Welcome to the Jones & Associates LLC, CPAs December 2013 newsletter! This month we are highlighting two “hot topics”: **The Importance of Reviewing Transactions** and **Expense Allocations: A Presentation Dilemma**.

The Importance of Reviewing Transactions

Best practices in any nonprofit organization require that various personnel review key transactions within the organization to ensure accuracy, validity and proper authorization of transactions. Typical transactions that should be routinely reviewed include bank reconciliations, month end financial statements, and approval of journal entries. In each case, the objective is to have someone other than the preparer of a transaction perform a review of the work done. Having this review is considered a key component of a healthy internal control system as it allows the “second set of eyes” to check for obvious errors and emphasizes the importance of the controls in place.

Understanding that the reviewer of these key transactions may have questions on what it is that s/he is supposed to be looking for in the review, here is an example of what to review in a typical bank reconciliation.

Key Items to review in a bank reconciliation:

- The correct bank statement is attached
- The bank statement beginning and ending balances agree to the bank reconciliation
- The ending bank register balance on the reconciliation agrees to the general ledger bank account balance as of that date
- The micro images of cleared checks appear reasonable (any alterations or unusual names, signatures or amounts?)
- The cleared items agree to the bank statement
- Any uncleared deposits or payments older than the month being reconciled are reasonable

In designing what should be reviewed in other transactions, it is helpful to discuss with the preparer of the transaction to determine what the critical items to review might be. Also feel free to contact us for any best practice guidance. As a final step, make sure the preparer and reviewer are both documenting their involvement with initials and dates to take credit for the work completed.

Expense Allocations: A Presentation Dilemma

Financial reporting serves different users in different ways. The challenge is how to track the information in the accounting system that allows the data to be useable for these different purposes.

An example is the allocation of expenses for internal and external purposes. Internally, it is important to organize expenses by department or project so that budget and actual results can be monitored by different people. The organization may wish to allocate overhead to each department and project so that there is a clear idea of the overall cost of that area of the operation.

While internal reporting has critical value for operations, external reporting - the IRS Form 990, for example - must follow a more stringent set of rules. For example, accounting principles and the IRS give us definitions of what may or may not be allowed to be included in the program, management and general and fundraising expense categories depicted in external financial statements and the tax returns. The following are the accounting principles’ definitions of each category:

- **Program** – activities that result in goods and services being distributed that fulfill the purposes or mission for which the organization exists. These services are the major purpose for and the major output of the organization.

- **Management and general** – activities that are not identifiable with a single program or fundraising activity, but are indispensable to the conduct of those activities and to an entity’s existence. Examples include financing, soliciting funds other than contributions, program advertising, and business management.

- **Fundraising** – activities undertaken to induce potential donors to contribute money, goods or services. Examples include advertising for and conducting fundraising campaigns and events and preparing and distributing fundraising materials.

To help serve all users, one possible solution is to record management costs that are allocated to departments internally in an “overhead” department. This overhead department can then be allocated to different departments for internal reporting, but grouped with management and general expenses for external reporting.

Regardless of the solution used, the final goal is to give management useful reports and comply with accounting principles.

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Should you have any questions about the content of anything in this newsletter, please contact us.

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