



LADCO | LAKE MICHIGAN
AIR DIRECTORS CONSORTIUM

FINANCIAL MANAGEMENT MANUAL

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Lake Michigan Air Directors Consortium
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I. OVERVIEW

A. Purpose

The purpose of this manual is to describe the financial accounting policies and procedures of the Lake Michigan Air Directors Consortium (LADCO). The manual also details the internal controls and specific methods to safeguard LADCO's assets, check the accuracy and reliability of recorded accounting data, and promote efficiency in the accounting operations.

B. Basic Principles

It is LADCO's policy to maintain good accounting records based on generally accepted accounting principles for non-profit organizations, subject to different donor agency guidelines, as applicable. In particular, LADCO shall comply with the requirements of Environmental Project Agency (EPA) regulation 40 CFR Part 30 (Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations), and with the Office of Management and Budget (OMB) Circulars 2 CFR 200 and 1500 (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards) and A-122 (Cost Principles for Non-Profit Organizations). LADCO financial records and reports are maintained and prepared on an accrual basis.

Accurate accounting and financial reporting within LADCO are integral to providing the necessary information for budgeting, planning, and management responsibilities. To achieve this, LADCO's financial management and reporting systems are constructed so that:

- each funding source is individually identified and individual expenses are coded in a manner to ensure that the expense is charged to the correct funding source;
- costs are treated consistently with LADCO's written policies and procedures and are applied uniformly between federal and non-federal funds;
- all payments are based on fully supporting documentation;
- all financial records are supported by source documentation;
- only reasonable and necessary costs for the performance of an award are charged to that award;
- reports can compare actual expenditures with planned expenditures; and
- the lapsed time between any advance of federal funds and the actual expenditure is minimized.

LADCO employees who have access to organization funds in any form must follow the prescribed procedures for recording, handling, and protecting money as detailed in this document. Specifically, these employees shall:

- act with honesty and integrity, avoiding actual or apparent conflicts of interest in personal and professional relationships;
- provide constituents with information that is accurate, complete, objective, relevant, timely, and understandable;
- comply with rules and regulations of federal, state, provincial, and local governments, and other appropriate private and public regulatory agencies;
- act in good faith; responsibly; and with due care, competence, and diligence, without

misrepresenting material facts or allowing one's independent judgment to be subordinated;

- respect the confidentiality of information acquired in the course of one's work except when authorized or otherwise legally obligated to disclose. Confidential information acquired in the course of one's work will not be used for personal advantage;
- share knowledge and maintain skills important and relevant to constituents' needs;

LADCO imposes strict standards to prevent fraud and dishonesty. If employees become aware of any evidence of fraud and dishonesty, they should immediately advise the Executive Director or any member of the Board of Directors, so that the organization can promptly investigate further. When an employee's position requires spending organization funds or incurring any reimbursable personal expenses, that individual must use good judgment on the organization's behalf to ensure that good value is received for every expenditure.

Organization funds and all other assets of the organization are for organization purposes only and not for personal benefit. This includes the personal use of organizational assets, such as computers.

Employees must not make or engage in any false record or communication of any kind, whether internal or external, including but not limited to: (a) false expense, attendance, production, financial, or similar reports and statements, or (b) false advertising, deceptive marketing practices, or other misleading representations.

In accordance with Article XX of the LADCO By-Laws (June 25, 2020), "(t)he Consortium shall hire a Certified Public Accounting firm to assist in establishing an accounting system utilizing Generally Accepted Accounting Principles which meet the requirements of the Single Audit Act and reporting requirements of those states which are member of the Consortium." LADCO will hire an accounting firm to provide this support.

Within LADCO's financial management and reporting system, a number of checks and balances have been established. Given the small size of the LADCO staff, there are limitations in our ability to provide a complete separation of duties and responsibilities. We believe, however, that through the combination of a sound accounting system, daily attention by our Office Managers, regular oversight by management, and independent activities, such as our annual financial audit and monthly reviews by an accountant, we can achieve sufficient separation of duties and responsibilities. A summary of the separation of financial duties is provided in Table 1.

Table 1. Separation of Financial Duties

Activity	Duty	Responsibility
Receiving Funds	Prepare and submit federal grant applications	Executive Director
	Sign federal grant agreements	Executive Director
	Drawdown federal funds	Office Manager w/ approval of Executive Director
	Establish state contracts, as appropriate	Executive Director
	Sign state contracts	LADCO Chair and Treasurer
	Submit quarterly invoices for state contracts	Office Manager w/ approval of Executive Director
	Open envelopes with state checks	Executive Director
	Deposit state checks in bank	Office Manager or Executive Director
	Prepare quarterly financial statements	Executive Director w/ help from Office Manager
Paying Bills	Review invoices and gather supporting documentation	Office Manager
	For credit card bills, prepare documentation for each expense, identify unapprovable expenses (e.g., personal expenses), and categorize all approvable expenses (For any unapprovable expenses, obtain reimbursement prior to paying the bill.)	Office Manager
	For credit card bills, approve identification of approvable and unapprovable expenses, and categorization of all approvable expenses	Executive Director
	Authorization for payment (invoices \geq \$20K) (Note: payment of these invoices is addressed below under Banking)	LADCO Chair and Treasurer (via e-mail or in person)
	Authorization for payment (invoices $<$ \$20K)	Executive Director
	Enter bills into Quickbooks	Office Manager
	Print checks and prepare electronic checks	Office Manager
	Match checks with invoices, and sign checks; approve electronic checks	Executive Director

	Match checks (or cashiers checks) with invoices for mailing, make copies of appropriate documentation for files, and mail checks (or cashiers checks)	Office Manager
Banking	Transferring of funds (generally, on-line)	Office Manager
	Deposit state (and other) checks	Office Manager or Executive Director
	Obtain cashiers checks for invoices > \$20K from bank (note: to save time, a list of needed cashiers checks are faxed to bank and then picked up later)	Office Manager or Executive Director
Reconciling Bank Accounts	Open monthly bank statements	Executive Director
	Reconcile bank accounts with Quickbooks every month	Office Manager
	Review reconciliation	Executive Director
	Send reconcialition to accountant for verification	Office Manager
Payroll	Prepare monthly timesheets	Office Manager
	Complete and submit monthly timesheets	Individual employees
	Approve and sign monthly timesheets	Executive Director
	Report payroll to PAYCHEX (and work with PAYCHEX, as necessary, to make any adjustments or corrections)	Office Manager
	Review and approve payroll journal from PAYCHEX	Executive Director
State Travel Reimbursements	Review invoices and gather supporting documentation	Office Manager
	Authorization for payment (invoices < \$10K)	Executive Director
	Enter bills into Quickbooks	Office Manager
	Print checks	Office Manager
	Match checks with invoices, and sign checks	Executive Director
	Match checks with invoices for mailing, make copies of appropriate documentation for files, and mail checks	Office Manager
	Maintain log of training-related travel expenses	Office Manager

Equipment	Maintain property log	Office Manager
	Obtain signed loaned property forms	Office Manager
	Issue (and, as appropriate, apply) LADCO property tags	Office Manager and Systems Administrator
	Inventory property annually	Office Manager and Systems Administrator

C. Maintaining and Retaining Records

Accurate and reliable records of many kinds are necessary to meet the organization's legal and financial obligations and to manage the affairs of the organization. LADCO's books and records must reflect in an accurate and timely manner all business transactions. The employees responsible for accounting and recordkeeping must fully disclose and record all assets, liabilities, or both, and must exercise diligence in enforcing these requirements. Financial records, supporting documents, statistical records, and all other records pertinent to an award will be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report.

CHART OF ACCOUNTS

LADCO's accounting system shall ensure that all expenditures are properly recorded and assigned to the appropriate grant or contract. For each grant or contract, expenditures shall be tracked, at a minimum, according to the federal object class categories: personnel, fringe benefits, travel, equipment, supplies, contractual, construction, and other. A detailed chart of accounts has been developed in consultation with the accountant.

II. CASH MANAGEMENT

A. Cash

Only cash necessary to meet anticipated day-to-day expenditures plus a reasonable cushion for emergencies shall be kept available. Any excess cash (i.e., non-federal) shall be held in a non-interest bearing bank account, as approved by the Board of Directors.

LADCO will maintain a bank balance sufficient for its immediate operating needs.

All cash and checks received must be deposited promptly; preferably, within one or two working days.

Cash disbursement (check payments) must be released according to invoice terms and on a timely basis to ensure continued good relationships with vendors. Invoices are paid in full to avoid incurring any interest penalty.

LADCO does not maintain a petty cash fund.

B. Bank Accounts

A separate general ledger account is maintained for each bank account. A separate bank account may be opened to meet the specific requirements of a donor or as deemed necessary by LADCO.

The accountant will, as necessary, review all open bank accounts and make recommendations to the Executive Director for any account that should be closed.

Bank accounts are normally maintained in interest bearing accounts, unless specific donor requirements dictate otherwise

Bank account balances are normally kept under \$250,000 to qualify for FDIC insurance.

C. Advance of Federal Funds

LADCO will, at a minimum, draw down federal grant funds quarterly on a reimbursement basis (i.e., the drawdown will match the actual amount of federal funds spent in a given quarter and will occur after the end of that quarter). If necessary, however, then LADCO reserves the right to draw down federal grant funds on a more timely basis, including in advance of issuance of checks. It is LADCO's policy to minimize the time elapsed between drawing down Federal funds and the issuance of check. The amount of drawdowns will be limited generally to the minimum amount needed and is done at the time payments are made (i.e., normally once a week, but more often, if necessary). Consequently, advances are generally as close as is administratively feasible to the actual disbursements.

The Executive Director is responsible for making any drawdowns.

D. Cash Receipts

The mail is to be opened by the Office Manager, and all checks received must be recorded in the LADCO accounting system. The accounting system must include the date, name of sender, amount, and purpose of all checks received. The Office Manager shall make a copy of each check. The Office Manager will prepare a letter of acknowledgement, where appropriate, to the donor for the Executive Director's signature.

For checks that represent payment to LADCO for a LADCO-sponsored workshop, conference, or training, the Office Manager will identify the grant or project associated with the payment. For a federally funded project, the payment shall be treated as program income.

All cash and checks received must be deposited promptly; preferably, within one or two working days.

III. CHECK PROCESSING

A. Authorized Check Signers

In accordance with the LADCO By-Laws (June 25, 2020):

“The Treasurer shall receive and disperse funds in accordance with the policies determined by the Board of Directors.” (Article XI, Section 4)

“Some or all duties of the Secretary and the Treasurer may be delegated in writing to one or more of the executive staff.” (Article XI, Section 5)

In accordance with these provisions, the Executive Director has been authorized to write and sign checks drawn against the accounts of the Consortium, up to the amount of twenty thousand dollars (\$20,000) per check, for the following administrative purposes:

- payment of contractors with whom the Board of Directors has negotiated a contract, provided that the contractors have performed the work to the satisfaction of the Board;
- payment of on-going or regularly recurring expenses of the organization, including, but not necessarily limited to, monthly rent, telephone charges, utility charges, and equipment rental fees;
- purchase of office supplies, postage, and other expendable items, as required;
- payment of salaries to any and all employees of the Consortium, as authorized by the Board of Directors;
- reimbursement of expenses incurred by Consortium employees, members of the Board of Directors, and ay others, in performance of duties directly related to the work of the Consortium, provided that proper documentation is supplied;
- purchase of equipment necessary for the operation of the Consortium offices, including, but not limited to, facsimile machine, computer systems, copy machines, and office furniture; and

- any other incidental purposes as may arise for the orderly operation of the Consortium offices.

B. Payment Procedures

Each check to be signed must be accompanied by original supporting documentation. The Office Manager and the Executive Director shall ensure that the original supporting documents, including invoices, are maintained in the vendor's file.

Checks presented for payment (i.e., to be signed) are to be signed as expeditiously as practicable.

Invoices must be paid according to invoice terms and are processed on a timely basis to ensure continued good relationships with vendors. Invoices are paid in full to avoid incurring any interest penalty.

Checks will not be made payable to "bearer," "cash," or some other unidentifiable entity.

Blank checks will not be signed and left blank to be filled in later by a third party.

Signed checks must be returned directly to the Office Manager for mailing. It is LADCO's policy to mail checks as expeditiously as practicable after they are signed.

C. Supporting Documentation for Payments

For project-related expenditures, all supporting documentation, including funding source, must be approved for payment by the Executive Director.

Payment must be made only from original invoices. No payment will be made based on photocopies of invoices or from vendor statements. A signed fax of an invoice is acceptable if approved by the person signing the check for payment.

IV. BANK ACCOUNT MANAGEMENT

A. Bank Statement and Reconciliation

All bank statements are sent to LADCO and opened by the Executive Director. The bank statements shall be reviewed by the Executive Director and the bank reconciliation performed on a monthly basis. Bank reconciliations must be completed no later than 10 business days following receipt of the bank statement. Reconciliations must agree with the general ledger.

The Office Manager will review all outstanding checks on a monthly basis. For those outstanding more than two months, the Office Manager shall call the payee to ascertain the status of the payment. The Office Manager will continue to call the payee until the check is deposited, and if a check is still outstanding after six months, the Office Manager will contact the bank and place a stop order on the check.

B. Check Control

The Check Register, which is internal to the LADCO accounting system, is maintained by the Office Manager. The check register identifies the check number, date the check was issued, vendor, purpose and amount.

Checks are kept under lock, and physical access to unissued checks is restricted to the Office Manager and the Executive Director.

At the end of each month, the bank returns copies of bank processed checks (cancelled). All bank processed checks will be maintained in numerical sequence. The Office Manager will update the check register to identify those checks that have cleared the bank.

C. Voided Checks

A check will be voided when it has been found that the check was issued in error (e.g., wrong amount or wrong vendor).

Voided checks will be marked "VOID" in large letters. All voided checks will be numerically sequenced with the bank processed, cancelled checks.

The check register in the QuickBooks Pro accounting system will be updated to identify the check number of any cancelled checks.

Once the bank has been notified to place a stop order on any check, then that check number must be voided within the QuickBooks Pro accounting system. If a new check is subsequently issued, then a cross-reference will be made to the cancelled check.

V. CREDIT CARD USE

A. Credit Card Company

LADCO uses CitiBusiness as its credit card company at this time.

B. Authorized Cardholders

Credit cards are issued only to regular, full-time and, upon approval by the Executive Director, regular, part-time employees. There are no other authorized cardholders.

VI. CLOSE-OUT

A. Monthly

Prior to month end close-out, all accounting transactions, including journal vouchers, will be posted. The Office Manager will close-out by the fifth working day of the month. LADCO's accounting system (QuickBooks Pro) has a close-out feature that automatically updates all the accounting files and reports. Once the close-out has occurred, the Office Manager will perform the bank reconciliation.

Copies of both the monthly bank statements and reconciliation are mailed to the accountant for their review.

B. Quarterly

The same procedures as month-end will be followed.

The Executive Director shall prepare the Financial Status Report (SF 425) for each federal grant and submit it to the appropriate federal agency. Similar quarterly financial summaries shall be also prepared by the Executive Director for any other funding source (i.e., state contracts).

C. Year-End

The same procedures as quarter-end will be followed at year-end.

The Office Manager, with assistance from the accountant, will prepare the necessary year-end financial reports. These will be used in preparing for the year-end OMB Circular A-133 audit, and will include, at a minimum: statement of financial position; statement of activities; statement of cash flow; and schedule of expenditures of federal funds.

VII. AUDIT

In compliance with OMB Circular A-133, LADCO will hire a qualified accounting firm to conduct an annual financial audit. The audit will be performed according to the requirements of OMB Circular A-133 and will take place shortly after the end of the federal fiscal year. The Executive Director is responsible for sending copies of the audit report and related documentation to the appropriate federal authorities.

VIII. FIXED ASSETS

A. Definitions

As defined in LADCO's "Property Management Policy Manual", real property is land, including land improvements, structures, and appurtenances thereto, but excludes movable machinery and equipment; personal property is any kind of property that is not real property; and equipment is a fixed asset having a useful life of more than one year and an acquisition cost of more than \$5,000.

B. Recording of Fixed Assets

Fixed assets, the cost and accumulated depreciation, shall be recorded. An off-line depreciation schedule shall be provided by the accountant and any additions, disposals, and period depreciation must be updated to the detailed ledger monthly. On a monthly basis, the detailed depreciation schedule must be reconciled with the general ledger for asset cost and accumulated depreciation.

Fixed assets are stated at cost plus shipping and training, if applicable. Donated property and equipment are stated at the fair market value at the date of donation.

Depreciation is computed using a straight-line method over the estimated useful life of the assets, normally three to five years.

Any differences disclosed by the annual inventory must be resolved in accordance with LADCO's "Property Management Policy Manual". The accountant may be asked to review and approve the results, and post any adjustments.

C. Recording of Fully Depreciated Assets

Fully depreciated assets must remain on the property records with the related accumulated depreciation as long as the property is still in use.

For fully depreciated assets, LADCO will follow OMB Circular A-122, Attachment B.11 and charge a reasonable use allowance. The use allowance for equipment will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost.

IX. PAYROLL

A. General

The Office Manager shall maintain payroll records to determine: who will be paid, in what amounts, for what time periods, how to allocate labor charges between direct and indirect funding, and the dollar amount to be charged each funding sources for direct labor. The Executive Director shall assist in the determination of direct and indirect costs.

B. Timekeeping

LADCO pays on a bi-monthly basis (i.e., twice per month), and uses a monthly personal activity report to record each employee's time during the month (see LADCO's "Personnel Policies and Procedures Manual"). For salaried employees, each employee shall complete their monthly personal activity report, have it signed by the Executive Director, and submit it to the Office Manager after the last day of each month. For hourly employees, each employee shall complete their bi-monthly personal activity report, have it signed by the Executive Director, and submit it to the Office Manager after the 15th and last day of each month.

C. Payroll Processing

LADCO has hired a payroll service to assist in preparing its payroll. The Office Manager will work with the payroll service to draft the payroll on a bi-monthly basis. The Executive Director will review payroll journals and direct the payroll service to release the payroll for every pay period. The Office Manager is responsible for making any salary adjustments or labor allocation costs based upon the actual, after-the-fact personal activity reports submitted at the end of the month.

D. Payment.

Each employee will be paid by automatic deposit on the 15th and the last day of each month.

X. INTERNAL CONTROL

A. General

It is LADCO's policy to have a system of checks and balances in all of its operations. Basic controls and check and balances are incorporated throughout each of LADCO's policies and procedures manuals: "Personnel Policies and Procedures Manual", "Property Management Policy Manual", "Procurement Policy Manual", "Travel Policy Manual", and "Financial Management Manual".

B. Non-Financial Internal Controls

To safeguard LADCO's assets, check the accuracy and reliability of recorded accounting data, and promote efficiency in the accounting operations, the following non-financial internal controls have been instituted:

- All trip requests must be approved by the Executive Director prior to booking a trip.
- Paid overtime to a non-exempt employee must be approved in advance by the Executive Director.
- LADCO loaned property must be supported by a Loaned Property form.
- Inventories are taken once per year.
- There are different thresholds for authority to initiate procurement actions.
- The Board of Directors, or its representative, is frequently used as a check/balance in LADCO's day-to-day operations (e.g., signing checks over \$20,000).
- There is an annual meeting of the Board of Directors.

C. Financial Internal Controls

To safeguard LADCO's assets, check the accuracy and reliability of recorded accounting data, and promote efficiency in the accounting operations, the following financial internal controls have been instituted:

- The same person cannot write a purchase order and sign a check.
- Control over use of credit cards. Any purchases by an unauthorized credit cardholder must be approved in writing by the holder of the credit card.
- A log is used to record all checks received.

XI. FUNDS CONTROL

A basic element of project accounting is funds control (i.e., writing commitments such as contracts and purchase orders when project funds are available). This is an integral part of LADCO's internal controls and funds control. Consequently, as stated in LADCO's "Procurement Policy Manual": "(p)rior to forwarding the procurement instrument for signature, the Executive Director shall verify that funds are available to cover the costs of the procurement."

XII. BUDGETS

A. Annual Budget

The Executive Director shall prepare each spring an operating budget for the following federal fiscal year and present it to the Board of Directors for their review and approval. The budget will include a discussion and presentation of LADCO's internal operations, as well as the programmatic budgets and plans for the coming year.

B. Project Budgets

The Executive Director shall prepare at the beginning of a new project (and for each subsequent year) a budget of annual, planned expenditures. On a quarterly basis during the project year, the Office Manager and Executive Director will track planned versus actual expenditures.

XIII. INDIRECT COSTS

Indirect costs (i.e., facilities and administrative expenses) shall be equitably distributed across all federal and non-federal grants and contracts using an indirect rate. LADCO received approval from U.S. EPA to use the 10% de minimis indirect rate on May 18, 2020.