfaction. Never allow a procedure to continue or an issue to go unquestioned when you are concerned over a situation.

Review the adequacy of the council's insurance program. The volunteers should ensure that the program protects the physical assets, staff, youth members, and volunteers.

Internal Accounting Control

Internal accounting control affords volunteers and Scout executives greater assurance that resources are used exclusively for intended purposes—a key to maintaining public trust and goodwill.

The phrase "internal controls" is basically the terminology of accountants and auditors. It refers to the methods of management of the council to provide reliable information, usually fiscal in nature, to comply with state, federal, and local laws and regulations, and to run an effective and efficient program in service to youth.

The AICPA provides a definition in the Statement of Accounting Standards No. 78. It states:

Internal control is a process, affected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
(a) Reliability of financial reporting
(b) Compliance with applicable laws and regulations
(c) *Effectiveness and efficiency of operations*

The major components of internal control are:

- **Control Environment.** The foundation of internal control is the leadership of the organization. Both management and the board must have high integrity and ethical values. They set the objectives expected, recognize and reward competence, or redirect operations that are not successful.
- **Use of written controls and procedures.** Samples are found in the pamphlet *Fiscal Management Procedures for Stewardship.*
- **Monitoring.** This includes management review of bank and fund-raising/general ledger reconciliations, checking payroll periodically, use of approved purchase orders, segregation of staff duties, etc.
- **Information.** This means keeping up to date on changes in accounting practices, reviewing controls and procedures with your auditor, using the pamphlet *Local Council Administrative Review* to assure the council is following standard operating procedures for BSA councils.

How can volunteers and Scout executives enhance the control environment? In three important ways:

- Educate the financial and administrative staff on the importance and philosophy of internal controls in achieving the goals of the council. Effective controls should be a matter of high priority.
- Ensure that the council staff is of sufficient size, competence, and discipline to execute control functions.
- Express interest in day-to-day accounting routines, through both inquiries and observations. Well-phrased questions, posed periodically, can enhance the control system.

Fund-Raising, Endowment, and Investments

Local Boy Scout councils are like a three-legged stool. The titles for the BSA legs are the three M's – membership, manpower, and money. However, like a three-legged stool, the loss or damage to any leg can cause the whole stool to collapse.

Traditionally, the weakest leg of most councils' annual operation has been money. Basic operating income comes from annual fund-raising events, product sales, and revenues from activities and camps. Board members continue to play a major role in the annual fund-raising events. Not only do they make substantial personal gifts, they also provide leadership roles in encouraging and soliciting other personal, corporate, and business contributions.

As Scouting membership has grown, together with inflation, traditional fund-raising efforts have to be supplemented with additional income. Income from endowment investments is the logical supplement to traditional fund-raising. Each year contributions to endowment increase; but for the future of Scouting, endowments must continue to grow and grow at a faster rate. The council's board members must lead the way in encouraging and soliciting endowment gifts as well as gifts to traditional fund-raising campaigns. See www.fsd.org for more information.

Coupled with the need for additional endowment investment funds is the management of these funds for the best return of growth and income for the council. While the IRS does provide certain broad constraints on how a nonprofit organization can invest its funds in order to protect its 501(c)(3) status, only our common law rule, adopted by most states, gives further guidance. This doctrine is called the "prudent investor" rule.

Essentially, it states that nonprofit officers must manage their funds as persons of prudence, discretion and intelligence would manage their own. Most states have four added elements when determining if this test is met.

- The trustee must tailor the portfolio to consider market realities as well as the particular needs of the organization.
- The organization must prudently delegate functions it can't personally manage.
- The organization must manage costs prudently. You cannot let management costs eat up your earnings.
- An organization must diversify. You do not want all your eggs in one basket.

Challenges of Endowment Stewardship

Councils must make sure that their endowment funds are well managed and skillfully invested in a way that protects the endowment but generates enough growth and income to provide a strong Scouting program.

Local council donors are also holding councils to a higher standard of financial responsibility. More and more, donors look for investment and spending policies as evidence of a council's fiscal responsibility and commitment to its donors—their gifts will be taken care of in a professional manner.

Not all Scout executives or executive boards have the time or background to be investment professionals. A strong relationship with an independent third-party investment consultant is an important element in enhancing accountability that leads to greater credibility with donors.

An investment consultant can help you:

- Develop a sound spending policy
- Assess investment objectives
- Write an investment policy statement
- Diversify investments
- Analyze and choose investment managers
- Monitor and evaluate investment performance
- Control investment expenses

An investment consultant can also help you to explain how your current investment strategy compares against other endowment funds in the country. To learn more about investment consulting services, go to the Finance Support Web site at www.fsd.org, click on "Professional Support" and follow the links to the CONSULTING GROUP. The information at this site will answer many of your investment-related questions and can even put you in touch with a CONSULTING GROUP representative.

Councils need a board-approved investment policy. This policy should require timely entry of additions to the endowment fund investments. The policy should establish an asset allocation for their investments. A standard allocation might be about 40 percent in equities and 60 percent in income-producing securities. Most prudent equity endowments mirror the Standard & Poor Index 500 Fund. We recommend endowment investing for the long term.

Councils can invest excess capital and operating funds in quasi-endowment vehicles that produce more income. As a general rule, a council should have quick access to funds to pay its bills for three months–any excess should be invested for a longer term.

Using the Independent Accountant as a Resource

The local council audit is a fact of life; therefore, the auditor should be used as a resource. Ask the auditor about council compliance with federal, state, and local regulations; the condition of accounting records; what can be improved; and the competence of the accounting staff. Volunteer council officers, the audit committee, and the Scout executive should ensure that the auditor is a qualified independent accountant.

Also ensure that:

- The auditor is aware of all council activities, funds, properties, and records.
- The auditor is given full cooperation to facilitate his work.
- An audit is performed (a compilation or review is not acceptable).
- The financial statements include a Statement of Financial Position, Statement of Change in Net Assets, Statement of Cash Flows, Statement of Functional Expenses, and appropriate explanatory notes.
- Every effort is made to follow accounting procedures that produce adequate records so that the auditor can give an unqualified or "clean" opinion. (A qualified opinion or the inability of the auditor to reach an opinion should be a warning sign that should not go uninvestigated.)

- The auditor issues a management letter detailing any internal control weaknesses and recommendations for improvements.
- Every council should have an audit committee to help employ the auditing firm, to give direction to the audit, to hear the verbal report and review the findings of the auditor, and to make the audit presentation to the executive board.

The *Audit Committee Guidebook* (item 80-237) is available from Council Administration Service at the national office.

The stewardship of finances at the local council has always been an important factor in the credibility of the Boy Scouts of America. Use of the general guidelines contained in this pamphlet will help ensure that this stewardship continues.