



# Top Nonprofit Risks

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GWSCPA Symposium

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# With You Today

O'Connor Consulting  
Services, LLC (OCS)

and

Associated Builders and  
Contractors (ABC)



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## Introduction for Caitlin

Caitlin Almer has over 15 years' experience as a financial professional in both the nonprofit and for-profit industries. She currently works for O'Connor Consulting Services where she supports nonprofit clients in various business advisory roles. She has managed client accounting system implementations and chart of account redesigns, developed incurred cost analyses, implemented automated accounts payable workflow solutions, and assisted with year-end reporting and audit preparation as well as annual budgeting processes.

Caitlin earned a Bachelor of Science in Accounting from Elon University in North Carolina. She returned to her home state of Virginia after graduation, where she became licensed as a Certified Public Accountant and started her career at one of the Big Four accounting firms. After gaining experience as an external auditor and prior to joining OCS, she spent seven years at National Geographic in diverse accounting and financial planning and analysis roles.

Caitlin is an avid traveler and is always planning her next big adventure.

## Introduction for Bianca

Bianca Domally has over 25 years' experience as a financial professional in the nonprofit industry. She is currently the CFO for Associated Builders and Contractors, and has served as CFO for the American Public Power Association, Controller for American Petroleum Institute, and Controller/Managing Director for American Chemistry Council.

She has brought expertise in process improvement, change management and team leadership and development to these organizations. She abides by a "continuous improvement" mantra, for work and life, and champions empowering people to achieve their highest potential.

Bianca received her BBA degree from Baruch College, CUNY, is currently completing her MBA with UMGC, and is a Certified Public Accountant. She lives in Laytonsville, Maryland with her husband and two children, but prides herself in always identifying as a "New Yorker"!



# Why Are We Here?

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- Are you regularly surprised by unexpected accounting and compliance issues?
- Does your organization not keep you informed?
- Do you feel like Finance is always the last to know?
- Then you are in the right place.....

## Today we will:

- Describe the top risks faced by nonprofit organizations
- Discuss strategies and tools to specifically mitigate each of these risks

Specific Risk	Operational	Compliance	Financial Reporting
Cash flow issues	X		
Revenue Classification Issues	X	X	X
Tax Compliance		X	
Federal Grant Related Issues		X	X
Gifts in Kind – Completion and/or Valuation			X
Cost Allocations			X
Endowments, UPMIFA and spending rates	X	X	X
Internal Control and Process Efficiency Concerns	X		X
Remote/Hybrid Working	X	X	
High Turnover	X	X	X
Unrelated Business Income Tax (UBIT)		X	
Lobbying and Political Campaign Activities	X	X	
Understand new Accounting Pronouncements			X

# Top Risk Areas for Nonprofits

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# Cash flow Issues – Cash is King!

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Adequate management of cash flow is critical to any organization.

- Identify cash flow issues immediately
- Develop weekly cashflow report
- Create listing of all contracts with terms, purposes and amounts
- Calculate monthly burn rate
- Establish an approval process for spending
- Educate senior management of the issues
- Develop reserve policies
- Engage the Board, if necessary



# Revenue Classification and Accounting

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- Revenue recognition guidance compliance:
  - ASU 2018-08 “*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*”
    - Distinguishing contribution vs. exchange, conditional vs. restricted
  - ASU 2014-09 “*Revenue from Contracts with Customers*”
- Review the top 5 \$ contracts for your organization
  - Determine impact on revenue recognition and budget
  - Review recognition in internal and external reporting
- Develop a relationship with Development
  - Become their partner
  - Insert Finance at the front end of contract negotiation



# Tax and Other Regulatory Compliance

Create a master list of all compliance requirements

Review the last filing for each form and denote any concerns/questions

Create internal schedule identifying:

- Responsible party leading preparation
- Internal and External Data Contributors and their Roles
- Data source(s)
- Format for support
- Early determination for filing extensions (if applicable)
- Date for completion
- Identify reviewer(s)
- Date for review(s)
- Submission deadline



# Federal Awards

## If a material source of revenue:

- Read all grant agreements
- Create a grants repository
- Document all special terms & conditions
- Evaluate Cost Sharing and Matching Requirements
  - How is the match valued?
  - Does the match come from non-Federal sources?
  - Have you only counted the same dollar once?
  - Does the match have to be achieved on an on-going basis throughout the award or does it only have to be demonstrated at close out?
- Review current indirect cost rate submission
- Analyze Indirect Costs
  - How are they accumulated?
  - How are they billed to the Federal Government?
  - Is a new indirect cost rate proposal needed?
  - Is there a process for excluding unallowable costs from the indirect cost pool?

# Gifts in Kind - AKA Noncash Contributions

ASU 2020-07 “Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets”

– Intended to increase transparency through disclosures.



## Tracking and Process

- Select a Key Contact within Development and Finance
- Identify Barter and Exchange transactions
- Develop a Gift acceptance policy
- Create tracking schedule and procedures with deadlines

## Financial Reporting

- Separate revenue line item on the SOA and in the appropriate natural expense account
- Disclosures:
  - a) Qualitative information on how assets were monetized and/or utilized.
  - b) The NFP’s policy (if any) about monetizing rather than utilizing contributed nonfinancial assets.
  - c) A description of any donor-imposed restrictions associated with the contributed nonfinancial assets.
  - d) A description of the valuation techniques and inputs used to arrive at the initial fair value measure.

## 990 Reporting

- Exclude in-kind services and the donated use of an asset; Include in-kind assets on the IRS Form 990 and included on Schedule M

- ASU 2013-06, Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate, requires recording by receiving entity.
- Is there a shared services agreement in place that defines the services and allocation methodology?
- Is the methodology reasonable and doesn't unfairly burden the 501c(3)?
  - Consider whether Interest may need to be paid to the 501c(3)
- Have the intercompany balances been tracked and repaid as necessary on a pre-determined basis?
- Is the allocation performed monthly as the last entry before the close?
- Does the pool of cost allocated to the other entities exclude any G&A specific to the primary entity?
- Has Leadership oversight also been allocated to other entities?

## Cost Allocations

## First Consider Allocations Between Entities

# Cost Allocations

## Next move to Allocations within Entities

### Guidance in ASU 2016-14 – “Presentation of Financial Statements of Not-for-Profit Entities”:

- Allocations between Program, G&A, and Fundraising:
  - Are they accurate?
  - Are they the most advantageous to portray the organization’s expenses?
  - Are the percentages reasonable as compared to peers and historical information?
- Are appropriate allocations performed for external financial reporting?
- Is this booked within your accounting system or as an on-top adjustment?
- Should there be separate cost pools?

# Joint Cost Allocations - ASC 958-720-45

## Why allocate Joint Costs?

- Allocation of Fundraising costs to Program and G&A
- Can increase programmatic expense percentage

## Is your organization currently utilizing joint costing?

- Review IRS Form 990, part IX, bottom of the form for designation
- Review IRS Form 990 Schedule G
- Review required financial statement footnote disclosure on joint costs

Should your organization utilize this strategy?

Some Charity Watchdogs reallocate a portion of joint costs from program back into fundraising expenses

## Cost Allocations

Don't forget to consider permissible joint cost allocation methodologies

# Endowments, UPMIFA and Spending Rates

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Understand the Nature  
of your Endowments

Donor Endowment  
Board Designated or Quasi-  
Endowment



Need Donor/Board documentation with  
purposes

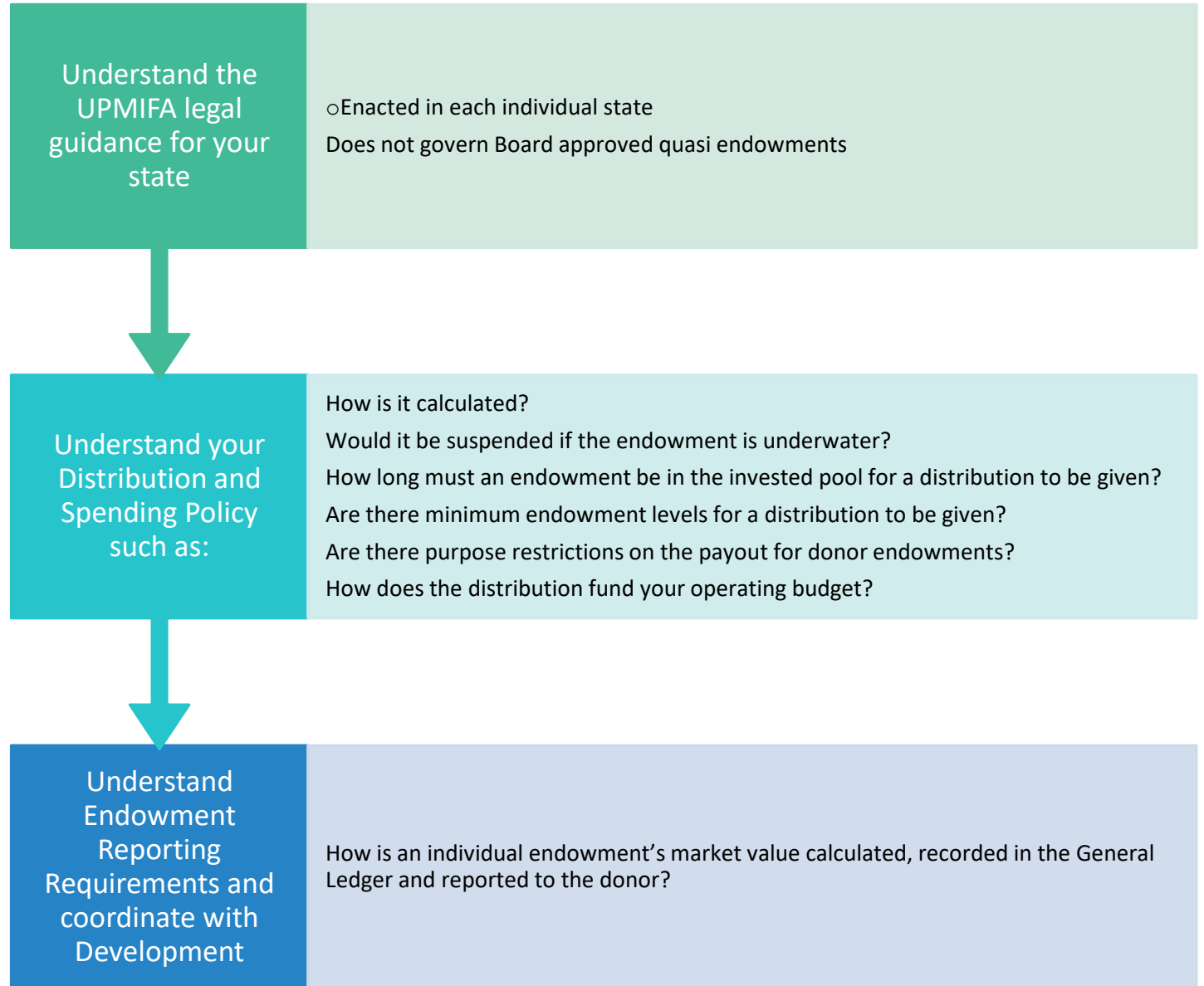


Review the following  
policies:

Gift Acceptance Policy  
Investment Policy  
Endowment Spending Policy  
Generic donor agreement  
Gift Assessment Fee Policy



# Endowments, UPMIFA and Spending Rates





# Internal Controls and Processing Efficiency

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## Initial Assessment is Critical

- Internal Controls
  - Are there poor or undocumented controls?
  - Is there an atmosphere of mistrust?
  - Are there financial restraints?
  - Does management disregard controls or act domineering?
  - Are there questionable employee backgrounds?
  - Do employees not take vacations?
  - Are there segregation of duties issues?
  - How are you preparing and training your team for possible cyber attacks?
- Processing Efficiency
  - Is there significant paper and manual processing?
  - Are there limited or untrained staff?
  - Is your entity operating in a crisis mode?
  - Is there an inability to produce monthly financial reports in a timely manner?

# FINANCIAL PROCESSES OF CONCERN

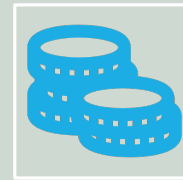
## Remote/Hybrid Working

Continued Opportunity to increase automation but....

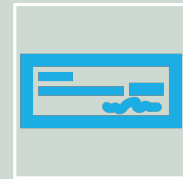
Need to evaluate and update internal controls under each financial process.



Cash Disbursement/AP Process



Expense Management and Reduction



Invoicing/ Cash Receipts



Knowledge  
Transfer



Process  
Documentation



Cross Training

High Turnover.... Being Prepared

# High Turnover.... Things to Address with Transition

Access	Authorization Authority	Return Organization Property	Communication, depending upon Position Level
<ul style="list-style-type: none"><li>• Systems – Accounting, CRM</li><li>• Banking – Cash and Investment Accounts</li><li>• Payroll</li><li>• Accounts Payable</li><li>• Network</li><li>• Key Card</li></ul>	<ul style="list-style-type: none"><li>• Wires Approval</li><li>• Signatory Approval</li><li>• Pension Plan</li><li>• Insurance Plans</li><li>• Board officer</li></ul>	<ul style="list-style-type: none"><li>• Key Card</li><li>• Computer</li><li>• iPad</li><li>• Cell phone</li></ul>	<ul style="list-style-type: none"><li>• Board</li><li>• Auditors</li></ul>

# Unrelated Business Income Tax (UBIT)

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- Results when a NFP organization carries on activities that:
  1. Constitute a trade or business
  2. Are regularly carried on, and
  3. Are not substantially related to its tax-exempt purpose
- IRS exemptions and exclusions

Volunteers	Convenience of Members	Investment Income	Royalties
Bingo	Mailing Lists	Donated Merchandise	Low-Cost Items with Solicitations
Hospital Services	Rent	Corporate Sponsorships	Convention and Trade Shows

- To cover UBIT risks:
  - Develop process to fully vet projects from the financial and legal perspective prior to implementation.
  - Ensure all agreements/contracts are reviewed by Finance BEFORE FINALIZING.

# Lobbying and Political Campaign Activities

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## 1 – Political Campaign Activity

Any activities that favor or oppose candidates for public office

## 2 - Lobbying Activity (Direct and Grassroots)

- Attempting to influence legislation through:
  - Directly contacting members of a legislative body
  - Encouraging the public to contact members of a legislative body
  - Advocating a position on a public referendum

## 3 - Advocacy

- Influence public opinion on issues
- Influence non-legislative governing bodies (the executive branch, regulators)
- Encourage voter participation

# Lobbying and Political Campaign Activities – 501c(3) organizations

## 501(C)3 Organizations

- ∅ Political Campaign Activity not permitted
- ∅ Lobbying cannot be a substantial activity of the organization
  - ∅ Can have some lobbying-track all costs and time in accounting system
  - ∅ Lobbying Disclosure Act (LDA) and IRS Form 990 Reporting
  - ∅ Penalty if you incur too much expense
  - ∅ Consider IRS H election
  - ∅ Possible revocation of exempt status if more than insubstantial lobbying
- ∅ Advocacy – Unlimited, permitted as an educational activity

## 501(C)6 pr 501(C)4 Organizations

- Permitted to do some political campaign activities
- Permitted to do unlimited lobbying
  - ∅ Track all costs and time in accounting system
  - ∅ Lobbying Disclosure Act (LDA) and IRS Form 990 Reporting
- Permitted to do unlimited advocacy



Lobbying and Political Campaign Activities –  
501c(6) organizations



# New Accounting Pronouncements

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1

Understand the impact of all upcoming accounting pronouncements of your organization

2

Be proactive to outline accounting changes and disclosures early

3

Don't wait for your auditors to guide you

# Current NFP Accounting Pronouncements

<u>ASU</u>	<u>Title</u>	<u>Effective Date</u>	<u>Calendar</u>	<u>Fiscal</u>
<b>Our current focus:</b>				
2016-02 (as amended by 2017-13, 2018-01, 2018-10, 2018-11, 2018-20, 2019-01, 2020-05, 2021-05 and 2021-09)	Leases	Public Business Entities (PBEs) & NFPs with public debt: FY beginning after Dec 15, 2019  All Other Entities (AOEs): FY beginning after Dec 15, 2021.	2022	2023
2020-07	Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets	Annual periods beginning after June 15, 2021. Apply on a restrospective basis. Early adoption permitted.	2022	2022 (6/30, 9/30) 2023 (all others)
2016-13 (as amended by 2018-19, 2019-05, 2019-10, 2019-11, 2019-04, 2020-03[Issues 6&7], and 2022-02)	Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (CECL)	FY beginning after Dec 15, 2022 (2019-10)	2023	2024

# Summary of Key Risks

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1. Cash flow issues
2. Revenue Classification Issues
3. Tax Compliance
4. Federal Grant Related Issues
5. Gifts in Kind – Completion and/or Valuation
6. Cost Allocations
7. Endowments, UPMIFA and spending rates
8. Internal Control and Process Efficiency Concerns
9. Remote/Hybrid Working
10. High Turnover
11. Unrelated Business Income Tax (UBIT)
12. Lobbying and Political Campaign Activities
13. Understand New Accounting Pronouncements



# Housekeeping Wrap-Up