



NATIONAL HEADQUARTERS
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6 October 2011

MEMORANDUM FOR CAP/EX
CAP-USAF/CC
CAP/CC
IN TURN

FROM: FM

SUBJECT: Draft CAPR 173-1, *CAP Financial Procedures and Accounting*

1. The draft change to CAPR 173-1, *CAP Financial Procedures and Accounting*, was posted on the NHQ website for comments from 17 Aug 10 to 16 Sep 10.

a. Comments received and incorporated in final draft.

(1) **Paragraph 1d.** "All IRS notices should be forwarded to NHQ/FM at cap990@capnhq.gov."

Recommended change: Substitute "should" for "must".

Response: We concur. Paragraph 1d changed.

(2) **Paragraph 6k.** "All wings and units will obtain a signed IRS Form W-9 completed by vendors (excluding member reimbursements) prior to executing payment."

Comments: Commenter questions the need to complete this prior to the first payment.

Response: The best opportunity to have the vendor submit the form is prior to releasing payment rather than repeatedly requesting it at year end. This is a standard business practice. Paragraph 6k updated to include: "*This information fulfills the IRS reporting requirement for 1099 vendors.*"

(3) **Paragraph 6m.** "Advances may be requested and paid. However, all receipts must be submitted within 10 days after completion of the activity for which the advance was requested and the member will be required to repay any advanced funds in excess of the receipts submitted."

Comment: What are the consequences for failing to submit receipts within 10 days of completion?

Response: CAPR 173-1 paragraph 6m has added the following to clarify: Advances may be requested and paid. However, all receipts must be submitted within 10 days after completion of the activity for which the advance was requested and the member will be required to repay any advanced funds in excess of the receipts submitted.

(4) **Paragraph 9a (10).** Provide oversight of all subordinate unit funds to assure all transfers and expenditures have been made at the documented request of the subordinate unit finance committee or authorized member thereof; and all deposits have been recorded and documented.”

Recommended change: Add language to ensure individual Unit Funds within the Wing Bank are not allowed to be used to cover shortfalls of other unit funds.

Response: We have not seen an instance where a wing has used one unit’s funds to cover another unit’s funds. If a unit does not have funds to cover an expense, wings have been very proactive in working with units. The unit will either raise funds to cover the expenditure, or the wing may loan funds to the unit until an expected deposit is made. To clarify this, the following wording has been added as paragraph 9b(5): *“Units may not overspend their cash balance. If a unit does not have funds to cover an expenditure, the unit must raise income to support the bank account, or work with the wing for another alternative.”*

(5) **Paragraph 9a (11) (FROM NB MEMBER).** “Approve all credit card statements, including receipts, using Sertifi®.”

Comments: Two commenter’s concerns are centered on the amount of time required to obtain receipts from cardholders, submit for approval in Sertifi, and pay the bill before incurring a late charge.

Response: We concur with the commenter’s concerns. CAPR 173-1 has been changed to: *Approve all credit card statements, including fuel credit accounts via Sertifi® in time for payment to be made by the due date. In addition, the Internal Financial Review will review all credit card statements for the prior quarter and assure that all receipts documenting the expenditures are attached to the statement for each credit account. Card holders must submit detailed receipts to the wing within 21 days after the billing statement date. Receipts will be scanned and stored in SmartVault®, once received.*

(6) **Paragraph 9b.** “The purpose of the finance committee is to ensure the proper management of the unit’s funds.”

Recommended change: Add language to clarify funds are on deposit with Wing Banker Program.

Response: We concur. Paragraph 9b changed to include: *“The purpose of the finance committee is to ensure the proper management of the unit’s funds on deposit with the Wing Banker Program.”*

(7) **Paragraph 9b(2).** “Maintain an adequate system of internal accounting controls over all funds in accordance with generally accepted accounting principles.”

Comment: What exactly is the definition of “internal controls?”

Response: Internal controls are the policies and procedures established to protect the resources of an organization. Examples include: having supporting documentation for expenditures; giving control of any financial transaction to one person through the cycle of income generated, deposited, recorded

in the financial file, expended through payables, signing the check and reconciling the bank; reimbursement procedures, credit card usage procedures, etc.

(8) **Paragraph 9b (6).** “Documents which may not have been sent to wing, such as finance committee minutes, should be retained by the unit for future reference.”

Recommended change: Substitute “should” for “will”.

Response: We concur. Paragraph 9b(6) changed.

(9) **Paragraph 9b(9).** “Develop and approve an annual budget which must be sent to the wing director of finance by 1 October each year and reviewed quarterly.

Comments: Recommend language included to specify budgeting is a forecasting tool.

Response: Paragraph 9b(9) changed to include: Develop and approve an annual budget *as a forecasting tool*. The budget must be sent to the wing director of finance by 1 October each year and reviewed quarterly. Budgets will be entered into QuickBooks® to provide quarterly reporting to units. *The unit is expected to strive to maintain a balanced budget – income equals expenditures other than projects for which reserves have been set aside. To ensure solvency, if an expense category exceeds its allocated budget amount, the overall budget must be revised to maintain a balanced budget.*

(10) **Paragraph 10c.** “All financial records must be maintained securely at wing HQ. Wings will maintain supporting financial documentation for their subordinate units.”

Comments: What is meant by “securely?”

Response: Paragraph 10c changed to include: All financial records must be filed and maintained at wing HQ in locked file cabinets or a locked room .

(11) **Paragraph 34.** “Any funds retained on behalf of the deactivated unit remain the property of Civil Air Patrol and should be moved from the subordinate unit bank account to the wing’s bank account.”

Recommended change: Substitute “should” for “will”.

Response: We concur. Paragraph 34 changed.

b. Comments received and not incorporated in final draft.

(1) **Paragraph 3.** “Units at all levels may issue specific Financial Management Procedures or Policies specific to their wing dealing with fiscal matters pursuant to this regulation. Examples of Financial Management Procedures may be found under the Financial Management section on the NHQ website.”

Comments: This procedure is inconsistent with the requirements of CAPR 5-4. The regulation only authorize supplements or Operating Instructions. There is no definition for “Financial Management Procedure.”

Response: Per March 2011 National Board Meeting. A written report was submitted to the National Board from the National Finance Committee, dated 21 February 2011. The National Board accepted the report. There was clarification on the flexibility that wings have to establish the internal controls that are necessary to manage finance and manage the fiduciary responsibility that all commanders have toward the organization. The FMPs are simple instructions to the wing, the wing finance committee, to NHQ, and to the auditors as to how the commander manages finance within the wing. The difference between FMPs and OIs is that regulation does not allow OIs at wing level. This item is closed.

(2) **Paragraph 6d.** “Every unit (region, wing, group, squadron and flight) must use the Civil Air Patrol approved Chart of Accounts.

Comments: If the chart must be used, it should be included in the regulation.

Response: The Chart of Accounts is updated and posted on the web as changes occur. A link has been added to the paragraph directing members to the Chart of Accounts.

(3) **Paragraph 9a(7).** “Complete internal financial reviews of the wing’s financial records to ensure compliance with the provisions of this regulation. One member of the wing finance committee, other than the wing commander, the director of finance or a paid employee, must complete the CAPF 173, Internal Financial Review Worksheet (Part I). The internal financial review must be completed for each quarter not later than 45 days after the end of the quarter. The wing finance committee may designate, in writing, a person outside the finance committee to perform this internal financial review. This person may not be related to any member of the finance committee.”

Comments: In the interest of transparency, recommend no single person allowed to repeatedly perform this function.

Response: Your suggestion would be an appropriate level of internal control within a wing. Your wing may choose to establish this practice. However, not all wing finance committees are able to have a different person perform the review each quarter. In order to maintain transparency, paragraph 9a(8) states “*the finance committee will review and evaluate the most recent CAPF 173, Internal Financial Review Worksheet (Part I), at the next finance committee meeting. The review must be recorded in the finance committee meeting minutes including corrective actions for documented deficiencies.*” Having the finance committee review the Internal Financial Review at their meeting ensures all members have an opportunity to review and address discrepancies.

(4) **Paragraph 11j.** “All electronic payments over \$500 require two electronic or written approvals prior to release. One signature is allowed to release electronic payments over \$500 provided the bill and the supporting documentation has been processed and approved by the finance committee through Sertifi®.”

Comments: Our wing administrator signs all electronic payments as required by the bank when she prepares them. Is her signature considered the “one signature” thereby requiring all electronic payments to be submitted to the entire Finance Committee?

Response: If the finance committee has already approved the invoice for payment using Sertifi®, then no additional approval is needed to release the payment. If the committee has not approved the expense via Sertifi® and it is over \$500, then another signature is required to release the payment. This can be any signatory on the bank account. If the expenditure is over \$1,500, or is a credit payment, the finance committee is required to approve via Sertifi®.

(5) **Paragraph 11q.** “Checking account interest on subordinate unit accounts may be used to defray wing administrative costs of the Wing Banker Program.”

Comments: The administrative costs of the Wing Banker Program should be covered by the funds the wings receive from member dues.

Response: The amount of interest earned on the Wing Banker Program checking accounts is very minimal and does not cover the increased costs. The unit no longer bears the burden of bank charges, check printing costs, nor envelope or postage costs. Paragraph 11q continues: “*Checking account interest on subordinate unit accounts may be used to defray wing administrative costs of the Wing Banker Program. Interest and dividends on unit savings, certificates of deposit and investment accounts will be allocated at least quarterly.*” If the unit has reserve or excess funds that are not needed on a day to day basis, the unit can request these funds be moved to an interest bearing savings account or a CD. All interest earned on these accounts are earned for the unit’s benefit.

(6) **Paragraph 11t.** “Wings will utilize banks with a security rating greater than “1” as stated on www.bankrate.com.”

Comments: Commenter does not recommend this website.

Response: This was a decision made by the Civil Air Patrol National Executive Committee in May 2010.

(7) **Paragraph 12.** “Wings may draft back the minor maintenance payments from the units without further approval but must send a notification to the affected unit informing them of the amount and date of the draft back.”

Comments: There should be established procedures which ensure the unit funds are available before any payment is authorized.

Response: Most wings require the member flights to be paid directly to the wing from the member which would eliminate the need for a unit draft. The purpose of the unit notification is to announce the draft amount and date. The unit can respond at that time if they disagree with the amount, or if funds are not available for an unseen circumstance. The wing and unit can then reconcile discrepancies and coordinate a draft date if needed. This is the same procedure that National uses to draft the B&C missions from wings.

(8) **Paragraph 16c.** “Unit certificates of deposits will be held and managed at wing. Units that currently have certificates of deposits at local banks will move those funds to wing at the next maturity date.”

Comments: This statement conflicts with section b of this part (Units below wing level may invest funds in certificates of deposit or other investment instruments.) as well as paragraph 11t (wings will utilize banks with a security rating greater than “1” as stated on www.bankrate.com).

Response: 16b allows units the opportunity to invest in certificates of deposit. 16c clarifies that the CDs must be held at wing. Units have not followed previous regulatory requirements to notify the wing of CDs held locally, provide documentation for yearend audit and when the CD has rolled over, withdrawn or been reinvested. In order to accurately record the activities with these accounts, the NEC has voted to physically move the funds to wing. This does not prohibit the unit's selection of the CD, interest earned on the funds, or control of the funds; but only moves the funds so that accurate and timely recording can be performed.

(9) **Paragraph 17.** "All expenses for the activity must be paid via check from the unit checking account or paid by the member and the member will be reimbursed from the unit checking account."

Comments: Recommend that this statement be removed in its entirety and rewritten as "All expenses for the activity must be paid by a unit member. The member will be reimbursed by the Wing Banker upon approval of the Unit Finance Committee."

Response: Not all CAP members are in a financial position to support the costs of an event and wait for reimbursement. To alleviate the member's financial burden, invoices for prepaid items, (T-shirts, food, supplies, etc.) can be paid directly from wing to the vendor prior to the activity. The member is also allowed an advance to cover costs incurred during or on site of the event. The member may not collect cash, use the cash for expenditures and deposit the remaining cash to the unit's wing banker account. This would not capture the financial activity for this event, and would be a serious lack of internal controls.

(10) **Paragraph 18.** "All personal reimbursement requests must be submitted within 60 days of incurring an expense or receiving an invoice. Requests for reimbursement presented after 60 days will not be honored."

Comments: The final decision on whether or not any expense is to be reimbursed must remain with the local finance committee.

Response: The member must submit reimbursement within 60 days of the date of the expense. If the unit does not have funds to reimburse the member at that time, the wing can delay payment until funds are available. In order to accurately record expenses that occurred within a fiscal year, the expenses must be submitted timely. Additionally, a member should not wait longer than 60 days to submit a request for reimbursement. Waiting longer than 60 days often leads to missing receipts and illegible receipts due to fading, resulting in a financial loss to the member. Expenditures must be recorded timely in order to accurately reflect the organization's financial transaction within the fiscal year. Lack of consistency in financial reporting could imperil CAP's unqualified audit opinion. This is decision was made by the National Executive Committee in May 2009.

//Signed//
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