COUNCIL ON ACCREDITATION

2020 Edition

Financial Management Introduction

Purpose

The organization's ability to achieve its mission is based on sound financial management practices that ensure efficient, data-informed use of its resources.

Introduction

Sound financial management is the foundation for providing high quality services and achieving the organization's mission. Organizational leadership must foster a culture of accountability in all areas of organizational practice, including the management of the organization's finances. Accountability is established through clearly defined lines of authority and responsibility, adherence to internal control responsibilities, and by making the strategic connection between efficient and effective use of organization resources and improved outcomes. Effective financial management ensures that resources are being directed to those programs or interventions that have the strongest impact on persons served. Additionally, the attention and commitment of the governing body 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 and regulations.

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

Note: *Please see the FIN Reference List for the research that informed the development of these standards.*

Note: *For information about changes made in the 2020 Edition, please see FIN Crosswalk.*

Financial Management (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. conducts budget performance and cash flow analysis for each fiscal year of the business/strategic plan cycle;
d. reviews accounting policies and procedures;
e. reviews recommendations of the organization's auditors, and management's response to the recommendations; and
f. annually evaluates the executive director's management of the organization's financial affairs.

Interpretation: *Minutes of governing body and its committee meetings should reflect active oversight of the organization's finances.*

Related Standards:

- GOV 5.02
- GOV 5.05

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 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; e.g.,

- Three or more elements are not fully addressed;
- Or at least two elements are not addressed at all.

Self-Study Evidence	On-Site Evidence	On-Site Activities
No Self-Study Evidence	• Governing Body minutes demonstrating active oversight of finances	• Interviews may include: 1. Governing body members 2. Governing body treasurer 3. CEO 4. CFO

Financial Management (FIN) 2: Internal Control Environment

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

a. conducting ongoing monitoring of the effectiveness of internal control policies and procedures;
b. management review by more than one individual;
c. assuring that management directives are carried out;
d. prevention of error, mismanagement, or fraud;
e. safeguarding and verification of assets; and
f. segregation of duties to the extent possible.

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;
- One element is not addressed at all.

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

- Fraudulent practices or serious financial mismanagement have occurred, and problems have not been remediated; or
- Three or more elements are not fully addressed; or
- Two elements are not addressed at all.

Self-Study Evidence	On-Site Evidence	On-Site Activities
• Internal financial control manual that includes policies and procedures	• Governing body minutes where establishment of or compliance with internal controls were discussed	• Interviews may include: 1. Governing body 2. Governing body treasurer 3. CEO 4. CFO

Financial Management (FIN) 3: Revenue and Investments

The organization works to ensure its long-term financial viability and achievement of its mission through active pursuit of diverse sources of revenue and proper management of investments.

Rating Indicators

1 The organization's practices fully meet the standard, as indicated by full implementation of the practices outlined in the FIN 3 Practice standards.

2 Practices are basically sound but there is room for improvement, as noted in the ratings for the FIN 3 Practice standards.

3 Practice requires significant improvement, as noted in the ratings for the FIN 3 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 FIN 3 Practice standards.

Self-Study Evidence	On-Site Evidence	On-Site Activities
• Investment policy • Results of most recent investment review • See breakdown of funding sources as a percentage of budget	• Governing Body minutes and/or committee meeting minutes where investments were reviewed	• Interviews may include: 1. Governing body 2. CEO 3. CFO

FIN 3.01

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

Related Standards:

- GOV 5.02

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.*

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

- 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.

FIN 3.02

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 Standards:

- RPM 1

Examples: All nonprofit funds are invested and fall under the oversight of the governing body. This includes short-term investments like savings accounts, longer-term investments like stock, bonds, and mutual funds, as well as properties and other assets owned by the organization. The investment policy would, for example, specify how much of the organizations funds will be placed into savings accounts, which provide immediate access to those funds, versus longer term investments.

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.,

- Investment policy was last reviewed and/or updated between two and three years ago.

3 Practice requires significant improvement; e.g.,

- Minimal efforts have been made to expand, diversify, or strengthen the organization's resource base.

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.

Financial Management (FIN) 4: Financial Planning

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

Rating Indicators

1 The organization's practices fully meet the standard, as indicated by full implementation of the practices outlined in the FIN 4 Practice standards.

2 Practices are basically sound but there is room for improvement, as noted in the ratings for the FIN 4 Practice standards.

3 Practice requires significant improvement, as noted in the ratings for the FIN 4 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 FIN 4 Practice standards.

Self-Study Evidence	On-Site Evidence	On-Site Activities
• Budget planning procedures • Annual Budget • Most recent executive report on organization finances • Sample of monthly analysis	• Governing body minutes reflecting budget planning and review of financial reports for the previous 12 months	• Interviews may include: 1. Governing body 2. CEO 3. CFO

Self-Study Evidence	On-Site Evidence	On-Site Activities
of financial performance • Operating reserves policy		

Fundamental Practice

FIN 4.01

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

a. the organization's mission and strategic priorities;
b. performance improvement and outcomes data;
c. direct and indirect operating expenditures;
d. contractual requirements;
e. changing costs and conditions; and
f. anticipated revenue for the program year.

Related Standards:

- GOV 2.03

Examples: Performance improvement and outcomes data in this context refers to the use of program and client outcomes data in planning and budgeting decisions. Such data may be used, for example, to direct available resources toward programs or interventions that have the strongest impact on individuals and families served.

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.,

- Relevant parties participate in budget planning that considers strategic 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 does not participate; or
- There is no documentation of review by either the governing body or management team.

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

FIN 4.02

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. shifting strategic priorities and their financial implications;
c. a review of budget projections and areas of risk; and
d. discussion of other financial matters, as necessary.

Related Standards:

- GOV 6.01
- RPM 4.03

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.

Fundamental Practice

FIN 4.03

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 analyses 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.

Related Standards:

- RPM 4.03

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.

Financial Management (FIN) 5: Financial Accountability

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

Examples: 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.

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:

a. confirmation with outside parties;
b. testing selected transactions by examining supporting documents;
c. completing physical inspections and observations; and
d. considering and evaluating the internal control system of the organization.

A review of financial statements 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, the CPA is aware of any material modifications that should be made to the financial statements to bring them 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 or reviews of financial statements for each intervening year since their last accreditation.

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

- The organization undergoing reaccreditation completed an audit or review of financial statements for the most recent auditable fiscal year; however, it did not conduct one for any or all the intervening years since their last accreditation; or
- The organization undergoing accreditation for the first time completed an audit or review of financial statements in the most recent auditable year; or
- The organization completed the audit or review; however, it was not completed within eight months of the end of the fiscal year, but the organization implemented procedures to ensure timely completion for future audits.

3 Practice requires significant improvement; e.g.,

- The audit or review for the most recent auditable year is scheduled but has not been completed; or
- The most recent audit or review was completed more than eight months after the end of the fiscal year, and no plan is in place to ensure timely completion of future audits.

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

- An audit or review for the most recent auditable year has not been completed nor has one been scheduled.

Self-Study Evidence	On-Site Evidence	On-Site Activities
• Most recent audit or review and the accompanying management letter	• Governing Body minutes reflecting review of the most	• Interviews may include: 1. Governing Body

Self-Study Evidence	On-Site Evidence	On-Site Activities
	recent audit or review	2. CEO 3. CFO

Financial Management (FIN) 6: 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.

Note: *See RPM 5: Security of Information for more information on appropriately limiting access to financial records to protect against destruction, modification, and unauthorized use.*

Rating Indicators

1 The organization's practices fully meet the standard, as indicated by full implementation of the practices outlined in the FIN 6 Practice standards.

2 Practices are basically sound but there is room for improvement, as noted in the ratings for the FIN 6 Practice standards.

3 Practice requires significant improvement, as noted in the ratings for the FIN 6 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 FIN 6 Practice standards.

Self-Study Evidence	On-Site Evidence	On-Site Activities
• Financial management and accounting procedures • Job description of the person responsible for	• Documentation tracking staff completion of training on the accounting system	• Interviews may include: 1. Governing body 2. CEO

Self-Study Evidence	On-Site Evidence	On-Site Activities
managing financial accounts • Resume of the person responsible for managing financial accounts • Procedures regarding protection of client funds and assets		3. CFO • Relevant personnel • Observe reporting and accounting system

---

Fundamental Practice

FIN 6.01

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

a. timely reconciliation of the bank statement 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 is not authorized to sign checks.

Related Standards:

- RPM 4.03

Interpretation: *Subsidiary records include, but are not limited to: accounts receivable, accounts payable, and fixed assets.*

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 updates to 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.

FIN 6.02

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.

FIN 6.03

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

a. a financial officer or business manager to maintain the financial accounts who has prior accounting and bookkeeping experience or an accounting degree,

C.P.A. credential, or other recognized accounting/financial certification, as appropriate to the size and complexity of the organization; and

b. all personnel who use the system to receive initial and ongoing training on its use.

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.,

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

Fundamental Practice

FIN 6.04

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

a. segregates client funds from other organization funds; and
b. protects client assets.

Related Standards:

- AG 7.06
- RPM 1

Interpretation: *Organizations should manage client funds in accordance with applicable rules and regulations. This may include for example:*

a. *daily deposits of client funds;*
b. *credit balances on accounts;*
c. *uncashed checks;*
d. *funds left in client deposit accounts; and*
e. *trust account reconciliation.*

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

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

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

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.,

- 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; 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.

Financial Management (FIN) 7: Fundraising

An organization that raises funds by individual solicitation from the general public conducts fundraising activities in an ethical, fiscally-responsible manner.

Interpretation: *This section is applicable to organizations that solicit or receive money from private individuals, through capital campaigns and contribution plans. This section is not applicable to organizations that apply for and/or receive private or public grants and contracts.*

NA *The organization does not raise funds through solicitations or general funding events.*

Examples: Organizations can reconcile fundraising practices with prevailing ethical practices of national bodies, such as the Association of Fundraising Professionals.

Rating Indicators

1 The organization's practices fully meet the standard, as indicated by full implementation of the practices outlined in the FIN 7 Practice standards.

2 Practices are basically sound but there is room for improvement, as noted in the ratings for the FIN 7 Practice standards.

3 Practice requires significant improvement, as noted in the ratings for the FIN 7 Practice standards; e.g.,

- Staff are unaware of the organization's fundraising policies and/or procedures; or
- Fundraising practices may pose a risk to the organization.

4 Implementation of the standard is minimal or there is no evidence of implementation at all, as noted in the ratings for the FIN 7 Practice standards.

Self-Study Evidence	On-Site Evidence	On-Site Activities
• Fundraising policies • Fundraising procedures	• Analysis of costs and benefits for sample of fundraising activities • Financial statements/reports • Annual Report • Governing body meeting minutes where fundraising was discussed	• Interviews may include: 1. CEO 2. CFO 3. Relevant personnel

Fundamental Practice

FIN 7.01

The organization:

a. accurately describes the purpose for which solicitations are being made;
b. spends funds for the purposes they were solicited, with the exception of reasonable costs for administration of the fundraising program;
c. maintains accounting segregation for restricted funds; and
d. respects donor confidentiality requests, and ensures that such donors' names are not published in publicly available documents.

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, but the organization has taken steps to strengthen practice; or
- The organization has a system of controls that may need strengthening; however, contributions are appropriately recorded and acknowledged.

3 Practice requires significant improvement; e.g.,

- There have been some violations of donor requests for confidentiality; 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; e.g.,

- Unethical or deceptive practices regarding costs in relation to funds raised exist; or
- The organization does not accurately describe the uses of the funds; or
- Two or more of the standards' elements have not been addressed.

FIN 7.02

The organization collects and maintains data that supports sound fund-development decisions by its leadership and allows for the costs and benefits of each fundraising activity to be analyzed, including the reasonableness of fundraising costs in comparison to dollars raised.

Examples: Factors that may affect the reasonableness of fundraising costs to dollars raised include, but are not limited to: the differential costs of donor solicitation, donor renewal, large bequests, or donations that would obscure true fundraising costs.

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.,

- Some fundraising costs are not sufficiently reviewed for full analysis.

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

- Some fundraising costs are not sufficiently reviewed for full analysis.

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

Copyright © 2020 Council on Accreditation