

Section 7

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# Finance & operations

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All components must have a strong system of operational and financial policies and controls in place to prevent and detect irregularities. Component leaders—whether paid or volunteer—are responsible for maintaining these internal controls. Plan to work with an independent accountant once a year to review your component’s policies and advise you on sound financial practices.

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### **GOALS FOR ACCREDITATION**

1. Conduct secure, transparent, and timely financial practices
2. Protect tax-exempt status.
3. Participate in AIA volunteer and component staff training opportunities

**GOAL 1****Conduct secure, transparent, and timely financial practices and controls****PLAY 1: FOLLOW BEST PRACTICES IN FINANCIAL MANAGEMENT & RECORD KEEPING**

Effective financial management begins with documenting your component's fiscal policies, clarifying roles and responsibilities, and ensuring your data is an accurate and reliable basis for decision-making.

All nonprofits, including AIA and components, must protect the privacy of constituent information. Government-mandated privacy regulations provide guidelines about what information can be collected, how to establish opt-in and opt-out procedures, and how a nonprofit may use member information.

You should establish a component privacy policy—a clearly articulated guide that staff, boards, and volunteers can use. It should outline steps to protect the privacy of member information. At a minimum, the policy should contain the following:

**TOOL: ADMINISTRATIVE STEPS**

- Establish written information and security policies.
- Promote awareness by training staff and volunteers regularly.

**TOOL: PHYSICAL STEPS**

- Keep paper documents containing personal information in locked file cabinets.
- Shred paper documents and securely destroy or erase computers and devices containing personal information before discarding.
- For offices, limit the number of people who have access to building keys or alarm codes.

**TOOL: TECHNICAL STEPS**

- Use antivirus software and stay current with security patch updates.
- Use strong passwords and change them regularly.

**REQUIREMENT:**

Ensure that financial data and transactions are secure for the protection of both customers and the component. If your component accepts credit cards as a form of payment, you must process these cards in accordance with the Payment Card Industry Data Security Standard (PCI DSS). PCI DSS is a set of standards that the credit card industry sets. Please call your merchant services provider to verify compliance.

**ONLINE RESOURCES:**

[Record Keeping IOI](#)

**PLAY 2: MAINTAIN A BANK ACCOUNT**

Components must maintain a bank account for deposits and payments. As described in the Membership chapter of this playbook, AIA regularly deposits member dues payments into each component's bank account. Your component bank account should be established under your component's taxpayer number. The account must be separate from your personal accounts and also from other components' accounts.

Depending on the size of your component and its assets, account management can range from simple to more complex. For a small component, you may not need much more than a checkbook. As your component grows, you'll likely need to develop more elaborate systems.

Establish clear procedures about who is responsible for daily maintenance of bank accounts and who is authorized to sign checks. At a minimum, segregate responsibilities, assigning one staff person or board member to post transactions and another to reconcile and regularly review bank accounts.

Provide the bank statement to your component's executive director or treasurer unopened, to be reviewed prior to account reconciliation. Clearly articulate who is responsible for authorizing payments and reviewing credit card statements. Dividing these responsibilities in a small or volunteer-led component can be difficult, but such a system will help you avoid problems such as embezzlement or fraudulent charges. Create a finance committee to allocate responsibilities or designate board members to different tasks.

**TOOL: CONSIDER THESE ADDITIONAL SAFEGUARDS:**

- Require two signatures for checks over a board-established amount
- Assign someone to review and authorize payments prior to disbursement
- Ensure that invoices or other back-up documents accompany all requests for checks or cash disbursements
- Never pre-sign checks
- Require prior written approval for credit card expenses exceeding a certain amount
- Require back-up documentation for all credit card expenses
- Verbally confirm any written or emailed request from an Executive Director, President, or Treasurer to transfer funds

Be aware that many fraudulent schemes seem legitimate. Appropriate financial controls help mitigate the risk of becoming a victim of fraud.

Bob Harris of the Nonprofit Center has developed some best practices for nonprofits, including information on risk management and financial policies and procedures, which you can find at [rchcae.com](http://rchcae.com).

**PLAY 3: ISSUE REGULAR FINANCIAL REPORTS AND REPORT YEARLY DUES RATE BY THE INSTITUTE'S DEADLINE****REQUIREMENT:**

In addition to creating an annual budget that your board of directors approves, provide at least quarterly financial reports of income and expenses (profit/loss statement). It allows leadership to confirm that costs are consistent with your budget and aligned with your strategic plan, identifies discrepancies and potential financial issues quickly, and compares actual results to the budget. These steps allow the board to execute its fiduciary responsibilities.

Establish a reporting procedure for every board meeting and record in the meeting minutes that financials were presented. At a minimum, your reports should include:

- a balance sheet showing assets and liabilities
- an income statement showing income and expenses vs. approved budget over a period

**REQUIREMENT :**

Components should report their dues rates to AIA Member and Component Support as required by the Institute's schedule (currently September 15) to ensure that dues revenue reach the component without delay.

**ONLINE RESOURCES :**

[Financial reporting best practices & samples](#)

**PLAY 4: CONDUCT AN ANNUAL FINANCIAL AUDIT**

**REQUIREMENT :**

Adopt an audit or review policy. When there is no audit by an accountant, reviews may be performed by an independent financial review committee appointed by the board.

If an audit is not fiscally possible, there are less costly alternatives such as a financial review or a financial compilation. A financial review is also conducted by an independent CPA, but the process is not as thorough as an audit. The review will state whether the CPA is aware of any modifications that should be made so that the financial statements conform with generally accepted accounting principles. With a review, the CPA will not provide an opinion on the financial statements but will provide limited assurances about the financial statements.

A financial compilation simply assembles the financial statements from the information the component provides. An independent CPA doesn't audit or review the records, and therefore the CPA expresses no opinion or assurances about whether the records comply with generally accepted accounting principles.

During an audit, the CPA will thoroughly examine your component's accounting records and financial statements to test the accuracy of the records and internal controls.

Afterward, the auditor provides an opinion as to whether the financial statements are fair and accurate. An auditor's positive assessment indicates that component staff and leadership are keeping financial records responsibly.

**PLAY 5: UNDERSTAND IRS AUDITS & FORMS**

**TOOL: IRS AUDIT**

During an IRS audit, an IRS agent examines your component's tax returns, books, and records. Even if your component has satisfied all its financial and tax obligations, the audit process can be disruptive and time consuming. You can find information regarding nonprofits and IRS audits on the [IRS website](#). If your component is notified of an IRS audit, you should consult a CPA or tax attorney for help through the process.

**GOAL 2****Protect your tax exempt-status**

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**TOOL: IRS FORM 990****REQUIREMENT:**

All nonprofits—including AIA components (with the possible exception of voluntary sections)—must file annual returns to ensure continued tax-exempt status.

The form you'll use—IRS Form 990—varies, from a simple electronically filed return for organizations with income under \$50,000 (990-N) to the standard 990.

These returns are due on May 15 every year unless you have filed for an extension. The IRS provides 990 information on thousands of nonprofit groups, including AIA and its components. The IRS Compliance Guide for Tax-Exempt Organizations can be downloaded from the IRS website.

Often, your component must also file an income tax return in its state or local jurisdiction. You'll likely have to file other corporate reports and tax—for example, sales tax returns, personal property tax returns, and filings with the secretary of state where your component is incorporated. Check with an accountant to determine if your component must file additional returns for state, local, or municipal entities.

[Download Form 990](#)

**TOOL: UNRELATED BUSINESS INCOME TAX (UBIT)**

Tax-exempt organizations are generally not subject to a corporate-level income tax, but there are circumstances under which your component may be subject to such a tax, known as UBIT. UBIT requires payment of tax on commercial activities considered outside the scope of exempt purposes. The laws regarding UBIT are complex, and you should seek counsel from a tax expert to help safeguard you against potential issues. IRS publication 598 describes UBIT regulations in greater detail; this document is available on the IRS website.

**ONLINE RESOURCES:**

[IRS Form 990](#)

[Banking Polices 101](#)

**GOAL 3****Participate in AIA volunteer and component professional development staff training opportunities****PLAY 1: PROVIDE MANDATORY & OPTIONAL STAFF TRAINING****TOOL: GRASSROOTS****REQUIREMENT:**

Components must send at least one elected leader to Grassroots at least once every three years for leadership training. Executive directors who work at least 30 hours per week should also attend at least one every three years.

Grassroots, the AIA's leadership event, provides two to three days of presentations and workshops, allowing leaders to network and share innovative practices. The Event is designed to share knowledge, tools, and resources with peers, learn effective chapter leadership programs and strategies and stimulate change in your chapter, firm and community. Free registration is given to one chapter executive and two leaders or one all-volunteer leader.

**TOOL: CACE ANNUAL MEETING****REQUIREMENT:**

Component executive directors who work at least 30 hours per week must attend the Council of Architectural Component Executives (CACE) annual meeting at least once every three years.

The CACE annual meeting brings together local and state component executives and staff for professional development and training. There, CACE members can enhance their association management skills and network with peers and AIA national staff. CACE members also engage in discussions about component and AIA programs and initiatives and share best practices and concerns.

CACE also conducts a business meeting to select CACE officers, disseminate up-to-date information on issues being discussed by CACE committee members and AIA leadership, and address issues of concern. There is no registration fee, but components must pay their own travel and expenses.

**TOOL: INSTITUTE RESOURCE TRAINING****REQUIREMENT:**

New executive directors who work at least 30 hours must attend Institute Resource Training (IRT) within two years of being hired.

IRT is an intensive program designed for new component executives to enhance their understanding of AIA resources, including how to implement them at the state and local levels. Participants work in small groups with AIA staff to exchange ideas about making the most of programs and services. Executive Directors also benefit from networking and information exchange with other component executives and membership in the CACE Executive Committee. AIA national pays for travel and hotel expenses.