ARE YOU READY FOR YOUR AUDIT OR REVIEW?

By Sherri True-Owzarski, CPA, Partner

Each year, as nonprofit clients approach the calendar or fiscal year end, they must think about all of the information they will need to provide their accounting or auditing firm. Generally, auditors are interested in having updated information on the nature of the entity, its operations and changes therein, listings of its Board of Directors and committee members, and copies of trial balances and account reconciliations in electronic format. Generally speaking, the following items, if applicable to your organization, are necessary for both audits and reviews:

1. Trial balance for the current year including a copy of the budget.
2. Access to an accountant's copy of the general ledger and adjusting journal entries for the year with read-only access.
3. Access to the modules such as payroll where totals of data flow to the general ledger. Access rights for view only should be implemented for all of the information accessible by the auditors.
4. Financial statements in comparative format to the prior year. These should be reviewed by the chief financial officer or controller with notes related to why balances between years have large variances.
5. Minutes from committees of the Board of Directors such as the finance committee, audit committee, etc., along with copies of all of the minutes from Board meetings throughout the year and up through the date of the completion of the audit.
6. Reconciliations for the following accounts are necessary and, if possible, should be provided in electronic format such as a pdf copy and should tie to the general ledger:

A. Cash account bank reconciliations and copies of the bank statements as of yearend.

B. Listings of marketable securities and copies of brokerage statements as of yearend.

C. Aged listing of accounts receivable or pledges receivable.

D. Copies of all grant letters and major donations during the year to determine nature of grant and whether it is an unconditional promise to give or a conditional gift.

E. Listing of inventories and how they are valued indicating when they were counted at yearend. Auditors should be aware of when the inventory is counted and any valuation needed related to obsolete or slow-moving inventory. Auditors should be present to observe the inventory counting process.

F. Prepaid expense listings for such items as insurance showing the details of premiums paid, amortization, financing and the insurance coverage.

G. Property, plant and equipment details including a listing of additions and deletions for the year. It is helpful if copies of the invoices are made and retained in a separate file for review.

H. Other assets—itemize and show nature of the item such as deposits for future use or buildings not used by the entity but are owned by the entity. If assets were donated, the value used by the donor and the agency should be determined. If large, they should be based upon an appraisal.

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I. Accounts payable aged listing as of yearend and details of vendor concentrations.

J. Payroll reconciliations including payables for payroll, vacation accruals, related taxes and employee benefits.

K. Expense reimbursements should be up to date and a listing of those owing as of yearend should be provided.

L. Bank borrowing details and balances at yearend as evidenced by statements from the bank. This includes both short term borrowings such as for a line of credit and long term borrowings for such things as building loans, equipment loans, etc. Provide copies of financing and banking agreements.

M. Prepare a schedule of 5-year amortization of principal repayments due for long-term debt.

N. Also prepare a schedule of lease commitments for the next 5 years.

O. Prepare a schedule showing changes in net assets for the year for the following categories:

1. Unrestricted net assets
2. Board-designated unrestricted net assets
3. Temporarily restricted net assets (including purpose of time suspension, showing additions and released from restriction amounts).
4. Permanently restricted net assets.

P. Details of revenue should be provided including how the revenue sources are designated to the various programs. This assists the auditors in assessing risk for the agency, it's programs and its operations.

Q. A statement of functional expenses should be prepared by program and for management and general and fund-raising expenses for voluntary health and welfare organizations and also for other organizations where it is helpful information. Care should be taken to make sure these expenses reflect the actual expenses of the programs and are not allocated based on budgets.

R. Descriptions of the programs should be given to the auditors and included in the first notes to the financial statements.

S. A copy of applicable notes should be provided for the auditors or the financial personnel of the Agency should be ready to meet with the auditors to assist in preparing the footnotes to the financial statements.

T. Disclosure of any fraud uncovered during the year should be disclosed to the auditors.

Additional items that relate to an audit but not a review:

1. Walk-throughs on the various accounting systems such as accounts payable and cash disbursements, revenue, cash receipts, payroll, etc. will be performed by the auditors.
2. Fund-raising activities should be identified, and the controls thereon should be brought to the attention of the auditors. This includes events such as auctions, various types of fund drives, etc.
3. If the auditors decide to rely on controls over transactions, they will ask for various transactions and the supporting documents and will test those for accuracy and whether they are in compliance with the controls established for that system such as payroll processing.
4. Federal funding for your agency will require that you prepare a schedule of Federal financial assistance showing the amounts received and expended during the year. This schedule must be tied back to your records to verify it is complete and accurate showing the name of the program, the agency providing it, the CFDA number, and the amount of funds expended during the year.
5. The audit includes a review of the IT systems in your organization as well and that will require setting up meetings for review with the persons responsible for the IT function within the organization. Copies of write-ups and responsibility for the various IT modules should be provided to the auditors for their risk assessment, inquiry and review.

Your auditors should provide you with a request list of the information that will be needed for your review or audit engagement. If you would like particular checklists to assist you with documenting your entity, its systems, etc., please e-mail us at NPO@Shannon-CPAs.com.

8 TIPS FOR RUNNING A VALID ACCOUNTABLE PLAN

If you're like many nonprofits, you probably have an accountable plan for employee business expense reimbursements. If you don't, you're at risk for having to add reimbursements to your employees' wages for income tax and Social Security tax purposes. But do you have the necessary policies and procedures in place to comply with IRS requirements? Here are eight tips for making sure that your plan is beyond reproach.

1. Make sure it's truly a plan. Just because employees submit business expense records, it doesn't mean the employer can reimburse them tax free. But a nonprofit isn't required to report the reimbursed expenses as earnings on the employee's W-2 form if it has an accountable plan in place. The IRS requires that all expenses covered in the plan have a business connection and be "reasonable."

2. Put it in writing. While an accountable plan isn't required to be in writing, a formally established plan makes it easier for the nonprofit to prove its validity to the IRS if ever challenged. A written plan also gives the organization a structure for describing its requirements for expense reimbursement.

3. Reimburse correctly. If an expense qualifies as a business deduction for an employee, it also can qualify as a tax-free reimbursement under an accountable plan. For meals and entertainment, the plan may reimburse expenses at 100% that would be deductible by the employee only at 50%. You must identify the reimbursement or expense payment and keep these amounts separate from other amounts, such as wages. For 2010, you can reimburse employees up to 50 cents for every mile they put on their vehicles for business purposes. An accountable plan must reimburse expenses in addition to an employee's regular compensation. No matter how informal the nonprofit, it can't substitute tax-free reimbursements for compensation the employees otherwise would have received. For example, assume an employee receives $200 for a day's work — whether traveling or not — and on a business trip incurs $50 in reimbursable expenses. The employer can't treat $50 as tax-free reimbursement and report $150 as taxable income. Even if you give your employees a budget for expenses, if the funds aren't used for qualified expenses it will invalidate the plan. And an invalid plan means that the employees' legitimately documented reimbursed business expenses would be taxable.

4. Make sure the expense is reasonable. This begs the question, what isn't reasonable? Let's say an organization reimburses an employee at 70 cents per mile, rather than the allowed 50 cents per mile. The IRS would consider the extra 20 cents excessive and treat it as taxable income. Also, an employer can't reimburse the employee more than what he or she paid for any business expense.

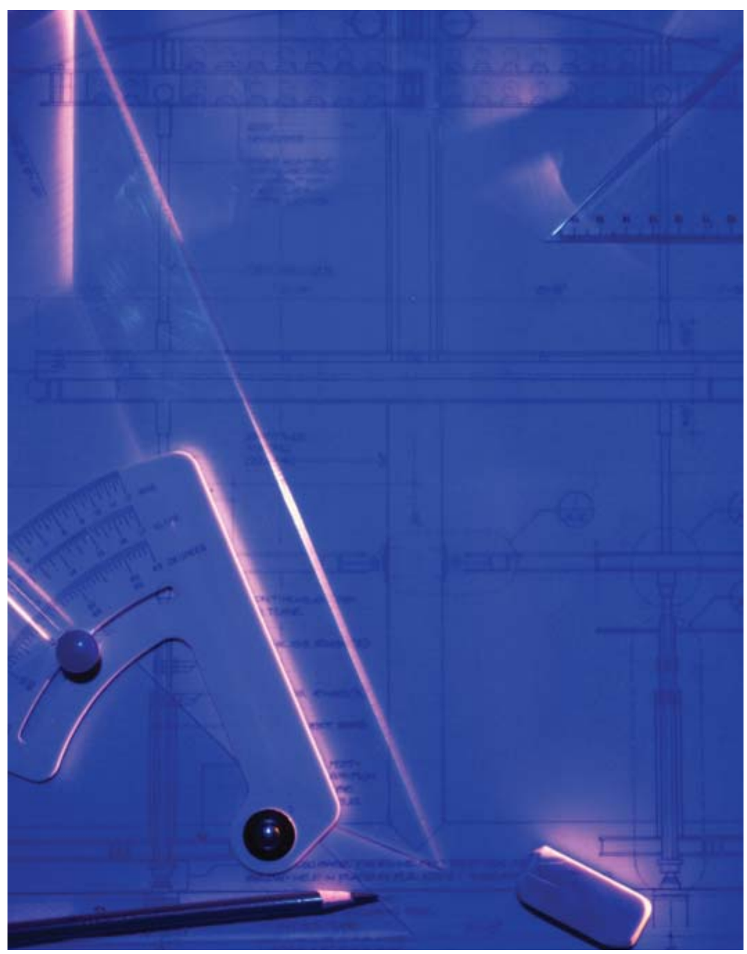
5. Satisfy the criteria for traveling expenses. The IRS provides three conditions that must be satisfied in an accountable plan. The expense must be 1) ordinary (reasonable) and necessary, 2) incurred while away from the general area of the employee's tax home for a substantial period, and 3) incurred in the pursuit of business.

6. Account adequately for the expenses. The IRS requires that the nonprofit keep these records for business expenses that are reimbursed:

- The amount of the expense and the date,
- The place of the travel, meal or transportation,
- The business purpose of the expense, and
- The business relationship of the people entertained or fed.

7. Keep proper documentation. Document all lodging expenses with a receipt, unless your nonprofit uses a per diem plan. Require employees to submit receipts for any other expenses of $75 or more and for all lodging. Credit card statements may be used to provide key elements of your documentation, such as the place and date of the expense, and employees must supplement the statement with documentation of other elements. The IRS has set standard per-day amounts that taxpayers may use as an optional deduction for meal expenses incurred while away from home on business travel. U.S. rates are available in IRS Publication 1542, Per Diem Rates, which also includes the IRS per-day amounts for combined meal and lodging expenses. When using a per diem for travel — or mileage for vehicle usage — an employer may adopt a lower amount than the IRS maximum.

8. Keep track of mileage. An account book, diary, log, trip sheet or similar record may be used to substantiate a vehicle's business use. This is the best way for the employee to maximize and protect this deduction.



10 TIPS FOR KEEPING VOLUNTEERS

It's easy to take your volunteers for granted — until they quit. Now, more than ever, short-staffed nonprofits rely on volunteer labor to pick up the slack. To help ensure you're doing everything you can to engage and retain unpaid workers for the long term, consider the following 10 tips:

1. Build a program. Even small nonprofits can benefit from formalizing their volunteer program. Start by assigning a paid employee as a part- or full-time volunteer coordinator and developing an orientation and training program.
2. Create a "career" path. Ask volunteers to set goals related to completing projects, mastering certain responsibilities or working a specific number of hours. Reward them by recognizing their achievements publicly and providing them with more challenging assignments.
3. Use volunteers' talents. Give volunteers tasks that will tap into their experience and skills. Be careful, however, that you don't automatically assume a computer programmer wants to spend his or her volunteer time solving your organization's technology problems. Some volunteers are anxious to acquire new skills, so be sure to ask.
4. Assign work that counts. Volunteers want to know they're making a difference and doing work that matters. Although some menial tasks will inevitably fall to volunteers, articulate how every activity contributes to your nonprofit's success — including answering phones or cleaning animal cages.
5. Consider convenience. Unlike paid employees, volunteers don't have to show up for work. So be prepared to accommodate their schedules — particularly if they work full-time or have young families — and try to be flexible when they need to cancel at the last minute.
6. Make it social. Many volunteers are motivated by the opportunity to meet like-minded people. Introduce your volunteers to one another and schedule periodic group get-togethers on- and off-site.
7. Communicate. Although you aren't necessarily going to share your budget woes or operational challenges with volunteers, it's still important to keep them in the loop. If, for example, you're planning to discontinue a program that's heavily staffed by volunteers, let them know as soon as possible.
8. Ask their opinions. Even volunteers who have been with you for a short time will likely have suggestions about how your nonprofit can do things faster, cheaper or better. So, regularly solicit feedback, listen carefully and act on promising ideas.
9. Adapt to changing needs. If you can't find people interested in your current volunteer program, change it. For example, younger volunteers may welcome the opportunity to volunteer via computer, updating your website or writing press releases. Parents may be interested in weekend activities that include children.
10. Say "thank you." You simply can't thank your volunteers enough, so let them know how much you appreciate them at every opportunity. In addition, send occasional thank you cards, take them to lunch or even hold a volunteer appreciation day.

CAN WE HELP?

Our firm offers a broad range of not-for-profit services.
If we can be of service to you, please call.

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