

BEST PRACTICE PRINCIPLES FOR NON-PROFIT FINANCIAL ACCOUNTABILITY

By Protodeacon Peter Danilchick

Disclaimer: the information in this document is provided with the understanding that this does not purport to render a professional opinion but merely offers observations based upon personal experience and knowledge acquired from associations and agencies dealing with non-profit accountability issues. Should such professional opinion be required, the services of legal counsel / certified public accountants should be retained.

Any non-profit organization must recognize its responsibility towards its stated mission and the people which it serves. Further, it must understand that it is accountable to donors and recipients of its services -- as well as to regulatory agencies to a greater or lesser degree. Of high importance is its reputation for responsibility, accountability, ethics and fair-dealing. Should this reputation be compromised, substantial damage can be expected to the potential fulfillment of the organization's mission. For this reason, utmost care and discipline must be exercised in the establishment of policies and procedures for financial accountability.

The above statements go double for the Church, the Body of Christ. We must be truthful, as Christ is the Truth (John 14:6). We must be trustworthy for "it is required of stewards that they be found trustworthy." (1 Cor 4:1-2) All must be open, as Jesus said: "There is nothing hid, except to be made manifest; nor is anything secret, except to come to light." (Mark 4:22) We must be willing to be measured, as the Lord desired to measure Israel "Behold, I am setting a plumb line in the midst of my people Israel." (Amos 7:8).

The following six best practice principles for financial accountability that are considered applicable to the Orthodox Church in America are discussed in detail below:

- 1 Ensure clear and decisive financial governance
- 2 Adopt ethics and conflict of interest policies
- 3 Implement appropriate financial controls
- 4 Conduct regular independent financial audits
- 5 Ensure transparency of financial data and performance
- 6 Maintain knowledge on emerging non-profit issues

1. ENSURE CLEAR AND DECISIVE FINANCIAL GOVERNANCE

In any non-profit organization, the responsibility for financial governance must be explicitly invested in a body, normally a Board of Trustees or Directors. In the case of the OCA, it should be made absolutely clear and communicated without any doubt that the Metropolitan Council is entrusted with the responsibility of ensuring the proper and effective use of all assets for the administration and operation of the Church.

This responsibility is evident from a reading of the Statutes of the OCA. The Statute gives executive authority to the Council in Article 5:1. Further, the Statute instructs the

Auditing Committee (which audits the accounts of the Treasurer and the funds of all Church-related institutions on a quarterly basis) to report to this body on a quarterly basis. In addition, the financial responsibility of the Council is evident in Article 1:5 which lists several key competencies: “establishes the budget for the operations of the Church and examines all financial reports of the Church; supervises the collection of the assessments and fees established by the All-American Council and determines the allocation of such funds; organizes plans for obtaining voluntary contributions for the satisfaction of the needs of the Church; provides for the maintenance of the central administrative bodies of the Church and for the allocation of the general Church funds; decides on the purchase, sale, or mortgaging of property of the Church, except in cases covered in Article X, Section 8; maintains an inventory of all properties of the Church, etc.”

In addition, it should be noted that the Metropolitan Council is representative of the whole Church, with its chair being the Metropolitan (who also chairs the meetings of the Holy Synod of Bishops), two representatives from each diocese, one priest and one layman elected by the Diocesan Assemblies, three priests and three laymen elected by the All-American Council, as well as the Chancellor, the Secretary, and the Treasurer.

For effective governance and execution of their fiduciary responsibility, it is paramount that the Council:

- 1 ensures that there are proper policies in place for ethics, conflict of interest, disclosure and identification of fraud, records retention, whistleblower protection
- 2 reviews all financial statements and ensure that they are clear, understandable and communicate proper information for adequate stewardship (e.g., segregated and reconciled by fund) as well as budget comparisons and expense analyses
- 3 ensures that those chief officers responsible for the preparation of the financial statements (e.g., Treasurer, Comptroller) certify the annual balance sheet, income statements and cash flow analysis for all Church funds (including endowments and charitable trusts) and fund flows.
- 4 reviews procedures for internal financial controls to ensure that they safeguard and protect the Church’s assets
- 5 reviews compliance with all applicable laws and regulations and compliance with internal policies and procedures

2. ADOPT ETHICS AND CONFLICT OF INTEREST POLICIES

The Metropolitan Council should ensure that policies are developed, adopted, and implemented regarding a code of ethics and conflict of interest. These are essential for internal guidance to officers and employees as well as external reassurance to donors and recipients of the Church’s services.

The Ethics Policy should include expectations for personal and professional integrity, governance, legal and regulatory compliance, responsible stewardship of funds (including endowments in accordance with donor’s requests, charitable trusts, etc.) and other assets, openness and disclosure, and program effectiveness evaluation. The policy should

emphasize that no one in the organization, no matter at what level, has authority to dispense with any of these policy requirements.

A Conflict of Interest Policy will assist in ensuring that there will be neither possibility nor implication that funds or assets of the Church are being used for personal gain and not for the exclusive purposes and mission of the Church. The Policy should provide a definition of conflict of interest, specify the positions that will be covered under the Policy (e.g., Metropolitan Council members, officers and employees of the Central Administration), require disclosures of potential/ existing conflicts and procedures to be followed in such cases.

3. IMPLEMENT APPROPRIATE FINANCIAL CONTROLS

The details of appropriate accounting controls are beyond the scope of this note. However, some basic principles are:

- 1 Accounting should be performed according to Generally Accepted Accounting Principles (GAAP) for Not-for-Profit Organizations (e.g., see the Wiley text 2005 Non-Profit GAAP authored by Larkin and DiTommaso)
- 2 Internal controls should be documented in a procedures manual, including handling of incoming money or other assets and deposits thereof to the appropriate unrestricted / restricted / endowment / reserve fund, investment of assets, approval of all disbursements including petty cash and payroll, monitoring of expense accounts, etc., with adequate segregation of duties and corresponding checks and balances
- 3 Ensure that funds are not commingled, donor restrictions are honored, and use of funds is documented with the appropriate level of approval.
- 4 A regular training program for relevant personnel should be available for both basic and refresher education on accounting and controls
- 5 A document retention and periodic destruction policy should be instituted.
- 6 Special attention should be paid to ensuring that “excess benefit transactions” do not take place and, if they do, to report these properly.

4. CONDUCT REGULAR INDEPENDENT FINANCIAL AUDITS

It is essential that charitable organizations above a certain size (usually \$250,000 or more annual revenue) have an annual external audit conducted of their financial statements, internal controls, operations and accounting policies, by an independent certified public accountant or accounting firm experienced in such audits. This is already required by the Sarbanes-Oxley Act for profit-making corporations. Moves are afoot in various states to either recommend such audits to all non-profits above a certain size or to require them. BoardSource (formerly the National Center for Nonprofit Boards) and Independent Sector recommend that non-profit boards review the Act and determine whether their organizations should voluntarily adopt particular governance provisions contained in the Act.

This requirement should not be waived even in the case of the existence of an internal Auditing Committee, which is charged, as in the case of the OCA, with regular audits of

the financial statements. The experience and capabilities of an external, independent certified public accountant or accounting firm in conjunction with an annual independent audit is highly desirable to ensure proper financial accountability and governance.

Certain key process elements should be observed:

- 1 An Audit Committee should be established from among the members of the Metropolitan Council who are “independent” – meaning not being part of the management team of the Central Administration and not receiving any direct or indirect compensation from the Church.
- 2 The Audit Committee recommends to the Metropolitan Council the selection and hiring of the audit firm, oversees the auditing firm’s activities, reviews the annual audit report and recommends the presentation by the auditors to the Council for acceptance.
- 3 The auditing firm should not, in general, provide non-auditing services to the Church and should be rotated every five years.

5. ENSURE TRANSPARENCY OF FINANCIAL DATA AND PERFORMANCE

Nothing inspires confidence in and willingness to contribute to a charity than an open-door approach to information. The more people know, the more they will be willing to identify with the organization and support it. The following information should be published on the OCA website:

- 1 Statement of Ethics and Conflict of Interest Policy
- 2 Audited financial statements (preferably for the last three years)
- 3 Minutes of the Metropolitan Council meetings (for the last twelve months)

6. MAINTAIN KNOWLEDGE ON EMERGING NON-PROFIT ISSUES

There is a significant amount of information available on Financial Accountability and Governance of Non-Profits. It is recommended that both the members of the Metropolitan Council and the principal officers / employees of the Church Central Administration remain abreast of both current knowledge and emerging issues.

In conclusion, the above Best Practice Principles for Non-Profit Financial Accountability represent only a starting point. The work required may be daunting and the changes required may be uncomfortable. However, the end result will hopefully be the hearing of the words of our Savior: “Well done, thou good and faithful servant.”

The Orthodox Church in America Ethics Policy

Preamble

As a matter of fundamental principle, any nonprofit and philanthropic institution should adhere to the highest ethical standards because it is the right thing to do. As a matter of pragmatic self-interest, the institution should do so because constituency trust in its performance is the bedrock of its legitimacy as institution. Donors and volunteers support

these institutions because they trust them to carry out their missions, to be good stewards of their resources, and to uphold rigorous standards of conduct.

Nonprofit and philanthropic institutions must earn this trust every day and in every possible way. But institutions are composed of people, and it is up to the people – governing board members, management, staff, and volunteers -- to demonstrate their ongoing commitment to core values of integrity, honesty, openness, and responsibility.

Adherence to the law is the minimum standard of expected behavior. The OCA administration must do more, however, than simply obey the law. It must ensure that what is done is consistent with the Church's expectations. Transparency, openness and responsiveness to the Church's concerns must be integral to its behavior.

I. Personal and Professional Integrity

All Metropolitan Council members, administrative management, and staff will act with honesty, integrity and openness in all their dealings as representatives of the Orthodox Church in America. Each member of the Council, management, and staff are expected to comply with all applicable provisions of this Ethics Policy.

II. Governance

The administrative management and staff will

- 1 provide the Council with accurate, timely, comprehensive and sufficiently detailed information so that the Council can effectively carry out its responsibilities, to include budget proposals, expense reports, program evaluations, as well as stewardship versus plans and budget
- 2 ensure that all financial transactions are properly documented with documents retained in accordance with the Document Retention Policy
- 3 ensure that operating policies and procedures (including approval of expenditures and disbursements) are in writing, clearly articulated and officially adopted
- 4 ensure that full and complete cooperation is given to internal and external auditors
- 5 ensure that violations of this Ethics Policy are brought to the attention of management and, where appropriate, to the Metropolitan Council.

III. Legal and Regulatory Compliance

The administrative management and staff are to be knowledgeable of and comply with all applicable laws and regulations. Any violations are to be immediately brought to the attention of management, reported to the Metropolitan Council Auditing Committee and appropriately recorded in the Annual Representation Letter to the Metropolitan Council.

IV. Responsible Stewardship

The administrative organization and departments are to manage their funds responsibly and prudently. This should include the following considerations:

- 1 The administration budgets and expends funds to ensure effective accounting systems, internal controls, competent staff, and other expenditures critical to proper management
- 2 The administration prudently draws from endowment funds consistent with donor intent and in accordance with the budget and finance plans as approved by the

Council

- 3 The administration ensures that special collection funds are sequestered for disbursement in accordance with donor intent
- 4 The administration ensures that all spending practices and policies (for both the central administration and the various OCA departments) are documented and consistent with the officially adopted budget of the OCA
- 5 The administration ensures that all financial reports are sufficiently detailed, factually accurate and complete in all material respects
- 6 The administration regularly reviews the effectiveness of the various programs of the OCA and reports the results of those reviews together with recommendations to the Metropolitan Council.

V. Openness and Disclosure

The administration provides accurate, comprehensive and timely information to the OCA constituency. Basic operations and financial data, including but not limited to department activities, results of special campaign collections and disbursements, approved budgets, program reviews, revenue/ expense stewardship versus budget, and audited financial statements will be posted on the OCA's website. All financial, organizational, and program reports will be complete and accurate in all material respects.

VI. Fundraising

The administration is truthful in their solicitation/ special collection materials. The administration respects the privacy concerns of individual donors and expends funds consistent with donor intent. The administration discloses important and relevant information to potential donors. The donors shall be assured their gifts will be used for the purposes for which they were given and that information about their donations is handled with respect and with confidentiality to the extent provided by law.

VII. Exceptions and Amendments

No individual in the Metropolitan Council or administrative management, no matter at what level, has authority to dispense with or grant any exception regarding any of these policy requirements. Any desired exception is required to be brought to the entire Metropolitan Council for endorsement by two-thirds majority.

This Policy shall be reviewed by the Council every three years. Any amendment to the Policy requires endorsement by a two-thirds majority of the Council.

The Orthodox Church in America Conflict of Interest Policy

Preamble

The purpose of the Conflict of Interest Policy is to protect the OCA's interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of a member of the Metropolitan Council ("Council"), a member of a committee with powers delegated by the Council or the administrative management (hereinafter called "interested persons") or might result in a possible excess benefit transaction. This policy is intended to supplement but not replace any applicable state and federal laws governing conflict of interest applicable to nonprofit and charitable organizations.

The Metropolitan Council shall determine and publish a list of members of committees and administrative management who fall under the above description. This list shall be updated from time to time as necessary.

I. Definition

An interested person shall have a conflict of interest if:

- 1 The interested person has existing or potential financial or other interest (including compensation in the form of gifts or favors which are not unsubstantial) that impairs or might reasonably appear to impair that person's independent, unbiased judgment in the discharge of his or her responsibilities to the OCA; or
- 2 The interested person is aware that a member of his or her family (which, for the purposes of this Policy, shall be a spouse, parents, siblings, children, or any other relative if the latter resides in the same household as the interested person), or any organization in which the person (or member of his or her family) is an officer, director, employee, contractor, member, partner, interested person, or controlling stockholder, has existing or potential financial or other interest.

II. Disclosure

All interested persons shall disclose to the Council any possible conflict of interest at the earliest practical time. An interested person who is a member of the Council shall neither participate in discussion of nor vote at a Council meeting on any matter under consideration in which the interested person has a conflict of interest. The minutes of such meeting shall reflect that a disclosure was made and that the interested person having a conflict of interest abstained from participation and voting. In the case of an interested person who is a member of management, that person shall abstain from consideration, discussion, endorsement or approval of any matter in which the interested person has a conflict of interest. The documentation of the matter under consideration shall record that the interested person abstained from participation.

Any interested person who is uncertain whether a conflict of interest may exist in any matter may request the Council to resolve the question by majority vote.

III. Violations

If the Metropolitan Council has reasonable cause to believe an interested person has

failed to disclose actual or possible conflicts of interest, it shall inform that person of the basis for such belief and afford that person an opportunity to explain the alleged failure to disclose. If, after hearing that person's response and after making further investigation as warranted by the circumstances, the Metropolitan Council determines that person has failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action.

IV. Annual Statements

Each member of the Metropolitan Council, member of a committee with powers delegated by the Metropolitan Council and the administrative management shall annually sign a statement which affirms such person has received a copy of the Conflict of Interest Policy, has read and understands the Policy, and has agreed to comply with the Policy.

Orthodox Church in America **Whistleblower Policy**

Preamble

The OCA Ethics Policy requires Metropolitan Council members, administrative management and staff to observe high standards of honesty and integrity in the conduct of their duties and responsibilities as well as to comply with all applicable laws and regulations.

I. Reporting Responsibility

It is the responsibility of all persons listed above to comply with the Ethics Policy and to report violations or suspected violations in accordance with this Whistleblower Policy.

II. No Retaliation

No member of the Council, management or staff who in good faith reports a violation of the Ethics Policy shall suffer harassment, retaliation or adverse employment consequence. An employee who retaliates against someone who has reported a violation in good faith is subject to discipline up to and including termination of employment. This Whistleblower Ethics Policy is intended to encourage and enable employees and others to raise serious concerns within the OCA prior to seeking resolution outside the OCA.

III. Reporting Violations

Employees should share their questions, concerns, suggestions or complaints with someone in management who can address them properly. In most cases, an employee's supervisor is in the best position to address an area of concern. However, if an employee is not comfortable speaking with his/her supervisor or is not satisfied with the supervisor's response, the employee is encouraged to speak with anyone in management whom he/she is comfortable in approaching. Supervisors and managers are required to report suspected violations of the Ethics Policy to the Chair of the Metropolitan Council Auditing Committee, who has specific responsibility to investigate all reported violations. For suspected fraud, or when you are not satisfied or uncomfortable with following the above process, individuals should contact the Chair of the Metropolitan Council Auditing Committee directly.

III. Metropolitan Council Auditing Committee

The Chair of the Metropolitan Council Auditing Committee is responsible for investigating and resolving all reported complaints and allegations concerning violations of the Ethics Policy and shall advise the Chair of the Metropolitan Council and work with the Auditing Committee until the matter is resolved. The Chair of the Metropolitan Council Auditing Committee is required to report to the Metropolitan Council at least annually on compliance activity. The Auditing Committee shall address all reported concerns or complaints regarding corporate accounting practices, internal controls or auditing.

IV. Acting in Good Faith

Anyone filing a complaint concerning a violation or suspected violation of the Ethics Policy must be acting in good faith and have reasonable grounds for believing the information disclosed indicates a violation of the Ethics Policy. Any allegations that prove not to be substantiated and which prove to have been made maliciously or knowingly to be false will be viewed as a serious disciplinary offense.

V. Confidentiality

Violations or suspected violations may be submitted on a confidential basis by the complainant. Reports of violations or suspected violations will be kept confidential to the extent possible, consistent with the need to conduct an adequate investigation.

VI. Handling of Reported Violations

The Chair of the Metropolitan Council Auditing Committee will notify the sender and acknowledge receipt of the reported violation or suspected violation within ten business days. All reports will be promptly investigated and appropriate corrective action will be taken if warranted by the investigation.

Reference: National Council of Nonprofit Associations, www.ncna.org.

Orthodox Church in America Document Retention Policy

This Document Retention Policy provides minimum guidelines for mandatory document retention and is intended to eliminate the possibility of accidental destruction of documents. This policy assumes that full, complete, and comprehensive independent audits take place on an annual basis. Further, it is assumed that a more detailed definition of “important” will be developed, approved by the Metropolitan Council, reviewed annually with independent auditors, revised as necessary, and placed as an Addendum to this Policy.

A copy of this policy shall be made available on an annual basis to each employee of the Church administration and its departments.

Type of Document	Minimum Requirement
Accounts payable ledgers and schedules	7 years
Audit reports	Permanently
Bank Reconciliations	2 years
Bank statements	3 years
Checks (for important payments and purchases)	Permanently
Contracts, mortgages, notes and leases (expired)	7 years
Contracts (still in effect)	Permanently
Correspondence (general)	2 years
Correspondence (legal and important matters)	Permanently
Correspondence (with customers and vendors)	2 years
Deeds, mortgages, and bills of sale	Permanently
Duplicate deposit slips	2 years
Employment applications	3 years
Expense Analyses/expense distribution schedules	7 years
Year End Financial Statements	Permanently
Insurance Policies (expired)	3 years
Insurance records, current accident reports, claims, policies, etc.	Permanently
Internal audit reports	3 years
Inventories of products, materials, and supplies	7 years
Invoices (to customers, from vendors)	7 years
Minute books, bylaws and charter	Permanently
Payroll records and summaries	7 years
Personnel files (terminated employees)	7 years
Retirement and pension records	Permanently
Tax returns and worksheets	Permanently
Timesheets	7 years
Withholding tax statements	7 years

Reference: National Council of Nonprofit Associations, www.ncna.org

The Orthodox Church in America

Audit Committee Principles and Standards

I. Scope of Responsibilities

The Audit Committee of the Metropolitan Council shall be responsible for supervising the annual audit of the financial statements of the OCA central administration (including, as appropriate, internal controls, operations and accounting policies) by an independent certified public accountant or accounting firm experienced in such audits. The Audit Committee also provides to the Metropolitan Council an independent insight into the internal controls, operations, accounting policies, and financial reporting of the OCA administration.

II. Membership

The Audit Committee should be established from among the elected members of the Metropolitan Council, but excluding those who have any conflict of interest in the sense of the OCA Conflict of Interest Policy. It is understood that by restricting membership to elected members that this *ipso facto* excludes any Metropolitan Council members who are part of the central administration. The Audit Committee should have access to financial expertise, preferably from among its elected members. Failing this, the Audit Committee has authority to call upon outside advisors to provide financial and other expertise as deemed appropriate.

III. Annual Independent Audit

The Audit Committee recommends to the Metropolitan Council the selection of the audit firm and secures endorsement of the Metropolitan Council to the hiring of the firm. The Committee determines the scope and plan for the audit, oversees the auditing firm's activities, holds discussions with the pertinent administrative management and the audit firm, reviews the report of the audit firm, and presents an annual Audit Committee report to the Metropolitan Council.

IV. Internal Controls and Compliance

The Audit Committee will also review internal OCA conflict of interest, ethics and confidential complaint receipt / resolution (whistleblower) policies, internal delegation of authority manual, compensation of senior level administration, compliance with internal policies / regulations as well as with governmental laws / regulations, and will recommend changes to the Metropolitan Council as necessary. In fulfilling its responsibilities, the Audit Committee has direct access to any and all administrative or staff personnel. The Audit Committee may recommend to the Metropolitan Council the granting of authority to it for conduct of investigations deemed necessary to fulfill its responsibilities.

V. Self-Assessment

The Audit Committee shall review its own performance and the adequacy of these Principles and Standards at least annually and report to the Metropolitan Council the results of that review and its recommendations arising there from.