

Connecticut Land Trust Service Bureau

Practice Note #5: Accounting, Audits and External Review

The following best practice guidelines are extracted from LTANet and from the Standards and Practices Guidebook, LTA 1997 (see Practices 6E, 6F, 6G and 6H for more information):

- ◆ Land trusts should have a sound system of internal controls and procedures for handling money, in a form appropriate for the scale of the organization. **The system should be described in writing, with clear definitions of all duties.**
- ◆ Proper **internal control** is crucial, not only to help protect the organization against theft, fraud and loss due to unethical or illegal behavior, but also to inspire confidence in donors, regulators, and other directors.
- ◆ Internal control is a *system of checks and balances that keeps any one person from having complete and exclusive control over a financial transaction*. All-volunteer organizations may find it difficult to have two people involved in handling finances, but it is essential to preventing financial misappropriation.
- ◆ **Cash receipts:** Only one person should receive incoming cash (checks or currency). This person should maintain a listing or log detailing the date of the receipt, the payer, and the amount received. After the receipts are logged, a deposit should be prepared—preferably by someone other than the person preparing the log. Deposits should be made in a timely manner. At the end of an accounting period, a third person should make a comparison between the receipt log and the monies deposited in the bank. Receipts in the form of checks should be endorsed promptly.
- ◆ **Cash disbursements:** All disbursements should be made by check or credit card, and supporting documents should be kept for each disbursement. The supporting documents should be marked “paid” and the payment date, check number, and account or budget category for which the disbursement was made should be written on the invoice. Any invoice for purchases should be approved for payment by someone who knows what the expense is for, preferably not the same person signing the check. The approval should be in the form of initials on the invoice. If the person signing the check is also the bookkeeper, two signatures should be required on all checks. It is also a good idea to have two signatures required at a certain dollar limit. The land trust also should set up a payment system that avoids paying an invoice twice.
- ◆ **Other controls:** It is best if the bank statement(s) is reconciled by someone who is not a check signer; Any write-offs of accounts receivable or other assets should be authorized by the board; Marketable securities (stocks, bonds, etc.) should be kept in a bank safe deposit box or held by a bank as custodian.
- ◆ Land trusts with budgets of more than a few thousand dollars should have a professional accountant evaluate and customize their internal control system.

- ◆ Land trusts should also keep clear, complete, and accurate financial records. For financial records to be clear and credible, they should conform to “**generally accepted accounting principles**” (GAAP).
- ◆ At a minimum, most volunteer land trusts need to maintain the following accounting records:
 - Cash receipts journal
 - Cash disbursements journal
 - General Ledger
- ◆ **Double-Entry Bookkeeping** should be observed to ensure accurate records. Each entry in a journal should be supported by documentation, which should be retained for an appropriate period of time.
- ◆ The **General Ledger** is produced from information contained in the journals. The general ledger is the data from the journals organized by account. If the journals are maintained correctly, then the general ledger can be generated at any time by anyone inside the land trust or by an independent accountant.
- ◆ Most land trusts should consider producing the following financial reports: interim statement of activity (also called a “budget to actual” report), cash flow report, and balance sheet or statement of financial position.
- ◆ **The board should receive and review financial reports and statements** in a form and with a frequency appropriate to the scale of the land trust’s financial activity.
- ◆ All but the smallest of land trusts should have an **independent audit** every few years. Many land trusts should be audited every year. As an alternative to an audit, a CPA can conduct a less intensive assessment of financial records, called a **review**.
- ◆ For a land trust with a budget of only a few thousand dollars and simple financial records, an audit may not be necessary or worth the cost. In these cases the board may want to establish an audit committee to conduct an internal review of financial records and systems.
- ◆ The audit committee should consist of two or more members of the board of directors who feel capable of reviewing the organization’s records. The procedures performed in this review should resemble those applied by independent accountants.
- ◆ Consult the following websites for more information on Generally Accepted Accounting Practices:
 - <http://www.cpadvantage.com>
 - <http://cpaclass.com/gaap/gaap-us-01a.htm>
 - <http://www.fasb.org>

This Practice Note is funded in part through a New England Leadership Grant from the Land Trust Alliance (LTA) Northeast Program underwritten by LTA's generous individual and foundation supporters.