

**Finance and Audit Subcommittee  
Report to the Executive Board  
2004 Spring Meeting  
Saturday - April 17, 2004**

The primary objectives of the meeting included a review and discussions on the following topics:

- FY 2004 Budget Update
- Indirect Cost Study
- Washington Office Building Update
- Revised Board Travel Policy
- Endowment Report
- Controller's Report
- Member Notification Process

**FY 2004 Budget Update**

Greg Calloway updated the subcommittee members on the status of the FY 2004 budget. He highlighted the General Fund projections of revenues and expenses for the remainder of the fiscal year and noted that revenues and expenses would be \$773,540 less than budget. As of February year-to-date, total ALA is \$801,548 under target. The 4% negative variance in revenue is primarily in the General Fund. Publishing will be under budget by \$830,568 and is projecting to be \$205,000 under the net revenue budget at the end of the year. Dues are another concern at \$67,000 less than target. He pointed out the significance of the milestones for each Publishing unit and noted the importance in monitoring and forecasting. G. Calloway noted that the ALA assets are 21% greater than last year and liabilities are less than last year.

**FY 2005 Preliminary Budget Overview – EBD #3.4**

Keith Fiels highlighted the preliminary FY 2005 budget for the subcommittee and noted that there was a \$1.3 million deficit resulting in the first iteration of the budget. Management held discussions on strategies to increase dues, publishing and conference revenue by scrutinizing the budget line-by-line. After those discussions, the General Fund budget was still a quarter of a million dollars short. One important area of savings of approximately \$50,000 will be realized by the very limited paper printing of the Handbook of Organization. It will be available as a wireless version, print on demand and CD.

The significant impact of the deficit resulted in ALA offering an early retirement incentive. This incentive is similar to the one offered in FY 2000. By offering the incentive this year, ALA is positioning itself for FY 2006 and hoping to generate about \$250,000 in salary savings in FY 2005.

The Board will be asked to forward the FY 2005 preliminary budget to BARC for analysis and review at its spring meeting.

Deb Robertson, Director of Public Programs, met with F&A to discuss the NEH grant to establish a Cultural Communities Fund. This grant would focus on the program training.

**F&A recommends that the Executive Board establish a Cultural Community Fund.**

### **Indirect Cost Study**

Keith Brown updated the Subcommittee members on the results of the 2003 Indirect Cost study. He reported that the composite rate, which will be applied to the FY 2005 budget, was 18.8%. This is a reduction of 7.9% from 20.3% last year. Overall indirect costs declined by \$1.5 million. The primary area of change was in general administration, which declined by \$1.2 million. General administrative declines were realized in the Divisions (\$316,183), Programs, Offices & Committees (\$300,806), Conferences (\$215,223) and Publishing (\$176,0111). A large portion of the decline in costs were related to one time costs of \$350,000 related to CIPA/CDA legal expenses in FY 2002. Also contributing were lower leasing fees and professional services. Because of the correlation to direct expenses it was noted that the impact on budget adjustments to meet reduced budgeted revenues the indirect cost rate was expected to decline. However, as expenses get more in line with their historical levels the indirect rate is expected to increase.

### **Revised Board Travel Policy – EBD #4.20 (Attachment A)**

Elizabeth Dreazen reviewed the proposed revisions to the ALA Executive Board travel policy. The following action was taken:

**F&A recommends to the Executive Board approval of the revised Guidelines and Procedures for Executive Board Expense Reimbursement with additional revisions to the American Express and automated clearinghouse direct deposit sections.**

### **Washington Office Building Update – EBD# 4.19**

Greg Calloway updated the subcommittee on the status of the potential real estate purchase for the Washington Office. He noted that the distributed document is a working draft document.

The property under consideration is located at 1615 New Hampshire Avenue, NW, which is a condominium mixed-use office/residential property. ALA presented a bid for \$3.2

million (for 10,000 square feet – for portions of the lower level and first and second floors) and \$200,000 for 5 parking spaces. Most equipment and furniture will be transported; a new telephone system will be needed and another copier will need to be purchased.

F&A discussed a recommendation to approve up to \$1.5 million be used as a down payment to purchase Washington property. ALA has engaged the services of a Washington real estate attorney, who will assist in legal and financing issues related to the purchase. G. Calloway explained the various aspects of the financing available to ALA. He explained that the Board will need to approve the Reimbursement Resolution document, which is U.S. Treasury Department regulation.

**F&A recommends to the Executive Board approval of the Reimbursement Resolution.**

Additionally,

**F&A recommends that the ALA Executive Board authorize purchase of a Washington Office facility with a down payment of up to \$1.5 million, with terms and conditions to be determined in consultation with ALA's financial advisors and the Endowment Trustees.**

**Endowment Trustees Report – EBD #13.1**

R. Schwieterman provided a summary to the subcommittee with an update on the Long-Term investment fund. Total portfolio value as of 3-31-04 was \$20.3 million. It was noted that the Trustees would be meeting next Wednesday, April 21, to review candidates to manage the large-cap core portion of the portfolio, as performance by the current manger has not been up to expectation. During their meeting the Trustees will also be updating the investment policy to reflect the inclusion of an SRI mutual fund and secondary performance measures.

The selection of an SRI mutual fund manager – Ariel Capital – was discussed. It was noted that Ariel had a very strong long-term record, which included positive results during the down market years, and most closely matched the SRI values of the Association. Additionally, as a large/mid-cap manager it fits a necessary space within the Trustees asset allocation strategy. It is expected that this fund will provide the membership the opportunity to make a dedicated donations/investments from an SRI perspective. The discussion ended with the expression that the Trustees were expecting to review the proposed financing on the potential purchase of real estate for the Washington Office.

#### **Controller's Report – EBD #4.**

Russ Swedowski presented the fiscal year to date status of the inventory, credit & collections and cash and short- term investments

*Inventory* – Inventory levels at 3-31-04 for ALA Editions and Products & Promotions were \$800,000 and \$517,000 respectively, slightly lower than this date last year. The excess and obsolete inventory reserves for ALA Editions and Products & Promotions were \$302,000 and \$100,000 respectively, which are appropriate. ALA Editions destroyed 3,000 and Graphics destroyed \$26,000, which were all charged against their respective inventory reserves.

*Credit and Collections* – Trade accounts receivable were \$1.9 million as compared to \$3.3 million last year. The 150-day category was down significantly as a result of an increase in collecting activity against bookstores by PBD and Imis (advertising billings) by staff.

*Cash/Bond Fund* – As of 2-29-04 the balance for cash and short-term investment was \$16.2 million. This compares to \$15.2 million last year. This was due to collecting efforts, which have reduced accounts receivable. Year to date interest income is \$241,000, which is \$14,000 less than budget of \$255,000 and \$42,000 more than last year. The Neuberger Berman bond fund balance is \$11.2 million, which compares to \$10.7 million last year. This investment has produced interest income of \$4.7 million since December 1991.

*Unrelated Business Income Tax (UBIT)* – Preparation of the final UBIT worksheets and the actual tax returns commenced in March. It was noted that the 990 and 990T forms were extended until July 15, 2004. It was also noted that a review by McGladrey & Pullen noted that the proceeds from the FY 2003 Huron Plaza sale were not taxable until FY 2004 due to the fact that the partnership used a calendar year-ending 12-31-04.

#### **Auditor Evaluation – CBD #13**

Russ Swedowski and Greg Calloway discussed with the subcommittee the relationship with Ernst & Young. It was noted that a new audit team and audit partner were assigned to the ALA account for the FY 2003 audit, at the request of the Association. The new team was fairly new to auditing associations. However, the process went smoothly. It was also noted that the new audit partner was also the reviewer of the previous audit partners work, which made the process smoother. They both agreed that having the audit performed through a fresh set of eyes was a benefit to the process and were very satisfied with the work and relationship.

#### **Member Notification Process (Attachment B)**

Teri Switzer updated the subcommittee on the status of the member challenge. As they discussed the issues it became clear to the subcommittee members that all of the options that they considered contained elements that made the option unworkable. The options

under consideration were too costly, complicated, time consuming, impractical or burdensome. It was also noted that the Trustees were updating the investment policy to include as part of the investment manager's performance criteria for adherence to the SRI values of the Association. Additionally, it was felt that the ultimate fiduciary responsibility belonged to the Executive Board. Finally, the subcommittee was unaware of any other professional association that enforced a challenge system. The following action was taken:

**F&A moves that the ALA Executive Board accept the recommendation of the F&A subcommittee that a workable challenge process cannot be developed or implemented at this time.**

**Acknowledgement**

On behalf of the Finance and Audit Subcommittee I want to thank ALA Staff Greg Calloway, Keith Brown, Russ Swedowski, Sandy Lee and Elaine Klimek for all their help in preparing for and executing the 2004 ALA Spring meeting.

Respectfully submitted,

Teri Switzer, Treasurer  
Barbara Stripling  
Kathleen Bethel  
Jim Rettig  
Patricia Smith, BARC Chair

Attachment A

**Guidelines and Procedures for Executive Board Expense Reimbursement**

**Membership Dues**

Board members are responsible for their ALA membership dues, including dues for full (voting) divisional memberships. To ensure that Board members have access to current information from all ALA divisions, Board members may elect to join any or all divisions and round tables as non-participating (non-voting) members. To update divisional and round table memberships, Board members should notify the Executive Board Secretariat in the ALA Governance Office after receiving their new ALA membership cards.

**Expenses for Meetings and Conferences**

According to ALA Policy 8.2.2, the American Library Association will pay expenses of members of the Executive Board to attend Midwinter Meetings, Annual Conference, and interim meetings of the Executive Board when such expenses are not paid by the member's home institution.

The intent of Council's action regarding Board expenses is to allow any member of the Association to serve on the Executive Board regardless of geographic location or the member's ability to pay. All usual and customary charges for expenses incurred in conjunction with attendance at—and travel to—the above mentioned meetings and conferences will be paid or reimbursed by the Association when not paid by the member's institution. Board members should use good judgment and prudence by in incurring travel-related expenses. If a Board member is uncertain about covered expenses, he or she should consult the Director of the Governance Office. In addition, Board members may refer to the Guidelines for Association Reimbursement of ALA Member Travel and Expenses, which was passed by the Board at its 1993 spring meeting and revised at the 2002 spring meeting. A copy of the guidelines is included in Appendix K of the ALA Executive Board Manual.

**Covered Expenses**

The following expenses, which may be incurred by Board members attending official Board meetings or events, are covered by ALA.

***Travel***

- Round trip air travel (at the lowest possible economy class fare without requiring plane changes or layovers); round trip train fare; mileage.
  - A. Members who augment business travel with personal side-trips resulting in increased costs to the Association will be reimbursed only the fare incurred for ALA-related business.

- B. When preferential fares are available through the Association, ALA members are strongly urged to make arrangements through the Association's travel agent to get such rates.
- C. Any travel incentives earned on Association business travel may be retained for personal use; however, travel arrangements on specific airlines must be in accordance with the "lowest available airfare" guideline.
- D. Members who travel via car or train for their own convenience or preference will be reimbursed at the lowest possible economy class airfare ticket rate.
- E. Members who cannot fly for health reasons will be reimbursed for actual coach train or bus fare or actual car travel costs. **A doctor's written recommendation may be required.**

### ***Ground Transportation***

- Ground transportation between home and airport can be via taxi, van or personal car. Car service should be used only when necessary. Reimbursement for use of personal car will be at the current IRS rate. Tolls and parking at the airport will be reimbursed.
- Ground transportation between airport and meeting site can be via taxi, van or public transportation. Hotel parking will be reimbursed if personal car is used.
- Taxi fares for rides during the meeting period. Hotel courtesy cars for the ALA President and President-Elect during the Midwinter Meeting and Annual Conference may be available when pre-arranged by the Governance Office or Conference Services.

### ***Meals***

- Board members will be reimbursed for three meals daily for meals not provided at Board meetings or other conference meetings or events. This may include ticketed meal functions at ALA conferences for events such as the Newbery-Caldecott Banquet. Meals will be reimbursed at actual cost up to the maximum (per diem) amounts allowable for each meal, or on a per diem basis at the ALA per diem rate. The current per diem is \$40 (\$8 breakfast; \$12 lunch; \$20 dinner). Please see the attached Per Diem Guidelines for additional information.

*Note:* Mini bar charges are considered part of the per diem and are not separately reimbursable.

### ***Other***

- Tips (maid, bellman, skycap, etc.)
- Costs for meeting registration and certain special events as specified by the Governance Office or Conference Services (for ALA conferences; if not covered by home institution).
- Laundry and valet services when the ALA portion of the trip exceeds six nights.

### ***Telephone, Fax and Internet Expenses***

- Reasonable ALA Board-related business telephone calls made from Board members' homes or institutions are reimbursable. An original (preferable) or photocopy of the telephone bill, with Board-related charges clearly indicated, should be sent to the Board Secretariat. A reimbursement check will be issued.
- When traveling or at conferences, Board members will be reimbursed for one reasonable length telephone call to family per day and two reasonable length telephone calls to the Board members' workplaces per day.
- ALA Board-related business fax costs are reimbursable.
- ALA will pay for reasonable high speed Internet connections. If high speed Internet connections are not available, a long distance charge should not exceed 10 minutes.

### **Procedures**

During orientation, staff will review policy, procedures and guidelines with new Board members concerning covered expenses.

### **Hotel Reservations for Meetings and Conferences**

Hotel reservations for Board members for the Midwinter Meeting and the Annual Conference, the spring and fall meetings, special meetings and retreats are made by Governance Office.

Approximately six weeks before each meeting, Board members are sent a form on which they are asked to submit arrival and departure dates, room preferences, and any special needs. Board members may have family members or colleagues stay in their room. If additional charges such as higher room rate, meals, etc., are incurred, the guests are required to pay those additional expenses. All hotel expenses for Board members are placed on a master account. Although the hotel does not usually require a credit card upon check-in, occasionally the hotel may ask for one to cover incidentals.

The Association will not reimburse members for in-room movies, personal items, or use of hotel health clubs (if that cost is not included in the room rate).

Board members may choose to pay for their personal expenses with cash, check, or credit card when they check out, or they may leave all expenses (including those for family members or colleagues staying in their room) on the master account and submit a check to ALA to cover those expenses when the expense report is submitted.

At ALA conferences, Board members are expected to stay in the headquarters hotel, where Board meetings are held. A block of VIP rooms is reserved for Board members in the headquarters hotel. If other accommodations are required, contact the Director of Governance or Board Secretariat.

For the fall and spring meetings, staff will make reservations for the Board at a hotel located near the meeting site. Cost, location, amenities, and convenience are all factors that are considered when a hotel is selected for the Board meetings.

### **Travel to Conferences and Meetings**

Reservations for ALA-funded travel should be made through ITS, ALA's official travel agent. Call ITS at 1-800-323-6222 and specify that you are making travel arrangements for ALA direct billing. Vicky Marohl is ALA's contact but any agent can assist you. ALA's official airline is United. The Association receives many benefits from channeling all travel through United and ITS. Alternately, you may prefer to use your own travel agent or an online ticketing service when you are able to obtain favorable rates. When using another carrier or travel agent, please notify the Board Secretariat before making your travel arrangements.

Members who travel via car or train for their own convenience or preference will be reimbursed at the lowest possible economy class fare ticket.

Board members are expected to to arrange their own transportation to and from the airport.

### **American Express or Other Credit Card Use**

Board members may choose to use their personal credit cards to pay for expenses incurred for official ALA business, or they may choose to be provided with a corporate American Express card. The American Express Card should only be used for ALA reimbursable expenses.

All credit card expenses to be reimbursed should be reported on the Board Expense Report form or the Corporate American Express Reimbursement Request form and submitted along with original receipts to the Executive Board Secretariat. The annual American Express membership fee is reimbursable by ALA. Note that AmEx cards may not be used to purchase computers, computer-related or other equipment.

In 2002, ALA adopted an individual American Express card membership plan. The American Express contracts are with the individual Board members. The AmEx monthly billing is sent to the individual cardholder's preferred billing address and Board members are responsible for payment of their AmEx bills. ALA provides reimbursement for all appropriate ALA-related expenses within 10 days after the expense reimbursement forms and documentation are received in the Governance Office.

The American Express monthly billing ends on or about the 4<sup>th</sup> of each month, with statements received about a week later at the cardholder's billing address. The cardholder should pay his or her American Express statement in full in order that the payment is received before the next month's billing cycle begins.

Board members can view their account activity online at any time during the billing cycle. To do so, go to [americanexpress.com](http://americanexpress.com) to establish a user ID and password.

**Delinquency charges assessed by AmEx are the obligation of the individual cardholder and are not reimbursable by ALA.**

### **Expense Report Forms**

Board members are asked to submit reports of their expenses on special forms: an Expense Report form to be used for all travel and expenses (including AmEx expenses incurred during ALA-related travel), and a Corporate American Express Reimbursement Request form to be used to report individual AmEx expenses not related to a trip or event. Copies of these forms are included in Appendix L of the ALA Executive Board Manual.

The following items must be submitted with the Expense Report Form:

1. The receipt portion of airline or train tickets.
2. Copy of hotel bill, even if you stay in a complimentary room, when it is possible to obtain from the hotel upon checkout.
3. Original receipts from all taxi fares – no exceptions.
4. Original receipts for expenses reimbursable by ALA (supplies, postage, copying, etc.) or ticket stubs.
5. Receipts for meals to be reimbursed at actual cost. Meal receipts are not necessary when claiming the per diem.

Board members should deduct all personal expenses (in-room movies, health club, personal phone calls, etc.) from the expense report form. These expenses are not covered by ALA. Laundry and valet services are reimbursable if ALA portion of the trip is for more than six nights.

The following items must be submitted with the Corporate American Express Reimbursement Request Form:

1. A copy of the AmEx monthly statement.
2. Original receipts for all items on the statement. Receipts for items previously reported need not be submitted.

Staff reviews the reports, assigns charge lines, and sends the report to Accounting. If reimbursement is requested, a check is sent to the Board member for allowable expenditures. Alternately, Board members may elect or receive reimbursement via ACH [Automated Clearinghouse direct deposit].

Board members are urged to submit their expense reports within 14 days after the conclusion of a Board meeting or trip/event. Check requests are processed immediately by the Governance Office so that Board members receive their reimbursements in a timely manner. Reports should be mailed directly to the Executive Board Secretariat in the ALA Governance Office. Periodic reminders for outstanding expense reports may be sent to individual Board members by the Governance Office, especially when the end of the fiscal year is near.

All expense reports are subjected to review as part of the Association's regular budget development, audit process and management processes.

#### **ACH [Automated Clearinghouse Direct Deposit]**

To speed up the receipt of payments and reimbursements, ALA has implemented Automated Clearinghouse direct deposit [ACH] as a payment option. With ACH, reimbursements or invoice payments are automatically deposited into the account of your choice. A payment processed through ACH will usually be available in your account by midnight on the

processing date. Participants will be notified via email that a payment has been made. The email message will contain the dollar amount, invoice number and description. Each payment will be processed as a unique transaction to better assist you in reconciling your account.

To enroll in ACH, obtain an ACH Authorization Form from the Executive Board Secretariat. Return the completed form, along with a voided check for the account into which you want ACH deposits to be made, to the Board Secretariat. The prenote cycle to establish the account takes between 5-6 business days. You will continue to receive paper reimbursement checks until the successful completion of this cycle.

### **Per Diem**

A per diem expense provides a standard daily rate for meal expenses. Please note:

1. Board members will be reimbursed at the standard ALA conference per diem rate to cover meals, including taxes and tips. The per diem rate is currently \$40 and breaks down as follows: : breakfast - \$8, lunch - \$12, dinner - \$20.
2. If you attend a function such as the Inaugural Banquet, Board lunch, etc., where a meal is provided, simply deduct the guideline amount from your per diem (e.g., if breakfast is provided, deduct \$8 from the per diem). *Note:* Do not deduct the actual cost of the banquet ticket or meal. Only deduct the amount of the per diem corresponding to the meal provided.
3. If the official group function is at no additional charge or you are taken out for a meal, you may not claim the per diem for that meal.
4. Cost for breakfast, lunch and dinner should total to the daily allowance. You may allocate this allowance each day. If you are only going to be in the city for a ½ day, please do not claim the entire per diem. For example, if you are arriving back home before dinner, do not claim the dinner portion, etc.
5. Charges for meals of guests who attend ALA Board business functions must be reimbursed to ALA or billed separately.
6. Any meals charged directly to the hotel should be deducted from per diem.
7. Mini-bar use should be deducted from per diem.
8. Board members may on occasion need to entertain other members and ALA-related associates. Reasonable expenses should be incurred using the above guidelines. Board members should deduct their per diem.

**Insurance**

ALA provides for both the ALA paid workforce and the ALA member/volunteer workforce, travel (accidental death) insurance in the amount of \$150,000 per person. This insurance covers members of the Executive Board and members of committees, including divisions and committees of other ALA units, when traveling on Board/committee business for which expenses are being reimbursed by the Association.

## Attachment B

TO: ALA Executive Board

DATE: April 14, 2004

RE: Member Notification Process (a.k.a. Challenge Process)

### **ACTION REQUESTED:**

Approval

### **ACTION REQUESTED BY:**

Finance & Audit Subcommittee

### **DRAFT OF MOTION:**

**F&A moves that the ALA Executive Board accept the recommendation of the F&A Subcommittee that a workable member challenge process cannot be developed or implemented at this time.**

### **BACKGROUND:**

Over the past six months, the Endowment Trustees and the Finance & Audit Subcommittee have been discussing the viability of implementing a member notification process (a.k.a. challenge process) to provide an avenue for ALA members to request that specific stock holdings that are contrary to the values of the Association are deleted from the Long Term Investment funds. These discussions continued at the Midwinter Meeting in San Diego through the Spring, 2004 F&A meeting. Furthermore, a challenge process was first proposed in 1998-1999, at which time, was never approved by the Executive Board. At this time, F&A has determined that none of the options discussed are viable. There are several areas that make a challenge process logistically unreasonable, including:

- Stock portfolios are dynamic and can change daily; therefore the stock that might be included in a portfolio one day may not be included the next.
- The time staff would need to spend coordinating the process and conducting research on the companies would be exorbitant.

Additional points of consideration include:

- The Long-term Investment Policy, currently under revision by the Endowment Trustees, reinforces the importance of the Association's values when appointing fund managers. To wit, the criteria for selection of fund managers is being strengthened to include recognition of and belief in the ALA values of socially responsible investing.
- The Endowment Trustees conduct conference calls with each of the fund managers at least once a year. During those calls, the trustees review the stocks held in particular funds and can, and do, make recommendations to the fund managers about the appropriateness of stocks in ALA's portfolio.
- To the F&A Sub-Committee's knowledge, there are no other professional organizations that have a challenge process; therefore, there are no benchmarks or prior cases on which to base such a process.