

## EMERGING TRENDS IN THE FY 2001 OPERATION OF CHAPTERS

Audit Services performed over 80 audits at Red Cross chapters across the country during fiscal year 2001. The consolidated results of these audits revealed emerging trends that should help identify internal control matters and key business risks for our chapters.

Analysis reveals that the prevalent variables creating such trends are the limited resources of our chapters and the lack of appropriate volunteer governance or management oversight. While we acknowledge these factors are difficult to overcome, we also know many chapters have surmounted these challenges and succeeded. Every chapter has an obligation to make the effort to ensure effective operations and thus maintain the trust of the American people.

The fiscal year 2001 trends are provided with recommended solutions for improvement and resource contacts at national headquarters. The manner in which you elect to implement the suggestions will depend on your chapter's unique circumstances. Additional reference and resource materials are included at the conclusion of this document.

Best practices continue to indicate that the use of this tool will help improve the efficiency and effectiveness of a chapter's operations. Audit Services has other useful tools available at its website on CrossNet (i.e., <https://corpweb.redcross.org/audit/refcenu/index.html>). In addition, each chapter should develop business processes that answer the following questions: "How do we prevent these situations from occurring in the future?" and "How do ensure that our solutions are sustainable?" The processes should be "built in" as opposed to "built on" and should be reviewed periodically to ensure that each process continues to meet its intended need.

Your suggestions for making this and other documents issued by Audit Services more useful are always welcome. If you need additional information, please contact Gregory C. Campbell, Client Services Manager, at national headquarters, (703) 248-4105 or e-mail [CampbellG@usa.redcross.org](mailto:CampbellG@usa.redcross.org).

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## FINANCIAL RESOURCES

| Trends  | Solutions and Resources  |
|---|--|
| <p>The chapter does not have adequate oversight of its accounting function. In addition, an adequate segregation of duties does not exist. These issues are evidenced by the following trends:</p> <ul style="list-style-type: none"> <li>• <u>National disaster contributions are not remitted to national headquarters or are not remitted timely.</u> ☹</li> <li>• <u>Bank reconciliations are not completed, or not completed timely, reviewed, or tested by someone with no cash-related responsibilities and/or signed and dated by the reviewer.</u> ↻</li> <li>• <u>One individual opens the mail, records cash receipts, prepares the bank deposit, and/or takes the deposit to the bank.</u> ↻</li> <li>• <u>The blank check stock is accessible to individuals other than the preparer or is not safeguarded.</u> ↻</li> <li>• <u>Some disbursements (e.g., payroll checks, general operating account, and investment account) require only one signature.</u> ↻</li> <li>• <u>Accounting records (e.g., cash receipts, cash disbursements, and journal entries) are not reviewed by someone other than the preparer.</u> ☹</li> <li>• <u>Cash receiving, recording, and disbursing functions are not segregated.</u> ☹</li> </ul> | <p>To demonstrate public accountability and as a steward of the public's trust and voluntarily contributed funds, the chapter must honor any contributions that are restricted as to use by the donor. The obligation includes prompt remitting of amounts due to national headquarters from campaign receipts, federated campaign payments, contributions to the Disaster Relief and the International Response Funds, or from Disaster Relief campaigns. The chapter should remit the monies owed to <u>national headquarters immediately to meet donor expectations and to comply with corporate policy.</u></p> <p>Due to the limited number of chapter staff, it may not be practical to properly segregate the various accounting functions. Therefore, we recommend that an individual, designated by the board of directors, periodically review the accounting records. The reviewer should initial and date the reviewed records to evidence his or her timely review. Whenever possible, the chapter should take steps to ensure that no one individual has responsibility for a financial transaction from beginning to end, thus strengthening internal controls. In addition, to improve internal controls over the cash disbursement function, the blank check stock should be accessible only to the individual(s) authorized to prepare checks.</p> <p>Contact: Audit Services<br/>Telephone Number: (703) 248-4100</p> |
| <p><u>Endowment monies are not appropriately maintained (e.g., maintained locally).</u> ☹</p>   | <p>All endowment monies, which are funds for which the donor has stated that only the investment income earned from the contribution can be used by the chapter, must be forwarded to national headquarters. Corporate policy and procedures for endowment funds are included in the American Red Cross <i>Financial Manual of Policy and Procedures (FMPP)</i> (ARC 4500), sections 4.1.16 and 4.1.17.</p> <p>Contact: Office of the General Counsel<br/>Telephone Number: (202) 639-3262</p>   |




☹ - Critical Issue

↻ - Major Issue

☹ - Minor Issue

☹ - Housekeeping Issue

## FINANCIAL RESOURCES

| Trends   | Solutions and Resources  |
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| <p>Investments (e.g., stocks, corporate bonds, and collateralized mortgage obligations) are not in compliance with corporate policy. </p>   | <p>The chapter should review the American Red Cross <i>Handbook of Corporate Governance and Board of Governors Policies</i> (ARC 575), "Board of Governors Policy Manual, Part Two," sections 4.4, 4.5, and 4.6 for allowable investments.</p> <p>Contact: Treasury Management<br/>Telephone Number: (703) 206-8078</p>  |
| <p>The chapter does not adequately or accurately inform the public about its financial and service delivery operations. This issue is evidenced by the following trends:</p> <ul style="list-style-type: none"> <li>• The chapter does not publish an annual report or does not distribute an annual report or it is not completed timely.</li> <li>• The annual report contained condensed financial information, no financial information, or the financial information presented did not agree with the audited, compiled, or reviewed information reported in the chapter's American Red Cross <i>Annual Chapter Financial Statements</i> (ARC Form 4684 series). </li> </ul> | <p>To demonstrate public accountability and as a steward of the public's trust and voluntarily contributed funds, the chapter needs to regularly tell its story to donors, consumers, and other stakeholders. This should be done through an annual report that contains financial statements and verified service data. The American Red Cross <i>Handbook of Corporate Governance and Board of Governors Policies</i> (ARC 575), "Board of Governors Policy Manual, Part Two," sections 4.12.4 and 4.12.5, requires chapters to issue annual reports to the public. If a complete financial presentation is not cost effective, then the financial information presented should contain condensed income statement and balance sheet information derived from its audited or reviewed financial statements. The chapter should refer to the American Red Cross <i>Financial Statements Instructions</i> (ARC Form 4684-I) for guidance.</p> <p>Contact: Financial Management Division<br/>Telephone Number: (703) 206-7220</p> |
| <p>A non-expendable property listing and/or a fixed asset listing does not exist, is incomplete, or is outdated. A non-expendable item is an item whose cost does not exceed the chapter's asset capitalization policy (e.g., \$2,500 – fax machine, office furniture, overhead projector, TV/VCR, etc.). </p>  | <p>To improve controls over chapter property and to improve records for insurance purposes, a listing of all fixed assets and other non-expendable property items should be created. This listing should include the description, location, identification or serial number, date of acquisition, and cost of each item. Such listing should be updated as items are purchase/moved and periodically verified.</p> <p>Contact: Audit Services<br/>Telephone Number: (703) 248-4100</p>   |

## FINANCIAL RESOURCES

| Trends   | Solutions and Resources  |
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| <p><u>Adequate reporting and accounting policies and procedures are not in place.</u> This issue is evidenced by the following trends:</p> <ul style="list-style-type: none"> <li>• Legacies and bequests are not reported to national headquarters and/or copies of the legal instruments, which designate the Red Cross as the beneficiary, are not obtained. ↻</li> <li>• The chapter allocated the chapter manager's and/or other management and general expenses to the various program services. ↻</li> <li>• The American Red Cross <i>Financial Statements Instructions</i> (ARC Form 4684-I) were not followed (e.g., correct form, contributions, audit fees, community fees, ARC Form 903, grant, in-kind income, authorized provider fees) when completing the financial statements. ↻</li> <li>• A financial policies and procedures manual does not exist or is not up-to-date. ✖</li> <li>• <u>Undeposited cash and/or checks and/or other valuables are not adequately safeguarded.</u> ✖</li> <li>• Receipts are not issued for all funds received and/or receipts are not prepared as soon as funds are received. ✖</li> </ul> | <p>The chapter should develop sound reporting and accounting policies and procedures, document them, and conduct periodic reviews to ensure that the policies are being followed. Policies should include allocation procedures, reporting requirements (e.g., legacies and bequests, monthly and annual financial reporting, and ARC Form 4684 completions), bank deposit procedures, cash disbursement and receipting procedures, and other general financial policies and procedures.</p> <p>Undeposited cash, blank checks, and other valuables should be properly safeguarded in a fire-resistant file cabinet or safe.</p> <p>Contact: Audit Services<br/>Telephone Number: (703) 248-4100</p> |
| <p>An appropriate risk management program has not been implemented. This issue is evidenced by the following trends:</p> <ul style="list-style-type: none"> <li>• The chapter has not completed the American Red Cross <i>Safety Program Audit Checklist</i>. ✖</li> <li>• The American Red Cross <i>Self-Inspection Worksheet, Off-Premises Liability Checklist</i> (ARC Form 6505) is not completed when performing Red Cross services at an off-site location. ✖</li> </ul>   | <p>The chapter should develop an appropriate risk management program. The chapter should refer to the guidelines outlined in the American Red Cross <i>Corporate Safety Policy Program</i> (CSPP) (ARC 4514).</p> <p>Since the chapter conducts many activities away from the office, it should check off-site operations at which Red Cross activities are conducted for potential risk management liabilities by preparing the checklist.</p> <p>Contact: Risk Management Division<br/>Telephone Number: (703) 206-7280</p>  |

## FINANCIAL RESOURCES

| Trends  | Solutions and Resources   |
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| <p>The budgeting process is inadequate. This issue is evidenced by the following trends:</p> <ul style="list-style-type: none"> <li>• The chapter does not prepare its budget by both program service (e.g., Emergency Services and Health and Safety Services) and account field (e.g., salaries and travel). ✖</li> <li>• Actions regarding variances are not documented in board minutes. ✖</li> </ul> | <p>The chapter must have an annual budget for each fiscal year ending June 30. The budget should be developed by both program service and account field. The budget should be balanced (i.e., no deficits) and should include the chapter's full assessment fees due to national headquarters. Such a budget is a <u>management and governance tool that can be used to identify areas which need attention.</u> The budget should be prepared prior to the beginning of each fiscal year so that it can be used as of July 1st. In addition, the budget, and any revisions should be approved by the board of directors and documented in the board's minutes.</p> <p>Board minutes should clearly document the <u>board's review, discussion, and approval of the budget</u> and its monitoring of variances between budgeted and actual income and expenses throughout the year.</p> <p>Contact: Audit Services<br/>Telephone Number: (703) 248-4100</p> |

## VOLUNTEER GOVERNANCE

| Trends  | Solutions and Resources  |
|---|--|
| <p>Adequate attention has not been placed on board development. These issues are evidenced by the following trends:</p> <ul style="list-style-type: none"> <li>• Standing committees do not meet regularly or have not been formed. ☹</li> <li>• <u>Financial reports to the board are not prepared or reviewed regularly and/or do not contain adequate information (e.g., comparison to the budget, a balance sheet, or year-to-date figures) and/or are not accurate.</u> ☹</li> <li>• The board of directors is not representative of the chapter's community. ↻</li> <li>• Chapter bylaws are not in compliance with corporate policy. ↻</li> <li>• The board of directors does not evaluate the chapter's performance as it relates to the chapter's rechartering requirements. ↻</li> <li>• A <u>quorum is not always</u> present at the annual, board of directors, or standing committee meetings where actions may have occurred. ↻</li> <li>• <u>The audit committee did not document the review of the auditor's management letter</u> or did not meet to review the management letter. ↻</li> <li>• The board of directors does not complete the "Self-Assessment for Chapter Boards" every two years. ↻</li> <li>• Chapter board members, paid staff, or other volunteers have not signed the American Red Cross Code of Conduct certification, as required by corporate policy. ↻</li> </ul> | <p>Board members should receive an annual orientation which addresses their specific duties and responsibilities.</p> <p>The orientation for employees and volunteers should include information about chapter policies, mission, requirements, and opportunities.</p> <p>The chapter should contact its field service team for information about courses and training opportunities and assistance in beginning an ongoing orientation process.</p> <p>The board should also review the "Self-Assessment for Chapter Boards," a self-assessment tool for chapter boards which is available at the Volunteer Resources website on CrossNet. This tool will help boards identify those areas of development that most need attention (e.g., fundamentals, community relations, financial development, and strategic planning).</p> <p>Contact: Volunteers, Youth and Nursing<br/>Telephone Number: (202) 639-3110</p> |
| <p>The board of directors, standing committees, or annual meeting minutes with attachments are not written, signed, or maintained at the chapter. ↻</p> <p><u>Minutes are incomplete.</u> For example, they do not contain action items, nor do they indicate if a quorum was present (e.g., members in attendance are not listed) or if financial statements were reviewed. ↻</p>  | <p>Minutes are the official records of the chapter and should reflect all actions taken during a meeting. Summaries of the decisions made and motions carried at each board, committee, and annual meeting should be documented, approved, and signed by either the chairperson or secretary to authenticate that they are, in fact, the actual minutes.</p> <p>Contact: Office of the General Counsel<br/>Telephone Number: (202) 639-3262</p>  |

## HUMAN RESOURCES

| Trends   | Solutions and Resources   |
|--|---|
| <p>Payroll (e.g., rate of pay and deductions) was <u>inappropriate and/or incorrect.</u> ☼</p>   | <p>Employees should be paid at the documented and approved pay rate on a specific day for a specified pay period.</p> <p>Contact: Human Resources<br/>Telephone Number: (703) 206-8127 or 8125</p>  |
| <p>The chapter does <u>not have adequate human resource policies.</u> This issue is evidenced by the following trends:</p> <ul style="list-style-type: none"> <li>• Personnel files are not complete. ↻</li> <li>• The chapter manager and/or staff have not had current work performance reviews. ↻</li> </ul> <p>Labor law posters are not displayed in the chapter. ↻</p> | <p>Each personnel file should contain, among other things, tax-related forms, pay change authorizations and documentation affecting an employee's pay or deductions, the employee's salary history, employment applications, evidence that references were verified, employment offer letters, annual work performance appraisals, contact telephone numbers to call in case of an emergency, and any retirement or insurance enrollment and change forms. The chapter should review and update the personnel files periodically to ensure that all necessary documents are in place.</p> <p>To establish tangible goals for personal and organizational improvement (i.e., key responsibilities and performance standards), as well as to provide meaningful feedback, the chapter chairman needs to conduct an annual performance review of the chief executive officer. In fact, this is a corporate requirement, as stated in the <i>American Red Cross Handbook of Corporate Governance and Board Policies</i> (ARC 575), "Board of Governors Policy Manual, Part One," section 2.17.</p> <p>The chapter should obtain the appropriate federal and state labor law posters and post them in a location accessible to all staff. Posters are available from a number of sources, including the federal government, state employment commissions, and firms such as G. Neil Companies which can be contacted at (800) 999-9111 or by fax at (954) 851-1237 (send your chapter name and address to the attention of Jenie Samuel).</p> <p>Contact: Human Resources<br/>Telephone Number: (703) 206-8127 or 8125</p> |

## SHOULD SERVICES

| Trends  | Solutions and Resources   |
|---|---|
| <p>Activity files, instructor record cards, or authorizations to teach were not on file or were incomplete. Instructor agreements are not on file or have not been signed. ↻</p>  | <p>The chapter should ensure that all instructors are <u>authorized to teach</u>. Instructor files should be periodically reviewed to make certain that appropriate authorizations and forms are complete and on file. Missing forms should be obtained from instructors and authorized providers prior to their next teaching assignment. A separate instructor activity file should be maintained for each instructor. In addition, the chapter should review the American Red Cross Health and Safety Services <i>Manual of Administrative Policies and Procedures (MAPP)</i> (ARC 3530), "Records and Reports," for further details.</p> <p>Contact: Health, Safety and Community Services<br/>Telephone Number: (703) 206-7120 or 7180</p> |
| <p>The information contained in the Field Operations Consolidated Information System (FOCIS) report for courses administered by Health and Safety Services could not be traced to course documentation maintained by the chapter. ↻</p> | <p>The preparation of the FOCIS report is critical for the chapter. Without accurate service delivery and financial information, the chapter will not be able to determine if it is properly serving its community. The report must be prepared in accordance with procedures and submitted timely.</p> <p>Contact: Chapter Services Network<br/>Telephone Number: (703) 206-6818</p>   |
| <p>The chapter does not prepare an aged accounts receivable listing or the listing is not prepared appropriately. Ⓜ</p>   | <p>The chapter should prepare an aged accounts receivable listing of the funds due from its Health and Safety Services clients at least monthly. The listing should include the client's name, date of service, and the amount(s) due, so that accounts more than 30 days old can be easily identified. Also, the chapter needs to develop written procedures for monitoring its accounts receivable balances and for handling delinquent accounts.</p> <p>Contact: Audit Services<br/>Telephone Number: (703) 248-4100</p>   |

## INFORMATION AND ACCESS

| Trends   | Solutions and Resources   |
|--|---|
| <p>The chapter does not have a written disaster recovery plan for its computer system on file or it contains inadequate information. ↻</p> | <p>The chapter should develop a disaster recovery plan. The plan should include at a minimum:</p> <ul style="list-style-type: none"> <li>• A list of the most essential applications to be processed (e.g., accounts payable).</li> <li>• Detailed information concerning contingency site configurations (e.g., a power supply and site plan).</li> <li>• Names, telephone numbers, roles, and responsibilities of personnel to be involved in a recovery effort (e.g., chapter manager).</li> <li>• Alternatives for replacement of computer equipment (e.g., computer store or national headquarters resources).</li> <li>• Directions to the alternate facility.</li> <li>• Provisions for forms, supplies, and operational documentation during recovery, including telecommunications.</li> </ul> <p>Contact: Information Systems<br/>Telephone Number: 1-888-RPT-PROB (778-7762)</p> |
| <p>The chapter does not have an information technology steering committee. ↻</p>   | <p>The chapter should develop an information technology steering committee to help ensure that the chapter's information technology plans coincide with and meet the business objectives of the American Red Cross, the chapter, and its key stakeholders. The committee should consist of chapter personnel and individuals from its board of directors and community with experience in information technology to advise in issues such as priority setting and training.</p> <p>Contact: Information Systems<br/>Telephone Number: 1-888-RPT-PROB (778-7762)</p>   |
| <p>Backup copies of data are not made, or not stored offsite. ↻</p>  | <p>Procedures should be developed and provided to chapter staff for conducting routine backups of information stored on the chapter's computer systems. In addition, the chapter should regularly keep a backup copy of its computer files at an off-site location. This will help the chapter to operate should the chapter building become inaccessible.</p> <p>Contact: Information Systems<br/>Telephone Number: 1-888-RPT-PROB (778-7762)</p>  |

## INFORMATION AND ACCESS

| Trends  | Solutions and Resources   |
|---|---|
| <p>No policy exists regarding the personal use of computers or the use of the Internet. ☞</p> | <p>The chapter should establish written procedures in its computer usage policy as it relates to the personal use (including the transfer of data from non-Red Cross equipment) of computers. Implementation of such policies will help ensure that the chapter's computer systems are protected from the introduction of viruses and other potential hazards.</p> <p>An Internet policy should be developed, communicated to staff, and implemented. All Red Cross employees and volunteers accessing the Internet/Intranet from work and/or home through Red Cross systems need to be mindful of their responsibilities in representing the Red Cross before the public, and conduct themselves in accordance with the highest personal and professional standards. The policy should prohibit:</p> <ul style="list-style-type: none"> <li>• Transmitting or accessing information and/or other materials that are fraudulent, harassing, or obscene, or which violate any other Red Cross policies (e.g. Corporate Code of Conduct or local policies and procedures).</li> <li>• Placing intellectual property of the American Red Cross on the Internet in an inappropriate manner.</li> <li>• Participating in any activity on the Internet which would damage the image of the American Red Cross.</li> </ul> <p>Contact: Information Systems<br/>Telephone Number: 1-888-RPT-PROB (778-7762)</p> |

## MUST SERVICES

| Trends  | Solutions and Resources  |
|---|--|
| <p>Emergency services case files (American Red Cross <i>Disaster Registration and Case Record</i> (ARC Form 901)) are not complete and/or independently reviewed by another staff member. ☞</p> | <p>Complete records must be maintained to document the emergency needs of the client and the assistance provided by the chapter. It is recommended that all individuals involved in providing disaster assistance attend the Disaster Services training course, "Emergency Assistance to Families."</p> <p>Contact: Disaster Services<br/>Telephone Number: (703) 206-8822</p> |

☠ - Critical Issue

↻ - Major Issue

☞ - Minor Issue

🧹 - Housekeeping Issue

## MUST SERVICES

| Trends   | Solutions and Resources   |
|--|---|
| <p>Adequate controls <u>do not exist</u> over the use of the American Red Cross <u>Disbursing Order</u> (ARC Form 140-C). This issue is evidenced by the following trends:</p> <ul style="list-style-type: none"> <li>• Individuals <u>who issue/write</u> <i>Disbursing Orders</i> also <u>approve</u> them. ↻</li> <li>• There is <u>no perpetual inventory</u> of <i>Disbursing Orders</i>. ↻</li> <li>• Unpaid <i>Disbursing Orders</i> at the end of the fiscal year are not recorded as a liability. ⚠</li> <li>• <i>Disbursing Orders</i> outstanding more than 90 days are not reviewed for payment/cancellation. ⚠</li> </ul> | <p>The chapter should develop procedures to ensure that all <u>Disbursing Orders</u> are properly controlled, completed, or reviewed and approved. In addition, although an adequate segregation of duties is often difficult to achieve with limited staff, every effort should be made to segregate the <i>Disbursing Order</i> function to the extent possible. If the chapter finds it necessary for the staff to continue issuing <i>Disbursing Orders</i>, the board of directors should designate an individual (e.g., board member) to approve them.</p> <p>If material, the outstanding balance should be disclosed in the chapter's annual financial statements as a contingent liability at the end of the fiscal year.</p> <p>Contact: Disaster Services<br/>Telephone Number: (703) 206-8822</p> |