

**EASE ON DOWN THE ROAD**

**5 TIPS FOR MAKING YOUR AUDIT LESS STRESSFUL**

Do you bite your nails before your not-for-profit's external audit each year? Does your staff start showing signs of anxiety in anticipation of the auditors walking in the door? If this sounds like your situation, take a deep breath. Here are five tips for making the audit experience run more smoothly for you and your auditors.

**1. Be ready**

Ask your auditor for a list of items they'll need during the audit - with deadlines for each item - if such a list isn't provided automatically. Talk to your auditor before the fieldwork if you have questions about any of

the items, and let your auditor know right away if you won't be ready by the agreed-upon dates. Because surprise is a required element in the audit, you'll also need to produce some information on the spot, such as specific expense reports, journal entry support, grantor or program reports. But you can still prepare by establishing files during the year to collect the information you may need.

**2. Have realistic expectations**

Your expectations of the audit should mirror your contract with the auditing firm. It will spell out what the audit will accomplish

and your responsibilities. Auditors once did accounting "clean-up" work for their clients during the audit, such as preparing year end journal entries, fixed asset schedules, and various prepaid expense and accrued liability analyses. But today's professional standards draw a clear line between accounting and auditing services, and your auditor must stay independent of your accounting processes. If there are accounting tasks you can't do internally due to a lack of expertise, consider hiring a different firm to handle them. But if you're fully capable and "own" the process, you can engage your audit firm to assist with certain analysis and adjustment information *outside* of the audit.

**3. Minimize your risks year round**

Draft and review your accounting and procedures manual. Self-assess inherent internal control weaknesses and determine the necessary internal controls to mitigate such weaknesses. Periodically ascertain whether your organization's policies and procedures are being followed. If your operations have changed or evolved, discuss

these developments with your auditor during the year and update your policies and procedures accordingly. Waiting until fieldwork begins can delay the audit process.

**4. Be prepared to deal with any control deficiencies**

Your auditor will apply risk standards during the audit. AICPA Statement on Auditing Standards No. 115, Communicating Internal Control Related Matters Identified in an Audit (SAS 115), defines deficiencies in internal control and other "material weaknesses" and "significant deficiencies." The auditor, for example, will look to see if there is:

- More than one person
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## EASE ON DOWN THE ROAD

### 5 TIPS FOR MAKING YOUR AUDIT LESS STRESSFUL

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handling cash receipts and reviewing and approving cash disbursements and payroll,

- A second person authorizing contracts and their payment, and
- Adequate oversight of your checks and balances system.

After reviewing the risk and internal control information you've assembled, your auditor could determine there is a "significant deficiency" or the more serious "material weakness."

For any matter identified in the auditor's SAS 115 letter, prepare a written response including whether you have taken or intend to take any action in response to the finding. This is important to the audit committee and board as they oversee the audit and the overall system of checks and balances.

#### 5. Stay in touch

Don't let the annual audit be the only time you talk to your auditor. If you save up all your questions, it's likely to extend the length of the audit.

Also ask if there are new accounting pronouncements or changes for the year so you and the board aren't surprised after year end. Be proactive in understanding the new guidance and its impact on your next audit and future financial reporting.

#### It's all good

Although the audit — and the preparation that precedes it — requires some work, the benefits are plentiful. The audit not only assesses your overall financial condition, but also can pinpoint problems with financial management and financial reporting, and identify ways to reduce risk and strengthen internal controls.

## NEWS FOR NONPROFITS - ENCOURAGING UNCONVENTIONAL GIFTS

"Unconventional" appeals to a large segment of the general population and may be more attractive to certain donors. Here are some unusual ideas for giving that people can incorporate into their everyday lives and that may not cost a lot of money:

- Throw a children's party for a cause — for example, the birthday girl or boy can ask guests to bring pet food and kitty litter to donate to an animal shelter, canned food for a food bank, or school supplies for a community organization.
- Put charity on the wedding registry — a marrying couple can ask for charitable donations and forgo getting another coffeemaker.
- Give to charities through eBay — whether buying or selling, donors can set up a donation to their favorite charities through "eBay Giving Works."

You can find these and other ideas on [about.com](http://about.com). Search for "ideas for everyday giving." Consider putting together your own list of offbeat ideas and circulate it to your constituents.

#### IRS implements Form 990 changes

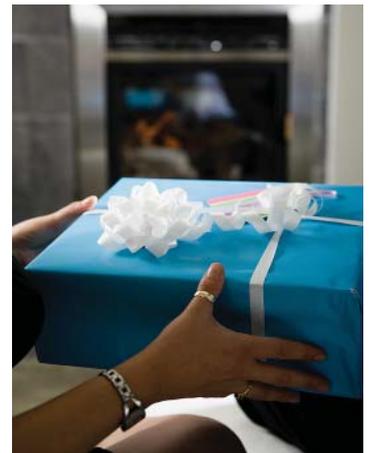
The IRS has issued a set of final rules that largely reflect changes already made on the revised Form 990, "Return of Organization Exempt From Income Tax." Published in the Sept. 8, 2011 Federal Register, the rules were effective immediately and replace the agency's temporary regulations issued Sept. 9, 2008.

The final rules, as outlined in the instructions to Form 990, define new threshold amounts for reporting compensation and require that compensation be reported on a calendar-year basis. Among other things, they also eliminate the advance ruling process for new organizations, change the public support computation period for publicly supported organizations to five years (as already listed on the form), and clarify that nonprofits must use their overall method of accounting to report the public support.

#### Mild improvement in giving trends

While the economy continues its slow mend, "Giving USA 2011: The Annual Report on Philanthropy" shows some improvement in donor support of nonprofits for 2010 over 2009. Among its findings are stated:

- Total estimated U.S. charitable giving rose 3.8%.



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## NEWS FOR NONPROFITS - ENCOURAGING UNCONVENTIONAL GIFTS

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- Giving by individuals climbed an estimated 2.7%, and charitable bequests jumped an estimated 18.8%.
  - Corporate giving rose an estimated 10.6%.
  - Giving by foundations fell a marginal 0.2%.
- You might want to keep these trends in mind as you plan your nonprofit's 2012 fundraising efforts and make budget adjustments.

## CAN WE HELP?

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

## IS YOUR NONPROFIT VULNERABLE TO FRAUD?

This summer, an Idaho woman was sentenced to prison for embezzling \$1.3 million from the nonprofit drug and alcohol treatment organization where she had worked as a bookkeeper, a New York man pled guilty to siphoning more than \$200,000 from three separate veterans organizations, and the treasurer of a North Carolina performing arts group was found guilty of embezzling \$300,000 from the nonprofit.

These represent only a snapshot of the many financial crimes committed against nonprofits by their employees and volunteers

in 2011. Nonprofits experience lower rates of occupational fraud than their corporate counterparts, but that's small comfort to the organizations that fall victim. Address your vulnerabilities before fraud happens to you.

### The perils of trust

Many nonprofits are staffed by people who believe strongly in their mission, which contributes to a culture of trust. Unfortunately, such trust makes nonprofits vulnerable to certain types of fraud. For example, if you don't supervise staffers who accept cash donations, you make it

easy for them to skim (keep a donation for themselves without recording its existence in the books). Skimming is even more likely to occur if you fail to perform background checks on new employees and volunteers who'll be handling money.

Billing schemes are also common. Staffers might invent and submit invoices on behalf of fictitious vendors or collude with actual vendors who are willing to submit false or inflated invoices. If your nonprofit has only a small staff, with one person handling most accounting duties, you may also be vulnerable to ghost payroll schemes and expense account fraud, among

other scams.

### Internal controls work

Preventing such crimes begins with strong internal controls. Even small nonprofits that consider their staff and volunteers "family" need to establish and follow procedures that limit access to funds. Possibly the most important of these is the segregation of duties. To reduce opportunities for any one person to steal, multiple employees should be involved in processing payables. For example, every incoming invoice should be reviewed by the staffer who instigated it to

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# IS YOUR NONPROFIT VULNERABLE TO FRAUD?

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confirm the amount and that the goods or services were received, and a different employee should be responsible for writing the check. For large expenditures, require the approval of more than one person.

Similar guidelines apply to receivables. The staffer who deposits checks shouldn't also open your monthly bank statement. And the employee who opens mailed donations needs to be different from the person who makes bookkeeping entries and deposits checks.

And don't forget to protect electronic records that include financial data on donors, vendors, employees and others.

Give employees access only to the information and programs required for their job responsibilities. All sensitive information should be password-protected, and users should be required to change their passwords periodically.

## What's my motivation?

Of course, opportunity alone doesn't lead to fraud — motivation also is required. In economically challenging times, even a staffer who normally is honest may be tempted to steal. And because nonprofit employees tend to earn less than their for-profit counterparts, guilty employees may use their lower salaries to justify fraud to themselves.

Be on the lookout for staff members whose financial fortunes seem to change overnight. An accounting department employee may have an inheritance to thank for his new car or lottery winnings for her expensive jewelry, but it pays to investigate. Also be suspicious of employees who avoid taking vacations or even single sick days. They may be concerned that someone will find fraud in their absence.

## Follow up with audits

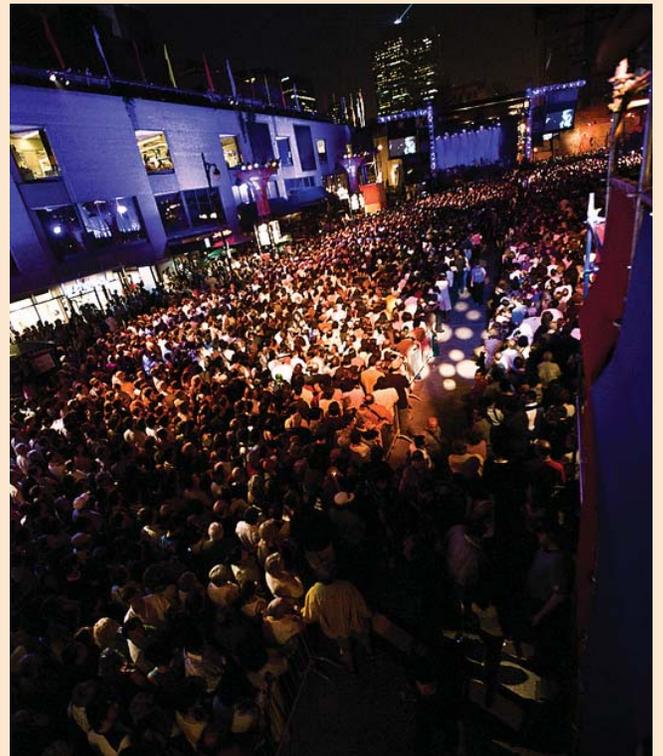
Recognizing the potential for fraud and establishing controls to prevent it is only the beginning. You also need to conduct periodic audits. Your auditor can help identify weaknesses and ways to fix them so that your organization doesn't become the victim in another sad story about a defrauded charity.

## SIDEBAR

Many nonprofits depend on money raised during a big annual gala or other special event. But because crowded and chaotic fundraisers where cash changes hands are fertile grounds for thieves, you need to take extra precautions.

To ensure the money raised at your fundraiser actually makes it to the bank, discourage supporters from making cash payments. As much as possible, pre-sell or pre-register event participants to limit access to cash on the day of the event. And if you do accept cash, double-check the money raised with prenumbered tickets that must be accounted for at the end of your event.

Also, try to assign cash-related duties to paid employees or board members. If you need to use volunteers, make sure they're closely supervised at all times.



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