

American Contract Bridge League
Report on Check Signing/Authorization Procedures
January 27, 1995 (revised June 2001)

Overview: During the Fall 1994 Board Meetings in Minneapolis, the Finance Committee instructed ACBL management to review its current operating procedures for cash disbursements with special attention given to the ability of the ACBL Accounting Manager and CFO to manipulate funds since they performed the dual functions of check signing and expenditure authorization. This report addresses the relevant administrative roles of the Accounting Manager and CFO and the adequacy of the ACBL system of internal control over cash disbursements and whether the influence exercised by the Accounting Manager and/or the CFO makes the ACBL susceptible to employee dishonesty.

Existing Cash Disbursement Procedures: Basic to internal control is a proper system of segregation of duties. All elements of the ACBL disbursement cycle are handled by different employees, with no single employee presented with the opportunity to conceal their own inappropriate actions. The following outlines the various steps of the disbursement cycle.

Paramount to the overall ACBL system of managerial accountability is the fiscal responsibility that each manager must exercise in the execution of their individual operating responsibilities. If a particular transaction is required, it is a specific manager's responsibility to initiate the purchase of merchandise or specific service needed. This is accomplished by submitting a written request to the Purchasing Manager. A purchase order is generated for all items in excess of \$1,000 and they are approved by the CFO to ensure that the expenditure adheres to board directions and the overall corporate bids, if required. Receipt of the merchandise is completely independent of the Purchasing function. A copy of all P.O.'s and receiving tickets ("receiver") are forwarded to Accounting when executed.

Payment for merchandise or services are performed as follows:

1. All invoices are mailed directly to Accounts Payable.
2. Invoices are logged, matched with P.O. and receiver, if applicable, and forwarded to the appropriate department manager for review, general ledger account distribution and approval. Each manager has a limit in dollar amount of payment he/she may authorize (See attached exhibit A). If the invoice exceeds the manager's approval limit, it is forwarded to the next level of authorization.
3. Next, the approved invoice/check request is returned to the Accounting Department for processing. The Staff or Accountant reviews each invoice for clerical accuracy, proper general ledger account distribution and necessary approvals.
4. After the Staff Accountant completes her review, the invoice is returned to the Accounts Payable clerk for input into the computer system.
5. Checks are processed once a week. Physical access to checks is restricted (accessed only by the Accounting Manager). Immediately prior to check preparation, the Accounting Manager delivers the blank checks to the AP clerk for processing on the computer. After

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- the checks are printed, they are matched with all original supporting documentation.
6. The checks, along with the supporting documentation and disbursement journals are delivered to the Accounting Manager for signature. After all checks are reviewed and signed they are forwarded to the CFO for review and the addition of a second signature on checks over \$1,000. The CEO is required to be one of the signators on checks for \$25,000 or more.
 7. Properly executed checks are handed directly to Accounts Receivable clerk for mailing. No checks are delivered to the ACBL employee who requested the check.
 8. All disbursement activity is subject to review by department managers.
 9. All activity is subject to monthly reconciliation procedures.

As part of our normal closing cycle, all department managers review their department operating statements for proper account coding, accuracy of amounts and validity of all activity. This system of managerial accountability provides individual reviews of the financial transactions by over 15 different individuals within the organization.

A good system of internal control specifies that at least one of the check signers be independent of the authorization/approval and CFO are severely limited. The Accounting Manager only initiates/authorizes expenditures for the purchase of supplies for the Accounting Department. The CFO initiates check requests only for reimbursement of his expenses after each board meeting (which is approved/authorized by the CEO). At all times, there is independence with regard to authorization and signing responsibilities by at least one of the check signatures.

Transfers of cash amounts between the various ACBL bank and investment accounts are handled in a manner similar to check requests except that the Accounting Manager will initiate the transaction request and the CFO will approve and add a second signature to the checks. Cash transfer activity includes the deployment of operating cash balances to investment, NABC Disbursement and Payroll accounts.

Review and Reconciliations: All bank statements are opened by the Executive Department Administrative Assistant and forwarded directly to the individual with reconciliation responsibilities (Staff Accountant). This individual is completely independent of cash or custodial activities. All reconciliation procedures required by generally accepted accounting principles are followed. Upon completion of the reconciliation, they are forwarded to the Accounting Manager for review. Both individuals have been instructed to report any unusual items directly to the CEO. In those cases where no problems exist, the approved reconciliations are forwarded to the CFO for final sign-off. At no time does the Accounting Manager or CFO have access to the bank statements until after the reconciliation process has been completed.

Another element of our system of checks and balances is an internal cash report (weekly) which shows graphically the level of cash and investment for the current period compared with the same period in the prior year. A second page of this report shows the specific account balances for the various bank accounts plus amounts, maturity dates and interest rates for all long-term

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investments held by the ACBL. A third page will show all checks that were written the previous week for amounts in excess of \$1,000. When appropriate, a fourth page is included with the report that shows upcoming checks in excess of \$1,000 that will be paid during the current week.

Conclusion: A good system of internal control is designed to provide reasonable, but not absolute assurance regarding the safeguarding of assets, reliability of financial information and accountability of assets,. The existing disbursement process includes proper segregation of duties and expense authorization steps plus the necessary reconciliation and review checks, The system's integrity is further enhanced by multiple layers of managerial involvement throughout the disbursement cycle.

I do not believe that the existing system of controls for disbursement activity would be strengthened by removing either the Accounting Manager or CFO from their check signing responsibilities. The level of authorization exercised by the CFO is on a corporate level and totally void of personal requests (ex the NABC travels). The Accounting Manager does not authorize any expenditures (ex Acctng Dept supplies). The ACBL would not gain additional control by removing these two positions from check signing responsibilities.

ACBL Accounting Department Personnel Reporting Relationships as of October 1, 2007.

Staff Roster

Chief Financial Officer	Dee Brown
Accounting Manager	Natasha Brown
Budget Manager	Tricia Glover
Senior Accountant	Vacant
Accountant	Chris Phifer
Accounts Payable Clerk	Gail Smith
Accounts Receivable Clerk	Vickie Hinton
Membership Receipts Clerk	Linda Finley

Reporting Relationships

C.E.O.	-----	C.F.O.
C.F.O.	-----	Accounting Manager, Budget Manager/Internal Audit
Accounting Manager	-----	Accountants & Clerks

Designated ACBL Financial Account Signers

- A. The following positions are authorized for purposes of establishing company bank and investment accounts for the ACBL.
 - ACBL Chief Executive Officer
 - ACBL Chief Financial Officer

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ACBL Accounting Manager

- B. The following positions are authorized to wire transfer funds from ACBL.
- ACBL Chief Executive Officer (confirm only)
 - ACBL Chief Financial Officer (authorize and confirm other than his own authorization)
 - ACBL Accounting Manager/Controller (authorize only)
- C. The following positions are authorized signers on checks written by ACBL.
- ACBL Chief Executive Officer
 - ACBL Chief Financial Officer *
 - ACBL Accounting Manager/Controller *
- * - Stamp or machine impression signatures also allowed.

In addition, the following position is an authorized signer on the ACBL general disbursements account:

ACBL Director of Internal Operations
ACBL Budget Manager/Internal Auditor

In addition, the following positions are authorized signers on the ACBL disbursement account that is used exclusively for the North American Bridge Championships:

NABC Finance Office Director
ACBL Director of Player Services

- D. Management requests the current practice regarding the number of signatures per check set forth below be continued:
1. One Signature required
 - ACBL Disbursements under \$1,000
 - ACBL Payroll Account
 2. Two Signatures required:
 - ACBL Disbursements of \$1,000 or greater.
 3. CEO Signature Required:
 - All ACBL disbursements of \$25,000 or greater

In case the CEO is unavailable the CFO may sign in his absence. The CEO shall review these items upon his return.

4. Secretary of the Corporation shall provide a copy to the Chairman of the Audit Committee of all corporate resolutions dealing with signatures.

Finance Sub-Committee for the Establishment of Financial Guidelines

Chuck Wilkinson (Chairman), Barbara Nist and Jim Reiman. Assisting the sub-committee in an advisory capacity were: Glenn Smith (ACBL President), Bob Lix (Finance Committee Chairman & ACBL Treasurer), David Silber, Jack Zdancewicz, Cherie Turman and Jim Miller.

Overview

During the 2000 Spring Board Meeting in Cincinnati, the Board of Directors asked the Finance Committee to prepare recommendations for establishing financial (operating) guidelines for the League. Currently, the League operates with partial guidelines related to direct costing of Regional and Sectional tournaments and NABCs. The following lists the specific guidelines to be used for all areas of ACBL operations. See attached information from the Cincinnati journal for further explanation of the various category decisions and makeup.

Financial Categories:

Mission Activities

- Membership Activities
 - Membership Dues
 - Publications
 - Club Activities (includes Special Games)
- Tournament Activities
 - Regional Games
 - Sectional Games
 - NABCs
- Product Sales
- Potential Member Marketing
- Governance
- Interest Income

Non-Mission Activities

- Real Estate Activities
- All other income

Basic Assumptions

- A. All financial guidelines will be expressed on a “fully-allocated” cost basis. ACBL currently has about \$8.7 Million of annual expense not included in direct expense. When financial guidelines are set that omit these costs, we can easily mislead ourselves on how an activity is really doing. Costs that are not direct must be absorbed somewhere.
- B. Sub-committee recommends that ACBL operate on a break-even basis for Mission Activities, seek to achieve a break-even for Real Estate operations and operate the remaining non-mission activities on a profitable basis.

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Publications

The committee decided that the advertising revenue generated by our magazines should be used to offset the costs of production & distribution (and not as a non-mission activity). Publications will be included within Membership Activities for profit guidelines purposes.

Club Activities

The committee decided that Club Activities and Special Games should be included within the Membership Activities group for purposes of establishing financial guidelines.

Tournament Activities

Based on established guidelines, Regional and Sectional tournaments are currently meant to break-even on a “direct-allocation” basis only. NABC tournaments are currently evaluated on a “direct-allocation” basis with a minimum required profit of \$450,000 accumulated every two years.

The sub-committee recommends that the Board switches to a “fully-allocated” basis and targets that each of the three tournament categories operates on a break-even basis. Philosophically it was unable to see why tournaments should not be targeted to be breakeven activities. Practically, however, it recognizes that it will be a challenge to get there and therefore recommends that the goal be to achieve this over five years. This will need to be accomplished by either increasing revenues (by more than inflation in costs), reducing expenses or some combination of the two. Break-even results could be achieved in five years if revenues were increased or costs reduced by an average of 2.8% per year. This is over and above the need to cover cost inflation.

Potential Member Marketing

The committee recommends that the annual budget for potential member marketing should be based upon the 12.5% of total budgeted expenses in 2000. This figure should increase by 0.5% in each year until 2005, when the total expenses equal 15.0% of total budgeted expenses.

Governance

The committee decided that the budgeted expense for the Governance category shall not exceed 3.0% of expense (2000 budget adjusted for only one WBF meeting would be 2.8%). This 3% ceiling should be adjusted upward to reflect whatever decision is reached on the motion regarding WBF dues.

Summary

The above guidelines can be used to set interim action points for each of the various “lines of business.” That will allow a more disciplined approach to our budgeting process, to prioritizing revenue increases / cost reductions at the individual line of business level and thus, at the ACBL bottom line.

COMPETITIVE BIDDING POLICY

A competitive bidding policy is designed for use when a project warrants the time expended by both the vendor and the purchaser. Typically, these are large dollar purchases. For the purposes of this policy, we will use a minimum amount of \$50,000 when implementing the competitive bidding policy.

When the ACBL is interested in purchasing a produce or service and the cost of that product warrants a competitive bid, the following will be followed.

- A. Determine detailed specifications and criteria that will be established for the produce or service.
- B. Ensure the market consists of an adequate number of sellers to warrant the procedure. Three to eight sellers is the acceptable number of suppliers to query. If not enough sellers in the market, revert to the operating bidding policy.
- C. Verify the validity of the sellers' ability to supply the known quality and specifications of the desired produce or service.
- D. Allow sufficient time for the seller to gather the necessary information to adequately respond to the request for proposal. Adequately define the due date for receiving responses.
- E. Require a sample of the product being purchased from each bidder for comparison purposes.
- F. Request a written response when clarification is needed from a bidder on some element of the proposal.
- G. Bids will be extensively reviewed and compared to specifications and to each other as to cost and quality. A report will be written to the CEO/CFO comparing the proposals by cost and by the important elements of the specifications. Important deficiencies of the proposal must be prominently mentioned. The report will make a recommendation to the CEO/CFO, giving reasons for the selection that was made, as well as reason why the other top bidders were not selected.
- H. In those situations where sufficient expertise is not available within Management to properly evaluate the product or service, Management will seek out that expertise from members of the Board of Directors or from members of the ACBL. On those few instances where the needed expertise cannot be found there, Management will consider using an outside independent paid consultant.
- I. Management at all times retains the right to refuse any and/or all bids.

OPERATING PURCHASING POLICY

User Departments at ACBL initiate request for materials, equipment, merchandise, supplies or service. The Purchasing Department obtains information as to available and approved suppliers, prices and is responsible for the placement of orders for these goods or services.

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ACBL user departments must submit a purchase requisition for equipment, merchandise, suppliers or services needed to the Purchasing Manager. In order to be processed, the requisitions must be approved by the requesting Department Manager, contain the date which the item is required and the proper general ledger account distribution. At this point, the best possible supplier is determined. Bids are obtained (a) two bids for items \$1,000 or greater and (b) three bids for items greater than or equal to \$1,500. Once the supplier has been determined, a purchase order is generated, if applicable, and the item is purchased.

A purchase order is generated for any inventoriable item and for any other purchase in excess of \$750. All purchase orders in excess of \$1,000 also require the approval of the Chief Financial Officer. The purchase order is a three part form with copies distributed to the purchasing files, accounting department and vendor.

PURCHASING

DETERMINATION OF NEEDS

Policy Determination of company needs for goods and services will be made by appropriate personnel and according to company guidelines.

Procedures

Determination of Needs

Purchasing requirements, categorized by the type of goods or service, will be determined. This will include inventory replenishment needs, supply replenishment needs, services provided on a recurring basis, specialized services (e.g., legal, accounting, advertising, insurance) and occasional goods and services. Recurring services will be determined initially by authorized persons and, thereafter, provided continuously or not redetermined until the end of the contract period. Specialized services will be the responsibility of designated individuals or committees. The need for occasional goods and services will be identified by the user and approved by a supervisor.

Preparation of Requisition Forms

Requisitions for routine goods or services will be prepared by the user department. The following information will be completed on the requisition:

- A. date requested
- B. requesting department
- C. Desired vendor, if known
- D. item description
- E. quantity

- F. unit of measure
- G. accounting distribution
- H. approval of department supervisor or manager
- I. estimate of the approximate cost

Requisitions for property and equipment will also be completed as noted above and in accordance with the capital budget.

Placement of Orders

Policy Proper approval will be obtained prior to the establishment of a firm order or contract to purchase. Administrative control will be established over orders placed.

Procedures **Capable Purchasing Personnel**

All purchases will be made through the Purchasing Manager.

Establishment of Purchasing Guidelines

The Purchasing Manager will obtain appropriate approvals prior to the establishment of a firm order or contract. (See4 below for Spending Authorization Limits).

Any contracts entered into should be documented in writing and the approval of the CEO/CFO will be obtained before a firm contract is signed.

In order to avoid losses from inappropriate commitments, a reasonable projection of the company's requirements for the specified goods or services will be prepared.

Preparation of Purchase Orders

Pre-numbered, multiple-copy purchase order forms should be prepared for purchases of:

- A. Any inventoriable item
- B. Any capital asset
- C. Any other merchandise or service greater than \$750. For recurring services, the annual amount of the expenditure will be used as the determining factor.

Purchase orders \$1,000 or greater and any capital asset purchase orders require the approval of the Chief Financial Officer.

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Purchase orders \$25,000 or greater require the approval of the Chief Executive Officer.

Before the purchase orders are released, the dates and quantities should be reconciled to requisition, prices compared to master files or standards, and extensions and footings should be checked.

The purchase order will be distributed as follows:

1. Original to vendor
2. Purchasing department tickler file to allow follow-up on a timely basis for shipments or orders not received on a specified date
3. Accounts payable department

On a monthly basis, a review will be performed of any commitments that have not been matched with receiving reports.

