So You've Been Elected Treasurer

John T. Reeve

Many CPAs and financial executives active in community affairs become officers of nonprofit groups. And nine times out of ten they are elected treasurer. Here are some of the pitfalls to watch out for —

SO YOU'VE BEEN ELECTED TREASURER

by John T. Reeve
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THE PURPOSE of this article is to furnish guidance to new volunteer treasurers of nonprofit organizations. Many times a person finds himself elected treasurer for only a year or two, with hardly time enough to find out what is going on, let alone to make a significant impact on the administrative policies or procedures of the organization.

With some 30 years of being elected treasurer or auditor of many different organizations, it is my hope to be able to relate some of my experiences and to give some valuable pointers to neophyte treasurers.

Let me begin by setting forth my ideas of what the job of treasurer consists of so you can compare them with your own ideas:

1. *Stewardship* — To faithfully control use and investment of the organization's resources in furtherance of the approved objectives of the organization.

2. *Budgeting* — To lead, guide, or assist in the implementation of both short-range (one year) and long-range budgetary plans, including estimating sources of and amount of future resource funds, and timing, objective and amount of future disposition of funds.

3. *Accounting* — To create an adequate record of financial transactions and value fluctuations that will facilitate audit review and analysis.

4. *Reporting* — To report the status of assets, liabilities, income and expenditure to your board of directors at each board meeting together with appropriate oral comments on pertinent or significant transactions, trends, or variations from expected.

5. *Compliance* — To determine what tax and other laws may apply to the organization's operations and see that they are complied with.

If this seems like considerably more than merely writing checks and making deposits, you are correct, it is. Although it is my own conception of the job of treasurer of the typical nonprofit organization, it is probably no different, basically, from the job objectives of the treasurer and controller of a large corporation, except that here the two jobs of treasurer and controller are usually combined in one.

Why financial men?

It seems to be the lot of many professional auditors, financial executives, and accountants to be elected treasurer of any organization with which they happen to be affiliated. The reason for this is probably because handling the financial affairs of an organization can be an overwhelming thought to a person whose sole financial experience has been with his personal

The trained financial man taking over as treasurer of a nonprofit organization is liable to find that his predecessors have been housewives, physicians, physicists, musicians, engineers, and others. Their records are all too apt to reflect this fact.

checking account; therefore, he tends to avoid the job.

Financial executives and accountants on the other hand, have no fear of taking on the job of being treasurer because they are accustomed to reviewing or auditing the financial affairs of many different organizations.

Having a professional financial man as treasurer of an organization, while it may be asking him to do for love what he is normally paid good money for, is good for both the organization and the professional. First, the typical nonprofit organization usually has a shortage of clerical or accounting employees, or accounting duties may be a minor part of their daily activity. Therefore, the nonprofit organization is sometimes in dire need of professional accounting assistance, sometimes attainable by electing a professional accountant as treasurer.

Second, from the standpoint of the professional accountant-treasurer, it is good. If he does a good job as treasurer, he will enhance his professional stature and perhaps be able to get more fee-paying clients for his firm if he is a CPA. It also enables him to play a significant part in establishing or changing the policies of the organization, as well as influence decisions made by the board of the organization in carrying out its objectives.

Naturally, it would be foolish for one to seek out the treasurership of an organization for the given reasons alone. The person selected must have a sincere interest in the organization; otherwise, his work as treasurer will not receive his best efforts and both he and the organization will suffer.

In every case where I have been treasurer, I have found that I was able to contribute substantially to the welfare of the organization during my term as treasurer. I have taken over as treasurer from housewives, physicians, physicists, musicians, engineers, and others. I can recall very few instances where the books were in good order when I assumed the treasurership, and that is the main reason why I am writing this article. It is hoped that this article will help budding treasurers, no matter what their training may be, to do a better job as treasurer of their organization, and to pass on good books and records to their successors.

What do you do first?

One of the obligations of a retiring treasurer is to get his records all posted and balanced before he turns them over to his successor. The newly elected treasurer would do well to spend some time with the retiring treasurer, discussing matters that have not been reduced to writing, such as where are the weak links in the organization (every organization has them).

A valuable tool for a new treasurer is the independent audit report on the term of his predecessor; however, many times this will not be completed until well into the regime of the new treasurer. Even so, try to obtain the latest audit report; a year-old audit report is better than none. This report should show bank accounts and other holdings, types of income and expenses, and other information. It may even alert you to the need for your attention in certain areas of the operation. Read it carefully, and if there is something you do not understand, telephone the auditor and ask.

While you are reading the latest audit report, take the trouble to evaluate it to see if it is up to standard. You may be in for a shock, as I was once. I was serving as treasurer of a united fund, and was asked by the board to review the adequacy of audits of the member agencies of the fund. This review revealed that many of the audits were substandard; my review was the subject of an article, "Audits of Nonprofit Organizations," in the February, 1965, *Journal of Accountancy.*

The point of relating this is to caution you to satisfy yourself that a professional audit was made, *"I have had the painful experience . . . of finding the books and records of the organization in poor order. This has been from the standpoint of the books being out-of-balance, or of missing records, or of sloppiness, and in some cases of all three. There is nothing more frustrating to a new treasurer than to experience these conditions, especially when one realizes he is probably doing the job for love, not money."*

and, if not, see what other arrangements may be made for an audit.

A good source of background for a new treasurer is the minute book. Scanning the minutes of previous board meetings will give the new treasurer a feel for what has been going on and possibly give a clue to significant problem areas in the organization. (He may also find that the minute book is in foul shape!)

The new treasurer should inquire if the organization has a safe-deposit box, and, if so, inspect the contents. There he may find insurance policies, deeds, stock certificates, and other valuable papers. An inventory listing of the contents of the safe-deposit box should be made, and a copy of the inventory signed, dated, and placed in the box, in addition to your copy.

A review of the organization's insurance policies will reveal whether your position and other positions handling money are bonded, whether the organization has adequate liability insurance and theft and fire insurance. I recently completed an audit of a local organization, affiliated with a national organization, and found that the national organization maintains blanket liability and fidelity coverage thereby precluding the need for the local organization having such coverage. This represented a savings of several hundred dollars annually for the local group.

The question of the adequacy or inadequacy of your insurance coverage is a technical matter which should be discussed with your insurance agent. He will generally be on the conservative side, tending to recommend insurance for all possible contingencies; your board will want you to recommend a minimum insurance program, so you will probably end up somewhere between these two extremes.

I have had the painful experience, many times as a professional auditor, and several times as a newly elected treasurer, of finding the books and records of the organization in poor order. This has been from the standpoint of the books being out-of-balance, or of missing records, or of sloppiness, and in some cases of all three. There is nothing more frustrating to a new treasurer than to experience these conditions, especially when one realizes he is probably doing the job for love, not money. What do you do when you suspect or know any or all of these conditions exist? It is difficult to say, for a lot would depend upon how bad the situation really is. I recall one instance where I simply had to start all over by making an inventory of the organization's assets and liabilities, and having the board certify to the listings.

If you find yourself in this position, it is well to thoroughly protect yourself by making it abundantly clear to all of the board members exactly what the state of the records are so that if it turns out later that the former treasurer purposely confused his books to conceal the embezzlement of the organization's funds, the finger will not be pointed at you.

Naturally, if there is any suspicion at all that this might be the case, it would be advisable to immediately stop all business of the organization and turn everything over to an audit firm for a thorough audit.

In many years of auditing the books of volunteer treasurers, I have seen a great deal of needless work done simply because the system used was poorly designed when the books were first set up. One glaring example is the maintenance of a check book, and the complete duplication of these entries in the cash book. Believe it or not, in one case I found not only this duplication of

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work, but each entry was also entered individually in the general ledger complete with date, check number, and description. I suppose this could be called facetiously "triple-entry bookkeeping."

Volunteer treasurers can ill afford spending time doing needless bookkeeping work. There is enough necessary work to keep them fully occupied.

So, if you are maintaining a check book and a cash book throw the check book away. But first tear out the checks and pre-number them. Never once in my experience has anyone had a logical reason for this duplication of work; yet when I am retained to audit a nonprofit organization for the first time, I can almost write recommendation No. 1 before I start the audit.

Before actually designing or redesigning the format of the cash book, it is wise to contemplate the design for the periodic treasurer's report to the board. If you can decide what information to report to your board at the monthly board meetings, then you can design the cash book to facilitate drawing off the information most easily for your treasurer's report, with the least amount of analysis work.

Exhibit 1, above, shows a format for a treasurer's report, while Exhibit 2, below, is the corresponding format for the cash book. Note that the columns on the left of the cash book contain all of the information which is usually found in check books: namely, date of entry, paid to or received from, bank balance, check number, deposit amount, and check amount.

EXHIBIT 1

ABC ORGANIZATION

Treasurer's Report (Date)

	Budget	Actual This Mo.	Actual To Date	
Cash balance, beginning of period				$
Received during period:				
Item A				
Item B				
Item C				
Item D				
Total received				$
Balance plus receipts				
Expenditures during period:				
Cost Center 1				
Cost Center 2				
Cost Center 3				
Cost Center 4				
Cost Center 5				
Cost Center 6				
Total expenditures				
Cash balance, end of period				$

Memo items, end of period

Accounts receivable	$
Accounts payable	$
Commitments	$

An advantage of this cash book is that each day each page can be cross-footed as you go along. Then when the end of the month arrives and you post to the general ledger, you won't have a big job of balancing the cash book. Exhibit 3, on page 40, shows an analysis of funds, assuming there is more than one fund for which you must account.

What is important to your board?

It is not always going to be easy to understand the real nature of the organization of which you are the new treasurer. The organization may have funds for various purposes which have lain dormant and of which you may not have been made aware. It happens quite frequently that small organizations do, in fact, have several funds which need to be segregated and accounted for individually. This complicates the bookkeeping and accounting considerably. If these funds have not already been set up as separate entities on the books, you should consider calling upon the services of a professional accountant for help, if necessary.

I once audited a small organization which had three separate funds, and actually had a separate cash book for each fund. It is important to understand the reason why each fund is set up as an indi-

EXHIBIT 2

ABC ORGANIZATION

Cash Book for Period (dates)

								Debits					
						Credit		Cost Center 1		Cost Center 2		Cost Center 3	
Date	Rec'd. From or Paid To	Check No.	Bank Balance	Deposit Amount	Check Amount	Acct.	Amt.	Acct.	Amt.	Acct.	Amt.	Acct.	Amt.

EXHIBIT 3

ABC ORGANIZATION

Statement of Analysis of Fund Balances at (date)

	Fund L	Fund M	Fund N	Total All Funds
Fund balance, beginning of period	$	$	$	$
Additions:				
Contributions				
Dues				
Other items				
Totals				
Balance & additions				
Deductions:				
Cost of operations				
Distributions				
Other items				
Total deductions				
Fund balance, end of period				

vidual fund and whether or not it is really necessary. Usually, special funds arise because donors may insist that their donation be used only for a specific purpose. Many years ago I audited the books of a large church in New York which had over 100 of these restricted funds.

Generally, it is advantageous to have as few funds as possible; having restricted funds greatly complicates the bookkeeping and accounting.

United funds sometimes receive gifts where the donor stipulates that his gift is to go to such and such an agency. This can be accomplished easily by the united fund by the simple expedient of assuming that this gift is a portion of the money that the united fund has already allocated to the agency in question (provided that agency is a member agency). It saves the useless procedure of writing a separate check to the agency in the amount of the restricted gift, then making a new calculation of distribution of the united fund's proceeds after deducting this restricted gift from the share of the agency in question.

In considering the kind of report to design for your periodic reports to the board, two important aspects are: 1) your own stewardship responsibility, and 2) what is important to the board.

As far as stewardship is concerned, this can be satisfied by a simple cash statement, i.e., cash balance, beginning of period, cash received during the period, cash disbursed during the period, and cash balance at end of period. The degree of detail given for each of these figures is for you to decide. However, it is best to break the receipts and disbursements into meaningful categories, perhaps showing them as comparisons to the budget for these categories.

You may not know at once what type of information your board likes to see, so it is best to remain flexible. In due course, if they have any ideas they will probably make them known to you and you can then modify your periodic report accordingly.

Cash basis is recommended

It is desirable to operate the books on a cash basis. The trouble is, how do you handle those accounts receivable due but unpaid at the end of the reporting period? The simplest procedure is to ignore accounts receivable and assume that they do not exist for purposes of your cash statement. If you like, you can simply add them up and show them as a memo item at the bottom of your cash statement, one figure for accounts receivable.

It is easy to handle the accounts payable by simply paying all of the bills, so they will be included as disbursements. So, in our hypothetical system, all bills on hand are paid so there are no accounts payable, and accounts receivable unpaid are ignored, until the money is actually received.

What if there is insufficient cash to pay all bills on hand? Here is a case where these bills should be added up and shown at the bottom of the cash statement as a memo item as accounts payable. It will clearly show that there isn't enough cash available to pay these bills. This situation is one which causes trouble for the organization and one which deserves your immediate attention as well as the attention of the board. You must find out why this situation developed and what went wrong to cause liabilities to exceed assets.

Every organization's resources are limited and, therefore, require the establishing of priorities. I have yet to see the organization which did not have more projects than it had funds to operate with. So this forces the board to choose which projects it wishes to perform. Once the choice is made and the funds allocated, the die is cast but there will continue to be pressure to spend money on unauthorized projects and pressure to camouflage the expenditure on the books. Fast-talking artists may even halfway convince the board that it's all legal. You, as treasurer, need to be very wary of this and especially wary of people in the organization making commitments for future expenditures for unauthorized projects. In controlling commitments, even for authorized projects, they should be made only by one person, the project director. Uncontrolled making of commitments can be disastrous even for bona fide authorized projects because funds are limited.

I have found it useful to include a memo entry on the treasurer's report of unpaid balance of commitments, where they are significant.

A nonprofit organization is not automatically exempt from Federal income tax, and it must file income tax returns until it has been notified by IRS that it is exempt. Even then it must file annual information returns with IRS.

In recent years there has been extra effort by the IRS to increase its surveillance of tax exempt organizations in order to smoke out those organizations fronting for profit-making concerns and soaking up profits of the latter tax free.

Genuine nonprofit organizations need not fear a review by IRS of their status provided they keep adequate books and records and file timely information returns.

Suppose, when you take over as treasurer, you discover, as I did once, that not only has your organization never applied for nonprofit status, but it is not filing Federal income tax returns either?

The only thing to do in this situation is to immediately notify your board that it is in violation of the law.

But, before doing this, obtain a copy of IRS Publication 557, "How to Apply for Exemption for an Organization," and read it thoroughly so you will be able to answer the board's questions.

Internal Revenue Code, Section 501 (a) provides that all exempt organizations, except those with annual gross receipts of $5,000 or less, and except churches, must file with IRS an annual information return on IRS form 990. The law also provides that to be approved as an exempt organization, you must submit certain information to IRS on an exemption application (IRS form 1023) upon which IRS will officially notify you by letter whether or not your organization qualifies for exemption.

The official exemption letter, therefore, becomes a very valuable document to be preserved carefully for future reference. It is well to make several copies of the exemption letter and file them in different locations.

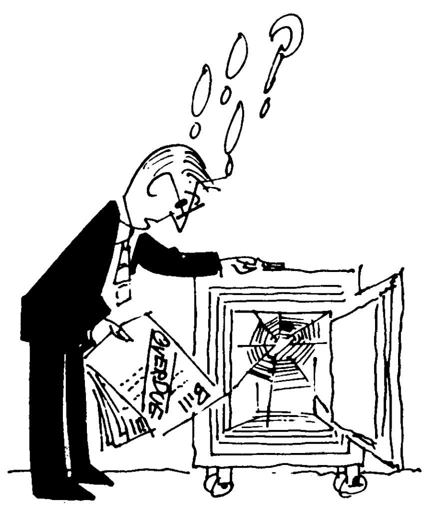
If you do discover that your organization is neither officially exempt from income tax nor files income tax returns, there will be those on your board who will point out that you have been getting away with it for years, and why rock the boat now? The only reply to this is that the organization is in violation of the law and there are stiff penalties which could be invoked by IRS. For example, the Tax Reform Act of 1969 provides a penalty of $10.00 per day, up to $5,000.00 for each exempt organization failing to file a timely information return.

While, theoretically, an organization not exempt from income tax is supposed to file annual income tax returns with IRS, there is a loophole in the income tax law which actually permits a corporation to not file an income tax return if its attorney or accountant advises it not to file because there was no income to report. In effect, this situation discourages a true nonprofit organization from taking the trouble to apply for exemption, and, thereafter, to file timely information returns. Why should it go to this trouble and expense when really all it needs to do is fail to file income tax returns whenever it has no net income?

Day of reckoning

Surely the day will come when an organization will have to file an income tax return whether it has a net income or net loss.

When your organization is an affiliate of a parent organization, you should write to your parent organization to see whether or not your local organization is already exempt under a group ruling issued to your parent organization. Ask for a photo copy of the ruling so you can see for yourself that you are covered, and so you can file the ruling in your permanent records. Even though your parent organization has been ruled exempt, this fact will not exempt your local organization from filing its annual information returns. Your local organization may, if it wishes, supply the parent organization with the information and request that it be included in a group information return. I feel that the best policy, however, is for each local organization to file its own annual information return.



You, as treasurer, may find there's insufficient cash to pay bills on hand.

Budgetary control

The annual budget is probably the best and perhaps the only internal control mechanism in many small organizations. You, as treasurer, must insist that your entire board participate in preparing and adopting your organization's annual budget. You or a budget committee may do the ground work necessary, but only by involving the entire board in a thorough discussion of the budget will the real value of the budgeting process emerge.

To make budgeting and accounting most effective, one should try to ascertain the natural control centers of the organization, then design the accounting and budgeting along these lines. For example, if it's a church with significant maintenance expenses, try to line up all maintenance expenditures as one cost center, which will be under the control of the person responsible for maintaining the physical plant of the church. Request him to submit a plan for the annual maintenance projects, along with his estimate of cost. Then submit this to

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the board along with your or your budget committee's recommendation, for the board's review.

Follow this same procedure for all controllable natural cost centers in your organization. You will not only produce better budgets, better accounting, but you will create financial responsibility in all of the people you involve in the budgeting process.

In auditing the books of many organizations, I have noted that many times a budget committee will recommend a budget, the board will thoroughly discuss it and adopt it, according to the minutes, but fail to place a copy of it in the official minutes. Since the approved budget is very important from the internal control viewpoint, a copy should be incorporated in the official minutes. Any subsequent changes made should also appear in the minutes.

What about the matter of variances of actual cost or expenditure, with the budget? The budget, while it is an important control mechanism in an organization, should not become a straitjacket within which the organization cannot effectively function. After all, the budget is merely an educated guess about the future and to interpret it as if it were the actual future is foolhardy. Therefore, variances should be expected, shown as such, and explained satisfactorily; the board should not expect all expenditures to equal what was budgeted.

Many organizations delude themselves by voting changes in the budget to conform the budget to what the actual expenditure is. What a wasteful and foolish practice this is! This practice serves no useful purpose and actually obscures the record of the originally approved budget.

I'm not saying that an organization shouldn't revise its budget periodically for significant new facts of which it becomes aware. For example, if halfway through the year, the board votes to undertake a new activity, naturally it will provide the funds for the new activity and a revised budget will have to be made to cover the new expenses.

An effective practice to make accounting reports of maximum use to your board, is to show "revised estimates" in addition to original budget figures in your monthly report. For example, if your organization collects dues from members and there has been a big increase in members since the budget was prepared, it is helpful for the board to know the new estimate of dues to be received over the total originally estimated so that it may adjust expenditures accordingly.

Conclusion

Being elected treasurer of an organization is an honor and a responsibility. It is considerably more than being bookkeeper and accountant. It involves banking, financial planning, financial analysis, management advising, internal auditing, and controlling. Next to the president or head of the organization, it is undoubtedly the most important and responsible position in the organization. It is, therefore, extremely important to pick the candidate for treasurer very carefully and not treat it as a job that anyone can perform satisfactorily. Who then are likely candidates?

It certainly helps to have candidates who have experience in the fields of accounting and finance. I have, however, seen a scientist make a fine treasurer (with considerable coaching and a correspondence course in accounting). I have also seen a scientist louse things up so badly that the records were impossible to unravel and had to be recreated from scratch.

Unfortunately, many people who know how to keep a check book believe that is all there is to being treasurer of an organization and, therefore, feel qualified. I hope that I have shown that there is much more than merely writing checks to being a competent and effective treasurer. While it is not my intent to discourage candidates, poorly qualified candidates may do the organization harm in spite of good intentions.