



NATIONAL HEADQUARTERS CIVIL AIR PATROL

CAP REGULATION 173-1

19 DECEMBER 2011

Finance

FINANCIAL PROCEDURES AND ACCOUNTING

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.), Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations (OMB Circular A-110) (2 CFR Part 215), Cost Principles for Non-Profit Organizations (OMB Circular A-122) (2 CFR Part 230), 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.

SUMMARY OF CHANGES. This regulation provides clarification regarding several IRS reporting requirements including the annual requirement to file the IRS form 990 and the requirement to obtain IRS form W-9 from vendors. Receipts are now required to be submitted with credit card statements through Sertifi[®] to provide documentation for the finance committee to make informed decisions. Checks or electronic payments exceeding \$500 may be issued for payment if the invoice and supporting documentation have been submitted and approved by the finance committee through Sertifi[®]. Wings will be required to review the financial rating of their banks annually. Additional guidance has been developed to provide specific processes for aircraft consolidated maintenance funds. Unit certificates of deposit will be held and managed at wing level. Activity income is required to be deposited in its entirety and not "netted" against related expenses. While this is not a new change, the requirement has been clarified in the regulation. References to separate external audit in case of confirmed fraud have been removed.

Note: Shaded areas identify new or revised material.

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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 requirement cannot be met unless all units meet the filing deadlines for annual financial reporting and other year-end submissions as specified in this regulation. Therefore, this directive requires that:

- a. CAP will use accrual basis accounting.
- b. National Headquarters (NHQ) will submit to the OMB an annual report consolidating the assets, liabilities, income, and expenses of all subordinate units of the Corporation.
- c. CAP wings will be subject to the annual audit requirement.
- d. NHQ will prepare a consolidated IRS Form 990 on behalf of all units, wings, regions and national. Units, wings and regions will not contact the IRS directly nor make any filings with the IRS. All IRS notices must be forwarded to NHQ/FM at cap990@capnhq.gov.
- e. Except as noted in this regulation, units below wing level will maintain all financial accounts through their respective wing.
- f. Units below wing level whose annual expenditures exceed \$50,000 or report liquid assets (cash and/or investments) of \$100,000 or more will be considered equivalent to a wing for accounting, reporting and audit purposes.

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. Supplements and/or Operating Instructions. Supplements and Operating Instructions are not authorized. 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.

4. 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.

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

6. Accounting Procedures and Policies.

a. Accrual-based accounting must be used.

b. All wings must use QuickBooks[®], NovelASpect[®], Sertifi[®] and SmartVault[®]. National Headquarters is the program administrator for QuickBooks[®], NovelASpect[®], Sertifi[®] and SmartVault[®]. NovelASpect[®] is an internet-based server which allows wings and NHQ to access a wing's QuickBooks[®] data file and financial documents. NovelASpect[®] is accessible from any computer with internet access by wing-authorized users. NovelASpect[®] backs up all data nightly. Sertifi[®] is a secure document approval and storage system. SmartVault[®] is a web-based electronic storage vault for supporting documentation for financial transactions. SmartVault[®] allows all wing-authorized users access to the supporting documentation from any internet accessible device.

c. The QuickBooks[®] master financial data files may not be downloaded from NovelASpect[®] for changes and then uploaded back to NovelASpect[®]. Wings will not make backup copies or accountant's copies of the QuickBooks[®] data file.

d. Every unit (region, wing, group, squadron and flight) must use the Civil Air Patrol approved Chart of Accounts. The Chart of Accounts is updated as changes occur and posted at http://www.capmembers.com/forms_publications_regulations/r173001.cfm. Other account classifications may not be established without the written approval of the Chief Financial Officer (NHQ/FM). This standardization is necessary so that consolidated reports may 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.

e. Civil Air Patrol's fiscal year is 1 October through 30 September.

f. Estimating will not be used except in the development of budget planning.

g. All Financial Management Procedures will be reissued as necessary and at each change of command. Wing Financial Management Procedures will be uploaded to NovelASpect[®].

h. All electronic approvals, unless obtained in Sertifi[®], will be attached to bills.

i. All expenditures must have supporting documentation. Expenditures must be approved in writing by a designee established in the unit's expense approval Financial Management Procedure, through Sertifi, or through the unit's recurring expense policy. Units below wing level will forward approved bills by mail, e-mail or fax with supporting documentation to wing headquarters for payment.

j. Supporting documentation for financial transactions including disbursements, deposits, and journal entries, must be scanned and stored in SmartVault®.

k. All wings and units will obtain a signed IRS Form W-9 completed by vendors (excluding member reimbursements) prior to executing payment. This information fulfills the IRS reporting requirement for 1099 vendors. These completed forms W-9 will be uploaded to NovelASPECT®.

l. Units below wing level will not establish or maintain petty cash accounts. Reimbursement for out-of-pocket expenditures will be made by forwarding approved expenses and supporting documentation to wing headquarters for payment.

m. 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.

n. Required Financial Management Procedures at the wing level include:

- (1) Expense Approval
- (2) Recurring Expense (if applicable)
- (3) Credit Card, Credit Account or Prepaid Credit Cards (if used)
- (4) Travel
- (5) Bank Transfer (if applicable)

o. Required Financial Management Procedures for units below wing level include:

- (1) Recurring Expense (if applicable)
- (2) Credit Card, Credit Account or Prepaid Credit Cards (if applicable)

7. Director of Finance.

a. Each wing commander will appoint a director of finance in writing. Neither the director of finance nor the assistant director(s) of finance may be a family member of the wing commander nor be a member of the 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.

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

c. The wing director of finance will provide each subordinate unit a report of its cash and investment beginning balance, deposits, payments, and ending balance monthly, within 30 days after the end of each month.

8. Unit Finance Officer. Each unit below wing level will assign a finance officer. New unit commanders must appoint a finance officer in writing within 30 days of assuming command and provide this information in writing to the wing director of finance. The unit finance officer may

not be a paid employee. Further, the unit commander may not serve as the unit finance officer. A paid employee may perform bookkeeping duties under the supervision of the unit finance officer. The unit finance officer will reconcile the unit's accounts with the report provided by the wing director of finance at least once per quarter.

9. Finance Committee.

a. Wings. Each wing commander will appoint a finance committee in writing within 30 days of assuming command. The purpose of the finance committee is to ensure the proper management of the wing's funds. This committee will be composed of the wing commander (corporate officer) as the chairperson, the director of finance, and at least three other wing members. Paid employees such as wing administrators may not be voting members on the finance committee but may serve as advisors or recorders. Finance committee members cannot be a family member of the wing commander, nor be a member of the wing commander's immediate household. Once finance committee members have been appointed they may only be involuntarily removed with the concurrence of the region commander except in the incidence of a change of command. The CAP-USAF state director may attend finance committee meetings in an advisory capacity. Each wing finance committee will:

(1) Ensure that the wing is in compliance with all financial, regulatory, and reporting requirements.

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

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

(4) Develop and approve an annual operating budget as a forecasting tool. The budget must be entered into QuickBooks® by 1 October each year and reviewed quarterly. The wing 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. Revenue and expenses for funded missions tracked through the Web Mission Information Reporting System (WMIRS) do not need to be further budgeted in the wing's QuickBooks account.

(5) Approve all wing-level expenditures in excess of \$1,500 prior to obligating the funds. Payment of these bills will be approved by the finance committee using Sertifi®. Batched checks over \$1,500 do not require pre-approval as long as the individual expenses were approved and are each under \$1,500. Approved expenditures at the subordinate unit level are exempt from this requirement.

(6) Establish in a written Financial Management Procedure a monthly recurring expense policy with limits on the expense amount. To be considered recurring, an expense must be a routine monthly expense not exceeding \$1,500. Recurring expenses are limited to monthly utility bills, facility cleaning bills, landscaping bills, telephone bills, internet usage fees, postage meter rental fees, monthly copier maintenance fees, and facility (hangar, tie-down, repeater, storage) rent. This requirement is waived if the wing elects to approve each bill separately.

(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. The completed checklist (all parts) must be maintained on file and uploaded to NovelASpect®. The CAPF 173, *Internal Financial Review Check Sample* (Part 2) for each wing and unit checking account will be a minimum of the following based upon the total checks written per quarter in each account sampled. All checking and money market accounts will be included in the internal financial review. No more than 30 checks need to be sampled per account. Electronic payments must be included as part of the check sample if these are used.

Number of checks written in quarter	Minimum number of checks sampled
1 – 50	6
51 – 100	10
101 – 200	15
Over 200	25

(8) 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.

(9) Meet at least once per quarter and 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 and the date of the meeting must be maintained on file. Finance committee meeting minutes must be uploaded to NovelASpect®.

(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.

(11) 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 person conducting 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.

b. Units Below Wing Level. Each unit commander will establish a finance committee in writing within 30 days of assuming command. The wing commander may waive this requirement if the unit does not have any funds. If the unit obtains funding at a later date, the unit will be required to establish a finance committee. The purpose of the finance committee is to ensure the proper management of the unit's funds on deposit with the Wing Banker Program. This committee will be composed of the unit commander as the chairperson, the finance officer, and at least one other senior member. Once finance committee members have been appointed they may only be involuntarily removed with the concurrence of the next higher commander except in the incidence of a change of command. Each unit finance committee will:

(1) Establish in writing a list of finance committee members and a list of authorized approvers and their signatures. A copy of these list(s) will be sent to the wing director of finance upon establishment and annually thereafter.

(2) Maintain an adequate system of internal accounting controls over all funds in accordance with generally accepted accounting principles. Internal controls are the policies and procedures established to protect the resources of an organization. Examples include: having supporting documentation for expenditures; not 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.

(3) Conduct fundraising activities only in accordance with CAPR 173-4, *Fund Raising/Donations* as approved by the wing commander.

(4) Approve in writing or via e-mail all unit expense transactions in excess of \$500, unless the expenditure is a recurring expense already approved in writing. Batched checks over \$500 do not require pre-approval as long as the individual expenses were approved and are each under \$500. A copy of the approval will be sent to the wing director of finance along with the check request and supporting documentation.

(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.

(6) Units are not required to maintain copies of financial documents which have been sent to the wing. Documents which may not have been sent to wing, such as finance committee minutes, will be retained by the unit for future reference.

(7) Establish in a written Financial Management Procedure a monthly recurring expense policy with limits on the expense amount. To be considered recurring, an expense must be a routine monthly expense not exceeding \$500. Recurring expenses are limited to monthly utility bills, facility cleaning bills, landscaping bills, telephone bills, internet usage fees, postage meter rental fees, monthly copier maintenance fees, and facility (hangar, tie-down, repeater, storage) rent. This requirement is waived if the unit elects to approve each bill separately. A copy of the recurring expense Financial Management Procedure will be sent to the wing director of finance.

(8) Meet at least quarterly and 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 and the date of the meeting must be maintained on file.

(9) 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 at wing level 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. Internal Controls.

- a. Wings must maintain an adequate system of internal accounting controls over all wing funds in accordance with generally accepted accounting principles and practices.
- b. Wings will ensure proper segregation of duties so that no one person has excessive control over wing finances.
- c. All financial records must be filed and maintained at wing HQ in locked file cabinets or a locked room. Wings will maintain supporting financial documentation for their subordinate units.
- d. All wing reimbursement requests will be processed by wing Director of Finance.

11. Banking.

- a. Units below wing level will not open or maintain bank accounts or petty cash accounts.
- b. The use of counter checks is prohibited.
- c. Pre-numbered, three-part, voucher checks will be used for main accounts. Specialty accounts may use duplicate checks or photocopy checks. One part of the three-part check, the duplicate copy, or a photocopy of the check will be attached to the related paid bill.
- d. Voided checks will be defaced, recorded and voided in QuickBooks[®], and kept on file.
- e. Checks must not be pre-signed.
- f. All checks require original signatures. Stamped or electronic signatures are not permitted on checks.
- g. All checks over \$500 require two original signatures. Checks with one signature may be issued for checks over \$500 provided the bill and supporting documentation has been processed and approved by the finance committee through Sertifi[®] prior to issuing the payment.
- h. Check signatories must not be spouses or members of the same household.
- i. If a check requires a second signature, only one of the signatories may be a paid employee.
- j. 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[®].
- k. Signatories must never sign checks made payable to themselves, their spouse or to members of their household.
- l. Checks must not be made payable to "cash."
- m. Main bank account signatories will be selected from members of the finance committee. Special activity accounts, such as for encampments, conferences, or other activities, must have at least two authorized signatories who are members of the wing finance committee, but may also have authorized signatories who are not members of the wing finance committee. All special activity accounts will be recorded in QuickBooks[®].

n. The 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 wing must print all copies of the cleared checks and maintain copies with the paid documentation. Banks, credit unions, or savings and loans that provide only the number of the cleared check must not be used.

o. All accounts require two signatures to close or transfer funds to an account in another financial institution. The wing finance committee may authorize transfers of funds to wing accounts within the same financial institution using a single signature, but will establish a written Financial Management Procedure authorizing these transfers and defining dollar limits.

p. All checking accounts must be reconciled on a monthly basis by the end of the following month. Bank reconciliations may not be completed by a paid employee. Other accounts will be reconciled when a statement is received. The detailed bank reconciliation report from QuickBooks® will be filed with the bank statement. All bank statements and reconciliations must be uploaded to NovelASPECT®. 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.

q. All wings will establish and maintain consolidated checking and savings accounts designated for the units below wing level. 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. Except for unit deactivation, 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.

r. Subordinate units must either deposit their funds in the bank account established by the wing for subordinate unit funds or mail the checks directly to wing headquarters. Cash must not be sent to wing for deposit. Cash must be immediately converted to a money order or check before being submitted to wing for deposit. If the funds are deposited by the subordinate unit, it must fax, scan and e-mail or mail deposit instructions to the wing advising proper allocation and classification of the transaction along with a copy of the deposit slip to be received at wing HQ within 7 days of making the bank deposit. After one year from the date of deposit and after making at least three notices to all units of the date and amount of an unclaimed deposit, the unclaimed funds will be allocated among all units participating in that bank account.

s. Financial institutions often require proof of the status of the wing as an administrative subdivision of Civil Air Patrol, its charitable status, and the EIN (Employer Identification Number). These can be provided through a form letter from the General Counsel Office. Request the letter by e-mail to gc@capnhq.gov or fax to (334) 265-4352. Provide the contact information for the bank (i.e., name, address, telephone number, fax number and the name of the point of contact) and the wing name (as it will appear on checks) and unit charter number.

t. Wings will utilize banks with a security rating greater than "1" as stated on www.bankrate.com. NHQ/FM will evaluate bank ratings at the end of the fiscal year. Funds that are held in banks rated "1" or less must be moved to a bank with a more secure rating within 4 months of being notified by NHQ/FM.

12. Aircraft Minor Maintenance. All payments for flying must be either sent to wing HQ for deposit or deposited into the unit account not later than the 15th of the succeeding month. 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. Payments must contain the aircraft tail number.

13. Tail Number Accounting. All flying hours must be entered into the Web Mission Information Reporting System (WMIRS). Under the e-108 system, wings will be required to record a deposit for each batch on all NHQ-reimbursed missions. The deposit must be broken down by total aircraft fuel, total aircraft minor maintenance (if applicable) and total other on the QuickBooks® deposit form. Breakdown by mission type will continue to be required; however, tail numbers will not be required. All non-NHQ-reimbursed flying must be recorded in QuickBooks® using invoices on an accrual basis.

14. Consolidated Aircraft Maintenance. When aircraft maintenance expenses are paid by NHQ under the consolidated maintenance program, wings must ensure that category B and C mission customers, including members, are charged at least the published hourly aircraft minor maintenance rate. NHQ will evaluate CAP flying hours quarterly to determine the total amount due for category B and C mission flying. NHQ/FM will assess each wing for the minor maintenance for each of the hours flown by sending a draft notification. Wings will review the notice and respond in writing the approval or dispute of the draft within 15 days of the notice. If a wing disputes the amount of the draft, an additional 30 days will be allowed to evaluate and resolve the dispute. The region commander will be notified of the dispute. All disputes must be resolved and payments received within 45 days of the initial notification. In the event of an unresolved dispute, the region commander will authorize the final payment amount. Approval of the draft is also approval for the funds to be drafted on the date that is stated on the notice.

15. Donations. All donation checks must be sent to wing HQ for deposit.

16. Investments.

a. 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/FM. Donor-restricted contributions or bequests of investments must be approved by NHQ/GC prior to acceptance.

b. Units below wing level may invest funds in certificates of deposit or other investment instruments. All funds so invested must be readily available without loss of principal.

c. Unit certificates of deposit will be held and managed at wing. Units that currently have certificates of deposit at local banks will move those funds to wing at the next maturity date.

d. Donor-restricted investments or bequests of investments must be approved by NHQ/GC prior to acceptance.

17. Deposits. All funds will be deposited in the name of Civil Air Patrol. Funds should be deposited daily, if possible. Wings will maintain copies of all deposit slips. All funds collected for any activity, including fundraising, must be deposited upon receipt. Funds collected on site may not be used to pay any expenses. All expenses for the activity must be paid via check from the unit funds held in the Wing Banker Account or paid by the member and the member will be

reimbursed from the unit funds held in the Wing Banker Account. Advances are also allowed to reduce the financial burden on members provided all requirements for advances are met.

18. Payments. All payments will be made by the wing. If the payment is at the request of a unit below wing level, it must be approved by that unit in accordance with the unit's Financial Management Procedures on file at wing. 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.

19. Debit Cards. Debit cards will be used for deposit purposes only.

20. Credit Cards, Credit Accounts and Prepaid Credit Cards.

a. Credit card, credit account and prepaid credit card use is permitted. In order to use credit cards, credit accounts or prepaid credit cards, each unit will establish a written Financial Management Procedure. The Financial Management Procedure must include penalties for repeated failure to turn in receipts or misuse of the card or account.

b. Credit cards and credit accounts may be authorized for units below wing level by the wing commander. In such case, the credit application must be signed by the wing commander who is the only wing member authorized to obligate Civil Air Patrol. Units below wing level will forward their credit card usage and approved Financial Management Procedure to the wing director of finance. Credit cards, credit accounts and prepaid credit cards will be issued or opened in the name of the CAP unit.

c. Credit cards, credit accounts and prepaid credit cards must be used for authorized purchases only. Credit cards will not be used for cash advances. Personal expenditures are not authorized and must be reimbursed. Lost or stolen credit cards must be reported to the credit card issuer and the wing commander immediately. All usage must be documented with receipts and submitted to wing headquarters within 21 days of the statement closing date. Cardholders may "batch" their receipts and send a consolidated report when the credit card statement is issued. A statement and receipts must be provided monthly if prepaid credit cards are used. All losses incurred from the use of these credit cards will be the responsibility of the unit.

d. Receipts for each use of a prepaid toll card or telephone card are not required, but the initial purchase and each recharge must be documented. Prepaid credit, toll and telephone cards must be used only for official CAP business.

21. Fixed Assets. Assets purchased or donated with a per-item value of \$5,000 or more and a useful life of more than 1 year will be recorded at the wing as a fixed asset. If the asset is purchased by or donated to a unit below wing level, the acquiring unit will report the acquisition to the wing director of finance using an Asset Report. The wing director of finance will report all qualifying asset acquisitions to NHQ/FM using an Asset Report. Assets purchased with a per-item value of less than \$5,000 will be expensed in the month purchased. Any changes to current fixed assets, such as disposals or sales, will be reported to NHQ/FM. Annual depreciation expense data will be furnished by NHQ/FM and recorded in the wing financial records by the wing financial analyst. See CAPR 174-1, *Property Management and Accountability*, for additional fixed asset requirements.

22. Contributed Facilities and Utilities. Not later than 1 November of each year each wing will provide a completed CAPF 174, *Unit Contributed Facility Worksheet*, to the wing financial analyst. The wing CAPF 174 will state the type, square footage and, if known, the fair rental cost of all facilities for which CAP is given exclusive use. Facilities include meeting areas, storage areas, hangar space, aircraft tie downs, etc., for which CAP is charged less than the fair market rental rate. The wing's CAPF 174 will include all subordinate units. The fair market value of donated utilities will also be reported.

23. Payroll.

a. Units below wing level will not have paid employees unless approved in writing by the appropriate wing commander. If so approved, all payroll transactions must be processed through NHQ.

b. All wing staff paid with federally appropriated or CAP funds must be compensated through the NHQ payroll process. Payroll hours for wing employees will be submitted to NHQ/FM after approval by the wing commander. 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.

24. Contracts. The wing commander is the only corporate officer who may sign contracts that obligate Civil Air Patrol. Units below wing level will not enter into any contracts. See CAPR 70-1, *CAP Acquisition Regulation*, for additional guidance regarding contracts.

25. Travel. All wings will establish in a written Financial Management Procedure a travel policy. All travel must be properly approved and documented on a wing travel expense report. All travel expense reports and receipts must include the business purpose of the travel.

26. Business Meals and Entertainment. Business meals and entertainment may not be paid for or reimbursed with Civil Air Patrol appropriated funds. Business meals and entertainment may be paid for with CAP corporate funds when authorized by the finance committee. Business meals and entertainment expenses must be documented on CAP Form (CAPF) 170, *Business Meals and Entertainment Form*, with detailed receipts (original, scanned or fax copies) with details of the charges and there must be a written document clearly stating the date, place, individual(s) attending, and the business purpose of the meal or entertainment.

a. Entertainment. To be authorized, entertainment expenses must be ordinary and necessary per the IRS definition and must meet both of the following criteria:

(1) Directly-related test. The entertainment took place in a business setting and the purpose is to promote CAP; the main purpose of the combined business and entertainment was the active conduct of business; you did engage in Civil Air Patrol business during the entertainment period; and you had more than a general expectation of Civil Air Patrol getting income or some other specific business benefit at some future time. Conventions and hospitality rooms, among other activities, may meet this test. If Civil Air Patrol business is only incidental to the entertainment, the expenses do not meet the "directly-related" test. For example, cocktail parties and sporting events are considered entertainment that is not directly-related entertainment expense.

(2) Associated test. The entertainment must be directly associated with the conduct of Civil Air Patrol business and there must be a clear business purpose; and the entertainment must occur before or after a “substantial business discussion.” There must be an active discussion, negotiation, or other transaction pertaining to the business of Civil Air Patrol.

b. Business Meals. A business meal is defined as a meal shared by employees, volunteers, or donors during which business discussions take place. To be authorized, business meals must meet all three of the following criteria:

(1) Members must obtain approval from their respective finance committee to obligate the corporation for the business meals;

(2) The business meals must not be lavish; and

(3) Alcoholic beverages will not be reimbursed.

27. Fundraising. 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 permitted are covered in CAPR 173-4, *Fund Raising/Donations*. Prior approval, in writing, must be obtained from NHQ/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.

28. Grants. Units applying for grants must comply with the requirements of CAPR 173-4. Special care must be taken to ensure compliance with all matching fund requirements and all reporting requirements stated in the grant application and the grant itself.

29. Raffles. Raffles must comply with all federal, state and local laws and be registered when required. All raffles must be reported to NHQ/FM in writing before the first sale of any ticket. NHQ/FM will then be responsible for filing all IRS forms. If the fair market value of the raffle prize is \$600 or greater, it must be reported to the IRS via Form W-2G. If the raffle offers a prize with a fair market value in excess of \$5,000, the winner will be required to pay withholding tax equal to 25% of the fair market value of the prize less the initial wager in accordance with IRS regulations. Each person accepting the award is required to complete an IRS Form 5747 (available at www.irs.gov). (See Instructions for Forms W-2G and 5747 available at www.irs.gov.) Any wing or unit sponsoring a raffle and failing to obtain the withholding tax from the winner will be required to pay the taxes on behalf of the winner.

30. Financial Records. Financial records of original entry will be maintained at wing HQ. All financial records must be made available to the region/wing commanders, region/wing director of finance or controller, members of region/wing/finance committees, wing financial analysts, CAP/FM, State and United States Government auditors, external auditors, CAP/IG, or any CAP-USAF personnel. Records relating to deposits/expenses originating at a unit level below wing will be made available to all subordinate commanders, finance officers, IGs and finance committees in the chain of command in which the deposit/expense originated. All financial records will be retained by the wing in accordance with CAPR 10-2, *Files Maintenance and Records Disposition*. CAPR 10-2 specifies the record retention requirements of DoDGARS.

31. Wing Change of Commander or Director of Finance Audits. Upon change of a wing commander and/or wing director of finance, an internal financial review must be performed.

32. Annual Audits. Wings will be included in the “national audit” unless other circumstances require the wing to have a separate external audit.

a. The following requirements apply to wings included in the “national audit:”

(1) Wings that have been included in the “national audit” will not receive separate audited financial statements. The 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.”

b. All commanders of units below wing level will sign and submit CAPF 171, *Unit Commander’s Financial Disclosure Statement*, to wing HQ by 1 November each year.

c. Wings must notify NHQ/FM by 30 June each year if a separate external audit is required. The notification must include the reason(s) that the separate external audit is required.

33. Director of Finance of the Year Award. This award recognizes the region/wing director of finance who has contributed the most to the financial management program during the previous calendar year. It is presented annually at the region and national levels.

a. Selection Process. The wing commander submits a letter of nomination to his/her region commander. The nomination letter should include the length of service of the wing director of finance, the member’s specialty track accomplishments, and a narrative detailing innovative procedures, superior initiative and exemplary contributions that distinguish the member as an outstanding financial manager. Other information that will be considered in the selection process includes wing financial analyst reports, Financial Assessment Matrix ratings and timeliness of year-end reports.

b. Nomination Process. Wing commanders will forward their nominations to region headquarters for the region-level award by 15 February. Region commanders will select their respective region director of finance of the year and will forward the nomination to National Headquarters/FM for the national-level award by 15 March. The National Commander makes the final selection of national director of finance of the year and presents the national-level award at the summer National Board meeting.

34. Unit Deactivations. Since units will not normally retain funds, there are usually no accounting implications from unit deactivations. Any funds retained on behalf of the deactivated unit remain the property of Civil Air Patrol and will be moved from the subordinate unit bank account to the wing’s bank account. If there were restricted funds controlled by the deactivated unit, the wing director of finance should consult with the wing legal officer to determine if the funds must remain restricted. All investment instruments held by a deactivated unit will be transferred to the wing. The wing finance committee will determine if a deactivated unit’s funds are to be held at wing HQ or transferred to another unit.

35. Financial Noncompliance.

a. Units below wing level that fail to comply with any portion of this regulation may be subjected to disciplinary or administrative action, up to and including deactivation, by the wing commander.

b. 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 for federal funds and corporate assets. Wings that do not adhere to the directives outlined in this regulation and are found to be noncompliant will be subject to the actions outlined in this section.

(1) 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 reviews. Level One violations shall result in a written notification from the region commander in consultation with the CAP Chief Financial Officer (NHQ/FM) and the National Finance Officer to the wing commander. This letter will detail the noncompliance and suggest a means of correcting the issue, together with a proposed date of compliance.

(2) 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 region commander and the Chief Financial Officer with concurrence by the National Finance Officer, 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, CAP Executive Director, and CAP-USAF/CC.

(3) 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 region commander, National Finance Officer and CAP Executive Director, the National Commander and CAP-USAF/CC will place the 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.

36. Regions. Each region commander will appoint a director of finance. New region commanders must make this appointment in writing within 30 days of assuming command. The director of finance may not be a paid employee. Each region commander will appoint a finance committee in writing within 30 days of assuming command. The purpose of the finance committee is to ensure the proper management of the region's funds. This committee will be composed of the region commander (corporate officer) as the chairperson, the director of finance, and at least three other staff members. Finance committee members cannot be a family member of the region commander, nor be a member of the region commander's immediate household. Once finance committee members have been appointed they may only be involuntarily removed with the concurrence of the national commander except in the incidence of a change of command. The region finance committee will:

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

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

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

d. Develop and approve an annual budget which must be provided to NHQ by 1 October each year and reviewed quarterly. The region is expected to strive to maintain a balanced budget – income equals expenditures. To ensure solvency, if an expense category exceeds its allocated budget amount the overall budget must be revised to keep the budget balanced.

e. Approve all region-level expenditures in excess of \$1,500 prior to obligating the funds. Payment of these bills will be approved by the finance committee using Sertifi[®]. Batched checks over \$1,500 do not require pre-approval as long as the individual expenses were authorized and are each under \$1,500.

f. Establish in a written Financial Management Procedure a monthly recurring expense policy with limits on the expense amount. To be considered recurring, an expense must be a routine monthly expense not exceeding \$1,500. Recurring expenses are limited to monthly utility bills, facility cleaning bills, landscaping bills, telephone bills, internet usage fees, postage meter rental fees, monthly copier maintenance fees, and facility (hangar, tie-down, repeater, storage) rent. This requirement is waived if the region elects to approve each bill separately.

g. Provide to NHQ monthly the bank statement and supporting documentation for the local region activity account.

h. Meet at least once per quarter and 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 and the date of the meeting must be maintained on file. Finance committee meeting minutes must be provided to NHQ for audit purposes.

i. Credit card receipts must be provided to NHQ monthly and approved through Sertifi[®].

j. NHQ will provide detailed general ledger reports, budget-to-actual reports, bank reconciliations, and financial statements monthly or as requested.