



The Alliance for Nonprofit Growth and Opportunity (TANGO)  
2020 Virtual Annual Conference

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2020 Building Bridges Virtual Annual Conference

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**Risk Alert & Industry Update for Non-Profit Organizations**

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CFO & Director, East Coast Operations

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CFO & Director of Quality Assurance & Process Improvement



# Agenda

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- Introductions
- Risk Alert
  - State of NFPs, Risks and Common Fraud Schemes
  - Legislative & Regulatory Developments
  - Accounting Issues & Developments
  - Online Resources of Interest
- Questions

# Introductions

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Patrick D. Gill, CPA



Jennifer Lohrer-Elstone, CPA

Financial One Accounting provides accounting, financial, and consulting services for nonprofit organizations



# The State of NFPs

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## Where we are in 2020:

- Not for Profit's continue to play a large roll in the world economy and is the third largest sector in the United States
- In the U.S. alone, more than 1.6 million Not for Profit's are registered with the IRS.
- These organizations employ more than 11 million employees, which is 10% of the U.S. workforce.
- Charitable giving exceeded \$427 billion in 2019, despite the challenges and complexities brought on by tax policy changes



# The State of NFPs

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## Most common risks to Not for Profits:

- Lack of financial capacity to maintain adequate financial systems
- Inadequate staff competency for the complexity of the organization
- Frequent turnover affecting financing department and organization – often attributed to morale
- Understaffed finance department vulnerable to inadequate segregation of duties and other internal control weaknesses.

# The State of NFPs

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## Possible strategies to minimize risk:

- Increase investment in staff salaries, professional development opportunities, and building progressive organizational cultures that attract and retain quality finance personnel.
- When appropriate and possible, seek outsourced accounting and finance resources to fill gaps within the finance function, avoid overburdening current in-house staff, and shore up internal controls.
- Involve other non-finance department staff in less technical processes throughout transaction cycle to provide adequate coverage and proper segregation of duties

# The State of NFPs

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## Area of risk as we look ahead

- On-Line Donations & Fundraising:
  - It is one of the fastest growing methods of giving, with 54% of donors preferring to give online using a debit or credit card
  - NFP's should understand the various state charitable solicitation laws (various state) as well as federal & state tax laws and Better Business Bureau standards.
  - NFP's should also invest resources into strengthening their current technology and expanding their firewalls to protect sensitive data. Given the current state of the country with Covid-19 and the majority of the workforce working remotely, cyber attacks have been on the rise as of late and NFP have been a prime target for cyber theft.





# The State of NFPs

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## Area of risk as we look ahead

- When accepting on-line donations you need to consider:
  - If the organization's gift acceptance policy current.
  - Are procedures in place to ensure donor restrictions or conditions are properly reflected in the accounting records.
  - Has a reconciliation process been developed to ensure all donations received have been deposited.
  - Is a process in place to handle exceptions, chargebacks & refunds.
  - What reporting will be required to maintain an audit trail.
  - Have IT controls and access been updated.
  - Are fraud management settings in place (CSC or card verification).
  - If a third party services provider is being used, is the merchant service compliant with PCI Data Security Standard, and has the an SOC 1 report been obtained.

# The State of NFPs

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## Area of risk as we look ahead

- What challenges are facing nonprofits in remaining credible?
- What concerns about fraud continue to challenge non profit organizations?

# The State of NFPs

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## Area of risk as we look ahead

- Most common **Fraud** schemes identified in 2019:
  - Billing schemes in which an employee submits invoices for fictitious goods or services or invoices for personal purchases.
  - Corruption schemes in which an employee personally benefits from a business transaction through bribery or conflicts of interest.
  - Expense reimbursement schemes involving claims for fake or inflated business expenses and personal or nonexistent expenses.
  - Payroll schemes, including claims for hours not worked, adding nonexistent employees to the payroll, or inflating pay rates.
  - Theft of cash on hand, which often involves small amounts stolen routinely over a long period of time.
  - Check-and-payment tampering schemes in which an employee or outside party steals funds by intercepting, forging or altering a check or electronic payment.



# The State of NFPs

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# Legislative & Regulatory Developments

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- UBIT- activities now to be siloed on 990-T
- IRS Updates Guidance of Publication of Racial Nondiscrimination Policy
  - Traditionally has been done by tax-exempt private schools via newspaper ad or broadcast media
  - Now allows the requirement to be met by including the policy on the institution's internet home page (assuming the homepage is available to the general public)

# Legislative & Regulatory Developments

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## DOL Overtime rule –Effective 1.1.20

- Salary level for exempt employees raised from \$23,660/year to \$35,568/year
- Highly compensated employees raised from \$110K to \$ 107,432
  - Consider verifying all exempt employees under the new threshold
  - Consider conducting a wage and hour audit of exempt positions
  - Consider reviewing FLSA duties test to ensure exempt employees are properly classified as exempt

*DOL Interpretive guidance, <https://www.dol.gov/agencies/whd/overtime/interpretive-guidance>*



# Accounting Issues & Developments

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## ASU 2018-08 Accounting for Grants and Similar Contracts *(effective for 12.31.19 year ends and forward assuming no public debt)*

- Clarifies how to distinguish reciprocal (exchange) transactions from nonreciprocal (contribution) transactions
- Clarifies how to determine whether a contribution is conditional or unconditional (this is different from a restriction!)

# Accounting Issues & Developments

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## ASC 606 – Revenue from Contracts with Customers

*(effective 12.31.19 but can be delayed until 12.31.22 year end if no public conduit obligors)*

- Convergence with IFRS standard moved away from industry based guidance to principles based standard
- Five Step Method
  1. Identify the contract with the customer
  2. Identify the performance obligations
  3. Determine the transaction price
  4. Allocate the transaction price to each performance obligation
  5. Recognize revenue
- Expanded disclosures required on audited financials
- Impact financial processes/systems



# Online resources of interest

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- Useful Not for Profit websites:
  - [www.aicpa.org/nfp](http://www.aicpa.org/nfp) (AICPA area that includes tools, resources, and information for those who work for not-for-profit's)
  - [www.boardsource.org](http://www.boardsource.org) (resources to help strengthen not-for-profit's Board of Directors)
  - [www.fasb.org](http://www.fasb.org) (summarizes recent accounting pronouncements and other Financial Accounting Standards Board activities)
  - [www.guidestar.org](http://www.guidestar.org) (information, news and resources for not-for-profit's and donors)
  - [www.irs.gov/charities-non-profits](http://www.irs.gov/charities-non-profits) (a Treasury Department site providing information and answers to frequently asked questions regarding tax-exempt organizations)

# Online resources of interest

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- Useful Not for Profit websites: (continued)
  - [www.nonprofitrisk.org](http://www.nonprofitrisk.org) (provides information to help not-for-profit's control their risks)
  - [www.give.org](http://www.give.org) (information and giving analysis pertaining to not-for-profit entities generated by the Better Business Bureau)
  - [www.nccs.urban.org](http://www.nccs.urban.org) (provides statistics on revenue and expenses of various not-for-profits)
  - [www.c4npr.org](http://www.c4npr.org) (The Center for Non-Profit resources)

# Question & Answer

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# Contact Us

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