

NATIONAL HEADQUARTERS CIVIL AIR PATROL

CAP REGULATION 173-2

11 FEBRUARY 2007



Finance

FINANCIAL PROCEDURES FOR CAP REGIONS AND WINGS

Civil Air Patrol's financial management goal is to promote and ensure the integrity of financial management practices and financial reporting. Each region/wing commander will ensure that the requirements of this regulation are met and will be responsible for all region/wing and subordinate unit funds. This regulation establishes policies and procedures for administrating, auditing, accounting, and reporting of Civil Air Patrol (CAP) funds in accordance with The Single Audit Act (31 U.S.C. 7501 et seq.), Department of Defense Grant and Agreement Regulations (DoDGARs) (32 CFR 32.1 et seq.), the *Constitution and Bylaws of the Civil Air Patrol*, and the decisions of its Board of Governors, National Board, and National Executive Committee. **Note: Shaded areas identify new or revised material.**

SUMMARY OF CHANGES.

Adds guidance on the Wing Banker Program. All squadron financial records are audited at wing level. This revision also changes the financial levels for squadrons subject to these regulatory requirements.

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1. Congressional Requirements. Under the provision of the Cooperative Agreement between Civil Air Patrol and the United States Air Force, CAP is required to maintain and audit its financial records. In addition, the law requires CAP to file with the Office of Management and Budget (OMB) an annual audit of its financial records not later than 31 March of each year. This filing requirement can be met only if all subordinate units meet the suspense dates for annual financial reporting and other year-end requirements as specified in this regulation. Therefore, this directive requires that:

a. CAP will use accrual basis accounting.

b. CAP will submit to the OMB an annual report consolidating the assets, liabilities, income, and expenses of all subordinate units of the Corporation.

c. CAP regions and wings will audit financial accounts annually in accordance with generally accepted accounting principles.

d. Squadrons whose annual expenditures exceed \$50,000 or report liquid assets of \$100,000 (cash and/or investments) or more will be required to follow this regulation in its entirety.

2. Federal Tax ID Number. The Civil Air Patrol Employer Identification Number (EIN) 75-6037853 must be used to establish and maintain all bank and investment accounts.

3. Director of Finance.

a. Each region/wing commander will appoint a director of finance in writing. Neither the director of finance nor the assistant finance officers can be a family member of the region/wing commander nor be a member of the region/wing commander's immediate household. The director of finance must not be a paid employee. A paid employee may perform bookkeeping duties under the supervision of the director of finance. The region director of finance is responsible for financial program management of the region headquarters and for providing oversight and assistance of financial management at the wings within his/her respective region.

b. The director of finance will submit all filings made with agencies outside of Civil Air Patrol, Inc. to NHQ/FM as soon as they are submitted.

4. Finance Committee. Each region/wing commander will establish a finance committee, in writing, each year. The purpose of the finance committee is to ensure the proper management of the region/wing funds. This committee will be composed of the region/wing commander (corporate officer) as the chairperson, the director of finance, and at least three other staff members. Finance committee members can not be a family member of the region/wing commander, nor be a member of the region/wing commander's immediate household. At the wing level, the CAP-USAF state director attends finance committee meetings in an advisory capacity. Each region and wing finance committee will:

a. Ensure that the region/wing is in compliance with all financial, regulatory, and reporting requirements.

b. Assist and supervise subordinate units to ensure that all financial, regulatory, and reporting requirements are met.

c. Recommend to NHQ an independent CPA to perform an independent external audit, if required.

d. Maintain an adequate system of internal accounting controls over all funds in accordance with generally accepted accounting principles.

e. Approve, in writing, all expense transactions, including electronic payments, in excess of \$1500 unless the expenditure is a recurring expense already approved in writing. Properly approved expenditures at the subordinate unit level are exempt from this requirement if the wing is participating in the Wing Banker Program.

f. Establish, in writing, a recurring expense policy and limits. This policy will include a list of bills the committee considers to be recurring with a limit on the expense amount.

g. Establish, in writing, a travel policy.

h. Review subordinate unit year-end financial reports.

i. Perform internal financial reviews of the financial records to ensure compliance with the provisions of this regulation (wing level only). One member of the wing finance committee, other than the director of finance, must complete an *Internal Financial Review Worksheet*. The internal financial review must be completed for each quarter within 45 days. The wing finance committee may designate, in writing, a person outside the finance committee to perform this internal financial review. The completed checklist must be maintained on file and a copy sent to the wing financial analyst. CAP NHQ staff will perform the Internal Financial Review at the region level annually. CAP regions are not required to perform the Internal Financial Review quarterly.

j. Maintain a record of all finance committee meetings and approvals. These meetings and approvals may be conducted via teleconference or electronically; however, a written record with a list of attendees must be maintained on file.

k. Meet at least once per quarter (wing level only).

l. Establish, in writing, a credit card usage and approval policy, if credit cards are used.

m. Provide oversight of all subordinate unit funds on deposit with the wing headquarters to assure that all transactions have been made at the request of the subordinate unit commander, subordinate unit finance officer, and/or subordinate unit finance committee as required in CAPR 173-1, *Financial Procedures and Accounting Report for Units Below Wing Level*.

5. Wing Banker Program. In the Wing Banker Program the wing acts as the bank, accountant, reporter, and check-writer service for the subordinate units. Units continue to maintain control of the obligation and transference of their funds via the local unit finance committee. Wings may not transfer or obligate unit funds in any way without unit written approval. Wings must not impose internal service charges to units.

6. Accounting Procedures and Policies.

a. Accrual-based accounting must be used.

b. All regions/wings must use Civil Air Patrol approved accounting software. Exceptions to the use of the software must be approved by the National Finance Officer. National Headquarters is the program administrator for QuickBooks® and e-Accounting®.

c. Each region/wing must use the Civil Air Patrol approved *Chart of Accounts*, which may be found at www.cap.gov/pubs under indexes, regulations and manuals. Other account classifications may not be established without the written approval of the Chief Financial Officer (NHQ CAP/FM). This standardization is necessary so that consolidated reports can be prepared at the national level. Related sub-accounts under a particular account classification are permitted; however, all reports will follow the account classifications shown in the approved Chart of Accounts.

d. Civil Air Patrol's fiscal year is 1 October to 30 September.

e. Estimating will not be used.

f. All policies will be renewed each year on 1 October.

g. All electronic approvals will be attached to invoices.

h. Wings participating in the Wing Banker Program will provide the subordinate units with financial reporting regarding their cash and investment balances and expenditures at least quarterly.

i. All expenditures must have supporting documentation. Expenditures must be approved in writing by a designee established in the wing invoice approval policy.

7. Banking Policies.

a. Pre-numbered, three-part, voucher checks will be used for main accounts. Specialty accounts may use carbon-copy checkbooks or photocopy checks. One part of the three-part check, the carbon-copy, or a photocopy of the check will be attached to the related paid invoice/voucher.

b. Voided checks will be defaced, recorded in the accounting software, and kept on file.

c. Checks must not be pre-signed.

d. All checks require original signatures. Stamped or electronic signatures are not allowed on checks.

e. All checks over \$500 require two original signatures.

f. Check signatories must not be members of the same household.

g. Not more than one signatory on a check can be a paid employee.

h. All electronic payments over \$500 require two electronic or written approvals prior to release.

i. Signatories must never sign checks made payable to themselves or to members of their household.

j. Checks must not be made payable to "cash."

k. Bank account signatories will be selected from members of the finance committee. Subordinate units must maintain a record of current signatories. Special activity accounts, such as for encampments, conferences, or other activities, must have at least two authorized signatories who are members of the finance committee, but may also have authorized signatories who are not members of the finance committee. All special activity accounts will be recorded on the general ledger.

l. CAP subordinate units will maintain checking accounts, saving accounts, and certificates of deposit only with banks, credit unions, and savings and loans that are federally insured (FDIC, NCUA).

m. The region/wing must use the services of a bank that provides the original cancelled check with the monthly bank statement, an imaged copy of the check, or an imaged copy must be available from the banking institution on-line. If the bank has a policy that the imaged copy is only available on-line for a limited amount of time, the region/wing must print all copies of the cleared checks and maintain copies with the paid documentation. Banks, credit unions, or savings and loans that only provide the number of the cleared check must not be used.

n. All accounts require two signatures to close or transfer funds to an account in another financial institution. The finance committee may authorize transfers of funds to wing accounts within the same financial institution using a single signature, but will establish a policy, in writing, to authorize these transfers with limits.

o. All checking accounts must be reconciled on a monthly basis. Other accounts will be reconciled when a statement is received. The bank reconciliation report will be filed with the bank statement. All bank reconciliations will be reviewed and signed at least quarterly by a member of the finance committee other than the individual who prepared the reconciliation.

p. All wings participating in the Wing Banker Program will establish and maintain consolidated checking and savings accounts designated for the units below wing level. Wings will not be permitted to co-mingle wing funds with subordinate unit funds nor use subordinate unit funds for any purpose not approved by the subordinate unit.

q. Subordinate units participating in the Wing Banker Program must either deposit the funds in the bank account established by the wing for subordinate unit funds or mail the checks directly to wing headquarters. If the funds are deposited by the subordinate unit, it must fax, scan, or mail deposit instructions to the wing advising proper allocation and classification of the transaction along with a copy of the deposit slip. Subordinate units participating in the Wing Banker Program are prohibited from establishing or maintaining checking, savings, or petty cash accounts.

8. Investments.

a. Regions/wings may invest funds in savings, certificates of deposit, or money market accounts. All funds so invested must be readily available without loss of principal. All other investments must be pre-approved by NHQ CAP/FM. Donor-restricted contributions or bequests of investments must be reviewed by NHQ CAP/FM prior to acceptance.

b. Subordinate units participating in the Wing Banker Program with funds invested in certificates of deposit or other investment instruments may elect to maintain those accounts. The subordinate unit will provide the wing with all bank or brokerage statements at least quarterly. Certificates of deposit or other investments, if converted to cash, must be reinvested in an approved instrument (in accordance with 8a) or deposited into the wing's consolidated subordinate unit account.

9. Deposits. All region/wing funds will be deposited in the name of the CAP subordinate unit. Regions/wings will maintain copies of all deposit slips. Funds should be deposited daily, if possible.

10. Debit Cards. Debit cards will not be used for cash advances. Debit cards may be used for payments provided a written usage and approval policy is established. Debit cards will not be permitted for use by any unit below wing level.

11. Credit Cards. Credit card use is permitted for regions/wings. In order to use credit cards, each region/wing will establish, in writing, a credit card usage and approval policy. Credit card accounts will be issued in the name of the CAP subordinate unit. Credit cards must be used for authorized purchases only. Credit cards will not be used for cash advances. Personal expenditures are not authorized including personal proficiency flying. Lost or stolen credit cards must be reported to the credit card issuer and the region/wing commander immediately. Aggregate balances must not exceed the credit limit. All usage must be documented with receipts. All losses incurred from the use of these credit cards will be the responsibility of the region/wing.

12. Fixed Assets. Assets purchased with a per item value of \$5000 or more and a useful life of more than 1 year will be recorded as a fixed asset and reported to NHQ CAP/FM using an *Asset Report*. Assets purchased with a per item value of less than \$5000 will be expensed in the month purchased. Any changes to current fixed assets, such as disposals or sales, will be reported to NHQ CAP/FM. Annual depreciation expense data will be furnished by NHQ CAP/FM and recorded in the region/wing financial records by the wing financial analyst or external CPA. See CAPR 67-1, *CAP Property Regulation*, for additional fixed asset requirements.

13. Payroll. All region/wing staff paid with federally appropriated or CAP funds must be compensated through the NHQ payroll process. Payroll hours for region/wing employees will be submitted to NHQ CAP/FM after approval by the region/wing commander, or his or her designee. In the commander's absence, a member of the finance committee, other than the director of finance, will approve payroll hours. Employees who are working on behalf of CAP who are paid directly by a state are excluded from these provisions.

14. Contracts. The region/wing commander is the only corporate officer who can sign contracts. See CAPR 70-1, *CAP Acquisition Regulation*, for additional guidance regarding contracts.

15. Year-End Audits. Regions/wings are required to have either an independent external CPA audit or be included in the "national audit." NHQ CAP/FM will notify the region/wing as to which type of financial audit will be required. NHQ CAP/FM will inquire by 31 May annually as to whether a region/wing requires separate audited financial statements for state funding or other fundraising purposes.

a. The following requirements apply to regions/wings having a separate independent external audit:

(1) NHQ CAP/FM will notify each region/wing by 30 June annually if they need to engage the services of an independent certified public accountant (CPA).

(2) If an incident of fraud is confirmed, the region/wing/ subordinate unit will be required to have a separate external audit for a period of 2 years following the disclosure of the fraud. The external auditor fees will not be reimbursed by National Headquarters.

(3) Regions/wings/units selected to engage a CPA will request approval from NHQ CAP/FM of their proposed auditor, in writing, not later than 31 July annually. The request must include a copy of the proposed auditor's last peer review and proposed audit fees. NHQ CAP/FM will provide final approval of the auditor by 31 August.

(4) If the region/wing/subordinate unit has been selected for an independent external CPA audit, the region/wing/subordinate unit must forward the draft of the annual audited financial statements and additional schedules to the wing financial analyst not later than 31 December of each year. The region/wing/unit will forward the final audit to the wing financial analyst not later than 31 January.

b. The following requirements apply to regions/wings included in the "national audit" plan:

(1) Regions/wings that have been included in the "national audit" will not receive separate audited financial statements. The region's/wing's financial transactions are included in the "national audit," so there are no separate figures to report.

(2) The wing financial analyst will compile the year-end audit for submission to the "national auditor."

c. All wings must complete CAPF 173-2c, *Wing Consolidation of Financial Records for Units Below Wing Level*. This report must be accompanied by an inclusion/exclusion letter which lists all the subordinate units included in the CAPF 173-2c as well as those subordinate units excluded from it as listed on a *Wing Inclusion/Exclusion Letter*. This report does not require compilation or review by a CPA. A final copy of CAPF 173-2c is due to the wing financial analyst by 31 December annually. All regions will submit a *Region Authorization Letter* and wings will submit a *Wing Authorization Letter* to their wing financial analyst by 31 December annually.

d. All audit requirements must have been submitted in final form to the wing financial analyst not later than 31 January each year.

16. Financial Records. All financial records must be made available to the commanders, region/wing director of finance, members of region/wing/unit finance committees, wing financial analysts, CAP/FM, State and United States Government auditors, external auditors, CAP/IG, or any CAP-USAF personnel. All journals, ledgers, bank reconciliations, cancelled checks, invoices, and documentation supporting expenses and books of original entry will be retained by the region/wing in accordance with CAPR 10-2, *Files Maintenance and Records Disposition*. CAPR 10-2 specifies the record retention requirements of DoDGARs.

17. Fundraising and Grants. The wing director of finance is responsible for ensuring accurate accounting and control of monies raised under fundraising programs or grants. Specific details for authorization and types of fundraising and grants authorized are covered in CAPR 173-4, *Fund Raising/Donations*. Prior approval, in writing, must be obtained from NHQ CAP/XP and NHQ CAP/GC for any proposed fundraising plan that provides for a professional fundraiser and/or for the payment of a percentage or commission of the funds raised to any person or organization. CAP members or relatives will not profit from any CAP activity. Any and all funds derived from approved fundraising activities must be devoted to the objectives and purposes of CAP.

18. Internal Controls.

a. Regions/wings must maintain an adequate system of internal accounting controls over all region/wing funds in accordance with generally accepted accounting principles and practices.

b. Regions/wings will ensure proper segregation of duties so that no one person has excessive control over region/wing finances.

c. All financial records must be securely maintained. Wings participating in the Wing Banker Program will maintain supporting financial documentation for their subordinate units.

d. All region/wing directors of finance must be notified when a reimbursement request is sent to NHQ or any other agency to enable the recording of the reimbursement in the General Ledger.

e. The financial data files may not be downloaded from E-Accounting for changes and then uploaded to E-Accounting.

f. Wings will record the mission number as the invoice number in QuickBooks®.

19. Supplements and/or Operating Instructions. Region/wing may issue supplements or operating instructions (OIs) to this regulation. All supplements and OIs must be approved by NHQ CAP/FM and CAP-USAF/FM.

20. Annual Deadlines. The tasks identified are to be completed on OR BEFORE the dates stated. If the date is on a weekend, the task must be completed on the preceding BUSINESS DAY :

- 31 May – NHQ CAP/FM inquiry to regions/wings regarding external audit requirements
- 30 June – NHQ CAP/FM notification of which regions/wings will require an external audit
- 31 July – Region/wing notification to NHQ of proposed CPA auditor
- 31 August – NHQ CAP/FM notification to regions/wings of approved CPA auditor
- 1 November – Subordinate unit Financial Discloser Statement due to wing commander
- 30 November – Deadline to submit prior fiscal year reimbursement requests to NHQ
- 31 December – Final CAPF 173-2c (Wing Consolidated Report) due to the wing financial analyst
- 31 December – Form listing subordinate units included/excluded to wing financial analyst
- 31 December – Authorization to include CAP region/wing in the group tax return to wing financial analyst
- 31 December – Draft external CPA audit due to the wing financial analyst
- 31 January – Final external CPA audit due to the wing financial analyst

21. Wing Financial Analysts. Wing financial analysts are employees and representatives of Civil Air Patrol. All financial information, including computer files, must be provided and made accessible to the wing financial analyst.

22. FM Manual. NHQ will maintain a training manual for region/wing directors of finance that will assist them with the details of performing their duties.

23. Command Responsibilities. Region and wing commanders are responsible for accountability and oversight of financial management for their headquarters and succeeding subordinate units.

24. Financial Compliance Violations. Region/wing staff has a fiscal responsibility to the membership of CAP and to the federal government to ensure that due diligence is given to the accounting of federal funds and corporate assets. Regions/wings that do not adhere to the directives outlined in this regulation and are found to be noncompliant will be subject to the actions outlines in this section.

Level One Violations – Level One violations include first-time notifications of noncompliance with regulations and significant breakdowns in internal controls, including failure to perform Internal Financial Review. Level One violations shall result in a written notification from the CAP Chief Financial Officer (NHQ CAP/FM) to the region/wing commander. This letter will detail the noncompliance and suggest a means of correcting the issue, together with a proposed date of compliance. Copies of the letter will be distributed to the National Finance Officer, National Commander, Executive Director, and CAP-USAF/FM.

Level Two Violations – Level Two violations include failure to correct Level One notification issues within the amount of time specified in the Level One letter or serious noncompliance issues. Letters directing Level Two status will be issued by the National Finance Officer and the Chief Financial Officer, with concurrence by the affected region commander, and will result in withholding of all corporate (non-appropriated) reimbursements including dues rebates. Copies of the letter will be distributed to the National Commander, Executive Director, and CAP-USAF/CC.

Level Three Violations – Level Three violations include significant noncompliance issues as a result of fraud or extreme financial mismanagement. Examples include failure to correct Level Two findings, fraud, intentional misuse of funds, or other extreme violations. With the concurrence of the National Finance Officer and Executive Director, the National Commander and CAP-USAF/CC will put the region/wing on freeze for all Air Force and corporate mission flying and activities. In addition, cases of fraud will be referred to appropriate law enforcement agencies.