

Financial Controls 5: Authorization and Approval Processes

This section groups together several important aspects of financial controls and restates some key principles that most co-ops have already adopted.

Authorizations

How does the co-op approve transactions? Who is granted authority to commit the co-op? Are conflicts of interest identified? In what form can transactions proceed? Approving some methods of payment, and rejecting others, can strengthen a co-op's financial operations.

Recommendations around basic banking

- The Board approves the opening and closing of bank accounts.
- Regularly review and update with your bank/credit union (and other agents) the list of signing authorities.
- Set procedures around frequency and security of bank statements.
- (Co-op management professionals recommend against credit cards.*) If the co-op does allow the use of a credit card, develop procedures on authority over the use of the credit card.
- Develop responsibilities for signing officers and procedures on how they carry out their responsibilities (e.g. checklist when reviewing statements, invoices and cheques).
- Set procedures on how bank statements will be reviewed (including what information is included in reconciliation reports, report frequency and who will do the reviewing). Ideally, review will be monthly.
- Avoid large numbers of sub-accounts.

Your co-op may want to look into which electronic payment services will best meet the current needs of members.

Electronic payment options will reduce risk associated with misplacing cheques or having to go to the bank to make deposits.

Recommendations around spending and borrowing

- Set an appropriate amount to trigger when the board will collect bids on services/products.
- Require three written quotes when that trigger amount will be surpassed.
- Have a clear tendering process: be consistent and fair.
- Develop a selection process and criteria for tendered projects: make apples-for-apples comparisons and don't only consider costs. (You may have other valid considerations including reputation/experience, sustainability, co-op principles, etc.)
- Set procedures on how emergency expenses are approved by the board.
- Develop procedures for when a co-op needs to borrow (compliant with the Rules and Act)



- If the co-op has a credit card reconcile purchases with monthly statements.
- Determine how often contracts will be reviewed and when bids on services will be collected.

* Credit accounts are an alternative to consider. They are easier to oversee and reconcile.

Recommendations for payables and revenue

- Develop procedures around purchase orders
(including authority on purchases, preparation, and review at time of order)
- Develop procedures on cheque preparation and reconciliation.
- Ensure revenue is properly recorded (when earned and deemed collectible)

Cash Handling

Many housing co-ops have moved away from handling cash, especially around housing charges. Laundry revenue collection, petty cash expenses and revenue collected from special co-op events may still tempt co-ops to continue with some cash, but these cash transactions are probably the most susceptible to undetected errors. Your co-op will want to review its cash management to ensure procedures are in place to reduce risk, but best practice is usually to avoid cash entirely. Laundry cards can be an excellent option to help with this.

Cash handling recommendations:

- Limit access to and set procedures to handle cash.
- Reconcile, review, and top-up petty cash regularly.

Segregation of Duties


Segregation of duties is critical. The person approving transactions should not be the same person that reviews those transactions. Similarly, the person signing a particular cheque should not be a recipient of the cheque. Keeping these roles separate improves the chance of catching errors and mitigates the risks of inappropriate or fraudulent activities. Having two signers can help with this.

Recommendations:

- Clearly define segregation of duties. For example, consider the question: Is the person who processes and reconciles transactions different from the person who reviews them?

Oversight (focus on external reporting)

Oversight – internal and external – can benefit co-ops and their members. Historically, most federally funded housing co-ops were required to report annually to Canada Mortgage Housing Corporation (CMHC) through the Agency for Co-operative Housing. Provincially funded co-ops would report to BC Housing. Some co-ops had additional obligations which included requiring approvals for capital expenditures or submitting capital plans if they had a workout loan. While co-op boards maintained oversight over their co-op communities, external reporting requirements provided additional layers of protection. Some municipalities which lease lands to co-ops have their



own reporting requirements. And, Community Land Trust, may also set out reporting requirements, often to meet its own contractual obligations to partners (like cities or funding partners).

- Clearly understand your external oversight requirements.
- Confirm your approach on audits as a support for member oversight of co-op finances.


Housing Charge Reconciliation

Recommendations


- Develop procedures on deposits (e.g., storage of cheques, frequency of deposits, and delivery to bank, if necessary).
- Develop procedures on housing charge reconciliation (e.g., verifying deposit summary matches tape record and/or end-of-day transaction summary from point of sale (POS) terminal or reconciliation from any electronic fund transfer) .
- Develop procedures on recording arrears (e.g., creating historical record of arrears such as 30 days late, 60 days, etc.).

Self-Test Checklist

Indicator	Yes/ True	No/ False	Don't know
The board oversees financial operations to ensure fair and accurate representation of co-op finances.			
The board approves the opening and closing of any bank accounts .			
The co-op limits the number of signing authorities (with the bank) (e.g. two signers on all chequing accounts).			
Beyond designated signers, co-op limits access to bank accounts to “read-only” permissions.			
Co-op ensures minimal delay on getting financial records to the bookkeeper or accountant.			



Co-op has approval procedures for electronic banking including electronic fund transfers (i.e. for housing charges, for Interac payments).			
Every board meeting agenda includes conflict of interest declarations.			
The Treasurer confirms and reviews monthly processes (e.g. bank reconciliations, cash receipt reconciliations, payroll reconciliations).			
The Treasurer reviews monthly comparative reports (e.g. statement of financial position, general ledger, accounts receivable and accounts payable).			
The co-op notes and respects restricted reserves and other funds.			
The co-op board regularly reviews contracts (not just for costs but for performance).			
The co-op does not accept cash as payment for housing charges.			
The co-op reviews petty cash at least quarterly and whenever the petty cash holder changes. (Review includes reconciliation and replenishing.)			
Two people are always involved with collecting/counting cash.			
Housing charge payments (via Interac, credit card) should either be reconciled to point of sales (POS) in total or POS statements.			
The co-op has documented procedures that authorized cheque signers must follow prior to signing cheques.			
The co-op controls access to cheques and keeps blank cheques in a locked, fireproof cabinet.			



The co-op tracks all cheque numbers and notes any missing or void cheques, or any duplicate cheque numbers.			
Cheques are not pre-signed or pre-filled.			
Cheques are only signed with appropriate supporting documentation .			
There is single-location storage of cheques (e.g. no “emergency cheques” kept separately under the control of a board member).			
Each cancelled cheque reviewed for payee, amount, signatures and date. (Note: with large numbers of cheques, some co-ops may instead use a random sampling, perhaps with a focus on larger cheques.)			
Co-op ensures segregation of duties (i.e. those responsible for processing/recording/reconciling transactions are different from reviewers).			
The co-op uses accredited professionals for work on the co-op’s buildings.			
The co-op seeks out advice regarding and complies with legal requirements around lien holdback accounts during construction projects.			
The co-op conducts credit checks on potential members.			

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