

## Legal Alert: General Financial Policies

Among its most important duties, the board is responsible for monitoring and controlling the finances of the organization. Oversight policies and practices must ensure that all monies are spent prudently and in ways that are consistent with the purposes of the organization while guarding against potential financial abuses. The regulatory requirements and heightened scrutiny to which a 501(c)(3) organization are subjected, along with the reporting requirements and possible use restrictions from funders make these policies even more critical.

The specific structure of financial policies will vary by organization, but, in general, best practice for financial oversight policies requires:

- That bank statements are opened, reviewed, and reconciled by a person who does not have check-writing authority
- That check-signing authority is limited by
  - stipulating who can sign a check,
  - specifying a dollar amount that requires additional approvals before signing, and
  - ensuring that check-signing authority is revoked for former staff or board members
- That the board receives some training or retains expert advice in how to read and understand financial statements
- The development of an annual budget and close review of financial reports comparing actual and budgeted expenses and revenues on an on-going basis throughout the tax year
- Clear guidelines for reimbursement of expenses for board members, officers, or staff. This includes the types of expenses that will be reimbursed and the documentation required to reimburse those expenses
- The absolute prohibition of loans to directors, officers, or staff (Illinois law prohibits loans by not-for-profit organizations to their directors or officers under most circumstances)
- Regular review of all financial oversight policies to ensure that the policies are effective and consistently enforced