

Financial Controls 2: Financial Controls and Record Keeping for Housing Co-ops – General Guidelines

Every co-op board has a duty to manage co-op business responsibly. Financial operations are an essential part of co-op management, so it is important to have good **financial controls** in place. Members can be more confident that their money is being used well when co-ops adopt smart and sensible controls and recording-keeping.

What are financial controls?

Financial controls are the collection of processes that an organization uses to guide spending decisions and to monitor the flow of money (revenue and expenses). Some of these processes may be embedded in the co-op constitution, but they are mostly found in written **policies, procedures** and **guidelines**. When working well, they help ensure that financial decisions and information are transparent, consistent, reliable, and easily understood.


Some kinds of controls may be mandated by legislation, and others through contractual agreements, but most are based on internal needs and best practices. Examples of financial controls include elements like:

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| <ul style="list-style-type: none">• Budgeting and forecasting• Accounting and reporting systems• Authorization and approval processes (including cash handling) | <ul style="list-style-type: none">• Audits (external oversight)• Training and education programs• Document retention, data handling and storage |
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What are the goals for this resource?

CHF BC hopes this resource contributes to conversations within housing co-ops and the adoption of best practices by co-ops to increase their resilience and viability. This guide aims to:

- Accurately reflect the role of the board, staff, and members in financial management.
- Explain the reason for internal and external protocols.
- Provide recommendations and tips for best practices in financial management.
- Include prompts and questions to help you better determine your needs and any weak areas. This can take the form of checklists of protocols, policies and procedures that will help you to manage, monitor and report on finances.



Within this resource package, you will find guidance on budgeting, the handling of cash and cheques, office security, reporting requirements, document retention, and more. These are resources that do not require an accounting certification to understand or implement.

Who are these resources intended for?

Most co-ops face the same challenges, and these resources will apply broadly, regardless of management model or whether a co-op has an active operating agreement or not. There are a couple of things to note:

- Since the balance of responsibilities is somewhat different for housing co-ops with relationships with **Community Land Trust (CLT)**, co-ops operating on CLT properties will benefit from direct conversation with CLT on resources specific to their needs.
- Co-ops with **BC Housing** operating agreements will see those agreements continue for many years: most of the financial requirements that these co-ops are used to will not change significantly over the life of the original agreements.
- There are some elements that overlap between financial controls and other co-op concerns. We may only lightly touch on these.

The **board of directors** is responsible for the management or supervision of the management of the co-op. This is explicitly stated in the *Cooperative Association Act* (section 76). A board has the fiduciary duty to act in the best interest of the co-op including managing its finances effectively. Developing and abiding by financial controls will help the board ensure that the co-op is soundly managed.


General **members** have a key role because they ultimately elect the board. A membership with a good, basic understanding of finances and access to external support (like audits) can both make better choices when electing directors and can provide a measure of oversight. The co-op's internal procedures should not, however, restrict the board from carrying out its responsibilities.

In BC, few co-ops directly hire managers as **employees**; most do engage **management companies** or **bookkeepers** to provide services. The range of activities these provide will depend on the scope of their contracts or job descriptions. It is important for all parties to understand their obligations. Clear documentation is critical.

Policy vs. procedures

We reviewed our older finance-related template policies, and we noticed that many policies were actually procedures. We want to be clear in distinguishing the two concepts. Before developing a policy, or a framework for decision-making, you will want to determine the outcomes you want to achieve. The procedures put in place are the way to achieve those goals.

Co-ops will want to establish mechanisms to evaluate how they are meeting the outcomes set through policies. Remember that if the procedures become too burdensome, they may weaken the ability of the co-op board to manage the affairs of the co-op.



(Can a board effectively manage a property worth millions of dollars and meet its obligations if unplanned spending of a thousand dollars requires a member meeting? Some older spending policies would create those kinds of sub-optimal situation.)

Sometimes, a co-op will have a policy committee carry out the task of developing policies and procedures, but the final responsibility lies with the co-op board to determine whether a policy is achieving the desired outcomes.

Our approach

We'll examine several areas of financial controls, providing a bit of an introduction to each. We'll look at **recommendations** based on best practices, and usually offer some core **procedures** and considerations.

Finally, we have some **questions** for boards (or general members) to ask themselves concerning co-op operations. A lot of "Don't Know" responses is an invitation to ask more questions! There will always be more to learn, but a lot of uncertainty about financial controls is a warning sign. If you find many "No" answers, that is also a warning sign, highlighting areas you may want to reexamine.

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