

## Section Four: Finances

### 4.1 The Board and Financial Management

The Board is responsible for the Resident Councils Finances. As such it is the duty of the Board to ensure that the Resident Council complies with accepted financial practice and record- keeping requirements. The Board's role is that of "guardian" of the Resident Council's resources and each member is held accountable for mismanagement of any resources.

This obligation requires the Board to be actively involved in the financial management of the Resident Council. This includes setting financial plans, monitoring and evaluating the implementation of these plans (budget) and ensuring that any necessary adjustments are put in place as soon as possible.

The Treasurer is the one with primary responsibility but the Board is held accountable for the oversight of what the Treasurer does.

It is reasonable to expect the Board will:

- ensure that assets (property, money, etc.) are applied towards the Resident Council's non-profit purpose and goals;
- operate in an accountable and transparent manner to the residents and the Resident Council, PHA, and HUD;
- make effective and efficient use of available resources, benefiting the largest number of residents;
- provide financial information on an accurate, relevant, and timely basis to the residents, the Resident Council , PHA, and/or HUD; and

Obtain approval from the Resident Council before spending its funds or getting rid of its other assets (equipment, etc.).

### 4.2 Types of Funding

There are five basic types of funding for Resident Councils. Four come from HUD through the PHA to the Resident Councils. These retain the designation of "federal funding" and are based upon the availability of funds. They are the most restrictive funds for Expenses. Any or all of these grants may be withheld from Resident Councils who are not following the proper procedure and policy.

#### A. PHA Grant

This grant is based upon the number of units in the development represented by the Resident Council. This dollar amount can vary depending upon HUD

Funding. The Council receives a PHA grant based upon its budget submitted annually.

**B. Resident Participation Funds Grant**

This grant from the PHA, designed to encourage resident participation and is based on the number of units in each family site and a formula. The dollar amount of this grant is based on the availability of federal funds. The dollar amount can vary from year to year. There are many restrictions on how this money can be spent. All accounting practices apply.

**C. National Night Out Funding**

Each year one of the Family Councils hosts the National Night Out Celebration in August. The host site receives funds from the PHA through reimbursement, but the Council also budgets for NNO. City Wide Resident Council includes a donation in their annual budget. There is a guide to NNO in the K Drive.

**Community Room Rental Funds.**

Each Council with a Community Room can rent out this room to Residents from their development. These funds need to be treated with the same restrictions as other PHA HUD funding because the costs associated with these funds are paid by PHA. All accounting practices apply. (See Appendix D)

**D. Vending Machine Funds**

These are unrestricted funds and Councils must keep them in a separate savings or checking account so they retain their unrestricted nature. If they are placed in the Council's general checkbook or savings they become as restricted as the other PHA funding. All accounting practices apply.

## **4.3 Resident Council Budget**

**A. Budget Plan**

A budget is a plan of money expected to be spent (expenses) and money expected to be received (Income) for any given fiscal year. It is based on previous fiscal years' actual income and expense amounts and anticipated changes in expenses and income for the upcoming year.

A budget needs to be approved by the Council before the start of a new fiscal year. The fiscal year runs from April 1<sup>st</sup> through March 31<sup>st</sup>. The budget is generally approved at the council's annual meeting and may be mentioned as a requirement in the by-laws.

**B. Budget Process**

The Board, is expected to prepare a proposed budget for approval at your annual meeting. A few guidelines follow:

1. Even dollar amounts are typically used in preparing budgets for the upcoming year, although it is often helpful to look at dollars and cents for the past year.

2. The previous years' Audit should be examined at the time a Budget is prepared so any recommendations or changes can be considered and incorporated.
3. The proposed budget is presented as a motion to the Council Membership and Passes or fails.
4. If the budget fails, Council members need to propose changes that will be incorporated at the meeting and then accepted.
5. If a Budget solution cannot be reached at the meeting in a timely manner it is advisable to make a motion to send the Budget back to the Board or Budget Committee. The Committee will meet to revise and recommend a new Budget. This motion should include some of the guidelines or issues that could not be worked out at the Annual Meeting so a new budget can be prepared that meets the concerns raised. The goal is to get an approved budget at a future meeting.
6. The Board must inform the Council in the meeting announcement that a budget for the upcoming fiscal year is being proposed at the meeting. A copy of the Budget should be made available for anyone to review if they desire. For Example it could be posted in the Community Center or interested parties could request a copy from the Board. There is notice of explanation that should be posted with the Budget (see Appendix D)

## 4.4 Acknowledging a Gift

Residents and others can make a gift or donation to the Resident Council. Donations of money should be acknowledged with a receipt to the individual and include the cash amount. The donation should be handled by the treasurer, noting the gift on the monthly financial report as income. In addition it should be an agenda item for the next scheduled Resident Council meeting.

Gifts, other than donations of money, should be acknowledged with a written acknowledgement but may not include the estimated dollar value of the gift.

## 4.5 Records Retention Requirements

**Note: If any litigation, claim, or audit is started before the expiration of the retention period, the records shall be retained until all litigation, claims or audit findings involving the records have been resolved and final action taken.**

Business records retention is required by the Internal Revenue Code Section 6001. In addition, all record retention requirements of Housing and Urban Development (HUD), and Non-Profit Organizations as determined by law have been reviewed to determine these requirements.

Records may be retained for a longer duration than the schedule listed below but must be retained for a minimum of the schedule. Records may be retained indefinitely for the life of the organization, at its discretion.

#### A. PERMANENT RECORDS

- Proof of payment for important payments, such as taxes, equipment purchases for the life of the equipment, etc.
- Correspondence (legal and important matters only)
- Contracts still in effect
- Fiscal year-end financial reports
- Insurance records, current accident reports, claim policies
- Minutes of Meetings with Monthly Financial Report, including Council Meetings and Board/Board Meetings
- Property/Equipment records of current property/equipment, including the original three (3) bids, proof of purchase and date
- Tax returns and worksheets, including 1099 information are kept at Residents Council site
- Audit reports
- Employer Identification Number (EIN) or Taxpayer Identification Number (TIN) should be kept in the treasury book
- Constitution and Bylaws, a copy of each in both the secretary and the treasurer book
- Current policies require filing and retention of financial documents

#### B. SEVEN YEARS AFTER COMPLETION OF FISCAL YEAR

- Contracts (expired)
- Income and expense documentation, including check register and cancelled checks or copies of cancelled checks (see additional requirement under Permanent Records)
- Property/Equipment records of disposed-of property/equipment, disposal information and date, sale records, etc.

#### C. THREE YEARS AFTER COMPLETION OF FISCAL YEAR

- General correspondence
- Insurance policies which have expired
- Miscellaneous internal reports not mentioned elsewhere
- Budgets
- Bank statements and reconciliations
- Memorandum of Understanding (MOU)
- Election Certification of Officers (Resident Councils only)
- Letters of Resignation
- Financial theft and abuse records no longer current

#### D. ONE YEAR AFTER COMPLETION OF FISCAL YEAR

- Internal memos and notes no longer current

- Correspondence of an unimportant nature with vendors

## E. RECORDS DISPOSAL AND DESTRUCTION

Following the schedule listed above, any records containing identification information (EIN, name and address, bank account information, signatures, confidential information, etc.) shall be finely shredded to protect data.

## 4.6 Basic Spending Guidelines

- A. Expenses must be necessary for proper and efficient operation of the Resident Council and/or benefit the residents.
- B. Expenses must be authorized and documented by the Resident Council and/or the Board as outlined in the Resident Council's bylaws and not prohibited under State or local laws or regulations, HUD, PHA and/or the City-Wide Resident Council.
- C. Expenses must conform to any limitations or exclusions established by HUD and the PHA.
- D. Expenses must be consistent with policies, regulations, and procedures that apply to HUD, PHA, and the City-Wide Resident Council and must be treated the same in each instance.
- E. Expenses must be determined and recorded in accordance with generally accepted accounting principles (GAAP). (See 4.13)
- F. Expenses must be adequately documented.
- G. Expenses must be reasonable. A cost is reasonable if it does not exceed that which would be incurred by a reasonable person under the same circumstances. Consideration should be given to whether the individual(s) acted with prudence in the circumstances considering their responsibilities to the Resident Council and its residents, PHA, HUD, the federal government, and the public at large.
- H. Alcoholic beverages, cigarettes and such, and controlled substances are not allowed.
- I. Communication costs are allowed. Costs for telephone services, newsletters, postage, electronic or computer transmittal services and the like are allowable.
- J. Contributions, gifts, or donations are not allowed out of PHA/RPF funds.
- K. Costs of goods or services for personal use of any individual are not allowed.
- L. Costs of lobbying, or influencing activities, are not allowed.
- M. The cost of training provided for resident and leader development is allowed.

## 4.7 Guidelines for Spending PHA/RP Funds

- A. **The purpose of the Resident Participation (PHA/RP) Funds is to increase resident participation. However, these funds have the most restrictions upon their use.**

The Resident Council can deposit these funds into the same account as funds from other sources. A separate bank account is not required but encouraged. However, there are detailed reporting requirements so you must keep track of these funds. It is suggested that a method is developed to gather ideas from all the residents on how to best spend the funds.

**B. Examples of purchases that are allowed:**

- Capital improvements and repair (examples: computer, television, karaoke machine, planters, piano, pool table, bulletin board, microphone, etc.). This does not include items that are the responsibility of PHA. Any permanent additions to the building or grounds must be approved in advance through the Building Manager.
- Stipends, within Residents Council's guidelines
- Classes (arts & crafts, exercise, another language, etc.)
- Greeting cards
- Resident surveys
- Resident participation promotional activities
- Leadership development
- Resident council elections and organizing
- Election Judge
- Safety and security
- Refreshments associated with training or resident council organizing, otherwise refreshments are not allowed
- Transportation (by mileage only)
- Durable food related expenses are okay (e.g. a coffee pot)
- Meeting refreshments
- Community Building expenses and events (food expenses are only allowed if some training activity is performed)
- Resident Council internet and/or telephone expense related to computers
- Volunteer recognition

Purchases that are not allowed

- Entertainment
- Refreshments associated with entertainment
- All disposable food related expenses (durable food related expenses are OK, e.g. a coffee pot)
- Discount memberships, e.g. Sam's Club
- Stamps
- Donations or gifts
- Memorials
- Alcohol, tobacco products, or controlled substances
- Trip to a gambling casino

If there is a question if a purchase is OK: Bring the question to the PHA Management.

### **C. Expenditures:**

- Each Resident Council at a regular meeting or by budget must approve all expenditures of the funds. Minutes of the meeting should show approval of the expenditures.
- The Resident Council Treasurer must keep a receipt for each expenditure of these funds.
- Each Council Treasurer will need to submit a report of the expenditures listing the uses of the funds and providing access to the receipts for these expenditures.
- Residents may also submit a written request to the PHA Management to request additional funds if they determine that their situation supports such a request. If you have questions, contact PHA Management.

## **4.8 Stipends**

**A stipend is a small token of appreciation for volunteering and to cover any costs incurred in the performance of your volunteering. It should not be considered a paycheck!**

HUD recognizes that Resident Participation (RP) Funds can be used for payment of stipends. However, careful consideration of the percentage of RP funds used for stipends must be done. Budgeted amounts will be monitored by the Resident Initiatives Program Coordinator.

Any individual earning \$600.00 or more from stipends in a calendar year must report the income to the Internal Revenue Service and the Resident Council is required to prepare and file a 1099 form for those individuals. For this reason alone, stipends should never be paid in cash, for the amounts need to be easily tracked.

Stipend rates need to be voted upon by your Resident Council annually at your budgeting meeting.

## **4.9 Guidelines for Spending Family Funds**

Resident Council (family) Funds include money received from fundraising, recycling, vending income, etc. These funds may be used for any purpose determined by the Resident Council, providing all laws, regulations, policies, etc. are followed and it does not interfere with PHA's authority over building issues.

**Each Resident Council at a regular meeting or by budget must approve all expenditures of the funds. Minutes of the meeting must show approval of the expenditures. The Resident Council Treasurer must keep a receipt for expenditures of these funds.**

Examples of allowable purchases include items not eligible with other funds, such as:

- Discount memberships, e.g. Sam's Club
- Donations or gifts
- Memorials
- Additional stipends above the City Wide suggested rates, although this practice is discouraged
- Food for parties

Purchases that are NOT allowed:

- Alcohol, tobacco products, or controlled substances
- Anything that is illegal or regulated
- Gambling events

## **4.10 Policy: Cash Accounts & Gift Cards & Shopping**

Based on the recommendation of PHA, the City Wide and Family Site Councils require that there be **NO petty cash accounts**. We must remember that we are dealing with **Federal funds** and that the accounting of those funds is regulated. **STIPENDS MAY NEVER BE PAID IN CASH.**

- A. Residents shopping for their Council can only purchase items that have been approved by the Resident Council. Receipts may not include personal items on the anticipating they will be divided out later.**
- B. GIFT CARDS may be purchased for prizes, picnic prizes etc... No more than budgeted amount of cards may be purchased at any time. The dollar amount of any one gift card may not exceed \$20. Please purchase cards from retail establishments that are frequented by your residents.**

After purchasing make a list of the gift card numbers. Make a number of copies of this document to correspond to the number of gift cards. Attach the purchase receipt to the original list. When a gift card is given out complete a disbursement document with the number of the gift card given on it and a copy of the original list attached. This allows the auditor to double document the procedure.

## **4.11 Officer Transportation Reimbursement**

Transportation reimbursement must be by actual cost incurred (commercial transportation) or mileage at the current government-approved rate and not at a flat rate per trip in order to use RP or PHA grant funds. Mileage must be well documented.



Commercial transportation (taxi, Metro Mobility, etc.) expenses require a receipt for reimbursement, or in the case of a bus, by signature of the individual receiving the reimbursement and proof of ridership, like a bus transfer. The purpose of the transportation must always be stated.

The approved mileage reimbursement rate is based on the yearly government approved rate. (See Appendix D)

## 4.12 Cash for Fundraising

The Treasurer is responsible for all income the Resident Council receives as well as all cash and the necessary documentation. The other Officers of the Resident Council are also held accountable. The Resident Council may use up to \$25.00 cash in a cash box for the making of change for fundraising events, provided all transactions are well documented:

- A check may be written to “[name of Treasurer], the Cash Custodian” in order to obtain
- \$25.00 cash from the bank for the cash box. The Chair and other officers should be aware of the transaction. And the check should be signed by someone other than the Treasurer.
- No expenses for the fundraiser may be paid out of the cash. Expenses are paid by check only.
- Keep a cash transaction record of income with the fundraising cash forms. (See *Counting Fundraising Cash Income, Fundraising Cash Account Reconciliation, and Fundraising Cash Transaction Report.*)
- Count the cash daily throughout the event by a minimum of two (2) people together. Do not maintain on a daily basis any more cash than \$25.00 in the cash box. Cash above that amount from the fundraiser must be turned over to the Treasurer, or other pre- determined officer, on a daily basis.
- Cash from the fundraising event, including the original \$25.00 for making change when the event is over, must be deposited into the checking account as quickly as possible, but no less than weekly.
- Like all Resident Council funds, money in cash funds cannot be “borrowed” for a resident’s personal use under any circumstances.
- Any cash transactions are always more subject to scrutiny by the auditors!
- Contact the PHA Management if you have questions.

## 4.13 Important Finance Terms

### A. Generally Accepted Accounting Principles (GAAP)

The term “generally accepted accounting principles” (GAAP) applies to a widely-accepted set of rules, conventions, standards, and procedures for reporting financial

information, and reflects federal financial accounting standards as established by the Federal Accounting Standards Advisory Board (FASAB).

While the Executive Officer Treasurer is not expected to be an accountants or have in-depth knowledge of accounting, the Treasurer is to comply with the GAAP procedures and forms established by the PHA, document all expenditures with receipts and/or signatures and approval dates, demonstrate an understanding of the process and an ability to perform as Treasurer, and use the City Wide as a resource for questions and clarification.

#### B. Tax Identification Number (TIN)

Every Resident Council is required to have a Tax Identification Number (TIN) or Employer Identification Number (EIN) from the Federal government. This is the number required by banks, etc., to “identify” your organization; do not under any circumstances use someone’s social security number. This number is also required for your Financial Audit.

### **4.14 On-Line Banking, Cash and Cash Equivalents**

A. On-Line Banking is making business transactions online. Online banking is not allowed. Do not use online banking for obtaining statements and/or to download transactions. Have the bank statements mailed to the Chair or Treasurer, or Management office.

#### B. Cash and Cash Equivalents

- No petty cash accounts are allowed - Effective July 1, 2008, Up to \$25.00 may be allowed in a cash box for making change for fund raising events, providing proper documentation and security is maintained and the cash is counted every day by at least two (2) people. This is the only exception to the cash rule.
- In addition Councils are not to cash checks in order to get cash, withdrawing funds to get cash, or having a resident provide the cash and then writing them a check.
- Cash equivalents include items such as money-bearing gift cards, prepaid envelopes, etc. that can be used by Councils for door prizes or mailings in order to simplify the work of the Executive Board while meeting the business needs of the Council.
- They must to be safely stored, budgeted, and signed for and thus accounted for when used. They should only be purchased to facilitate the needs of the Council for the current Fiscal year. They should be used within one year or less of purchase.

### **4.15 PHA Audit Review**

The following items summarize the major items examined in a PHA Audit of the Resident Councils funds:

- Budget. A Budget and any subsequent budgets or budget revisions must be approved by a Resident Council vote and documented in the Minutes.
- Minutes. Minutes must be taken for all Resident Council and Board meetings (if any action/vote is taken or where an expense is incurred – stipends are expenses), with a copy provided to the Treasurer, and made available for audit.
  - Reports. Make sure any accounting reports and/or major activity are recorded in the Minutes.
  - Example. For example, at the meeting following a large family day or National Night Out Celebration there should be a brief report on funds spent and the activity in general. This does not need to be detailed. It can be as simple as “The Council hosted National Night Out on DATE and approximately 300 people attended. A light meal and games were provided. ”
- Treasurers Report. There must be a treasurer’s report from each meeting that includes the balances in the checkbook, savings, cash accounts, and grant and special funds, plus the amount of money taken in and the amount paid out since the last financial report.
- Receipts. There must be receipts for all expenditures. There should be a disbursement form for every expenditure, bank charge, and voided check.
- Check Register. All transactions must be entered into the check register on the computer with the balance calculated. This includes bank service charges and any interest earned. A description should be entered for every deposit and check written.
- Bank statements. Bank statements should be reconciled to the checkbook every month. Bank statements must be retained for audit by the Resident Council. Voided checks should be kept on a Disbursement Document form.
- Meetings. Meeting expenses are reimbursable for approved meetings open to all residents or approved officer meetings. A meeting qualifies as an approved meeting when resident council business is discussed and minutes are recorded.
- Travel Expenses. Travel reimbursement should be by mileage (using the current Federal rate per mile – available from PHA), taxi, Metro Mobility, or bus. Receipts must be provided where available; otherwise a signature by carrier is required.
- Equipment. Any durable equipment purchased (such as a television, computer, karaoke machine, etc.) over the amount listed in the Council’s MOU must have 3 bids, attach to disbursement form. The Council needs to accept the vendor with the lowest quote, all other things being equal. This type of expenditure must be approved by the Resident Council in its Budgeting process. The competitive quotes must be retained by the Resident Council for audit as required by HUD regulations.
- Unacceptable Purchases. Examples of unacceptable purchases include, but are not limited to, alcohol, gifts, or loans. The Resident Council may also add items of their own to this list.
- Review. The Board, is responsible for review of all fiscal activity. They should review the “books” before being submitted for Audit and the Minutes should be

noted. In the event a Council Member wants to review the books they have this right and should set up a time with the Treasurer.

- Audit Items Checklist. Items (minimum) to be provided for an audit include:
  - Checkbook register with reconciled balance or the print out of computerized register if used;
  - Approved budget and approved budget revisions
  - A completed disbursement form, including approval date and where approved, for every check written, bank charge or voided;
  - A completed deposit form for all income received, including interest and bank adjustments;
  - A receipt for every check written (signatures obtained where no receipt is available);
  - All original bank statements (reconciled with copy of the reconciliation) and cancelled check copies;
  - Minutes from every Resident Council and Board if any vote/action was taken) meeting;
  - All cash account records with supporting documentation and written financial

## **4.16 Auditor's Guide to Suspected Fraud and Irregularity**

The federal government expects organizations receiving and administering federal funds to have safeguards in place to minimize the risk of fraud or financial irregularity.

Fraud can be defined as *the use of deception with the intention of gaining an advantage, avoiding an obligation, or causing loss to another party*. Fraud covers a variety of activities ranging from minor offenses, such as misappropriation of stationery, to more serious crimes such as false accounting, misuse of funds or resources, supply of false information and collusion. These are all considered in law to be criminal offenses. Attempted fraud is also a serious crime, and is subject to the same legal penalties as actual fraud.

Fraud is made possible by poor internal systems and controls and where a person has motive and opportunity. (See *Separation of Duties*.) A comprehensive approach to managing the risk of fraud is knowing where the risk of fraud can occur, then ensuring adequate internal controls are in place. An organization should be aware that the promotion of an anti-fraud culture is one of the most important ways to prevent and reduce fraud. Methods of communicating the organization's attitude to fraud and promoting fraud awareness include the introduction of a Code of Ethics, a fraud policy statement, and a fraud response plan.

*Internal Fraud* is perpetrated by individuals (residents or volunteers) within the organization and is most commonly associated with cash and check handling, payroll, purchasing role, and the stealing of assets belonging to the organization. The

opportunity to conceal an irregularity is increased if a member also has access to accounting records.

External Fraud is perpetrated by individuals and companies external to the organization. The most common forms are burglary, theft, false invoicing, and deception and contractor fraud.

Collusion Fraud involves two or more parties, either internally or externally, working together. The most common forms of collusion are related to obtaining quotes for work, and false invoicing.