

## SEEING YOUR WAY THROUGH TRANSPARENCY

**T**ransparency. To most nonprofits the term connotes the need to make financial statements more readily understandable, and suggests being open about all aspects of their operations. Since the IRS revised Form 990 over five years ago to require the disclosure of a gamut of information, transparency has taken center stage with not-for-profits.

you have something to hide. A nonprofit that discloses its financial results and information about its governance is less likely to attract criticism and media scrutiny. And potential donors will be put at ease by learning that your organization is well managed and has strong board oversight.

Asked Questions (FAQs), third-party testimonials and informational brochures to make the numbers digestible. Translating financial results into program outcomes can be particularly effective.

So, is transparency actually a good thing? And how does an organization reveal its inner workings without inviting misunderstanding or drawing criticism?

### Your website: A good place to start

Think of it as a key transparency tool. Post the organization's annual audited financial statements on your website as soon as they're approved by the board of directors. The audit process might entail a four- to-six-month lag between the end of the year and final board approval. But such a delay is less than the 9 to 11 months typically needed for nonprofits to complete and file their Form 990 and then have it posted on GuideStar, an online site that, among other things, facilitates research on not-for-profits by providing information to the public.

Also post on your website any of the board's policies and procedures that demonstrate strong governance. This includes your nonprofit's conflict of interest statement, whistleblower policy, political activities policy and your process to determine compensation.

### Why embrace transparency?

Your nonprofit's reputation is its most important asset. With today's immediate and widespread access to information on the Internet, a positive image can turn negative overnight. Major funders and individual contributors will run from a not-for-profit with a less than stellar reputation. And no one in the community — or in the organization itself — wants to be connected to a nonprofit that isn't aboveboard in all its dealings.

### Approaching Form 990

When addressing transparency, disclosing salaries of the nonprofit's directors and officers (a Form 990 requirement) and salaries of any other employees with compensation over \$100,000 is often the first thing that comes to mind. Salary and benefits information can be sensitive material that may draw public scrutiny.

Transparency helps you protect your organization from a public perception that

Posting the financial statements on your own website (or elsewhere) doesn't guarantee that the public will understand them. Consider using tools such as financial pie charts, Frequently

Often you can prevent salary-related criticism by explaining how salaries at your organization are set. Schedule O, "Supplemental Information to Form 990"

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or 990-EZ” provides space to explain any of your answers, making it an ideal place to describe the steps taken to determine key individuals’ salaries. Your not-for-profit, for example, may have conducted an areawide or national salary survey of similar positions at like-size organizations.

Form 990 also requires nonprofits to disclose the nonmonetary benefits it provides to key individuals — for instance, free housing or the use of a car for a university chancellor. In the “age of transparency,” nonprofits need to be aware that such “perks” might draw public ire.

Even if a compensation package is deemed appropriate by the board after it performs the required due diligence, it’s important to consider how a potential contributor or funding source might view it. Funding has been pulled from some organizations because the funding sources disagreed on compensation levels. A preventive measure might be to offer a rational explanation on Schedule O of why the benefit was provided — or to eliminate the benefit altogether.

It’s important to remember that your Form 990 will be available to the public on GuideStar. These days, potential donors are frequent GuideStar users.

## When explanations are a must

Sometimes explanations to Form 990 answers aren’t only desirable — they’re necessary. For example, a question in the form’s Governing Body and Management section asks if the organization has become aware of a significant diversion of assets, which includes embezzlement or theft. If you answered “yes” to this question, you need to explain this event and describe the steps you’ve taken to prevent such frauds from occurring again.

Also, Form 990 asks several questions about having particular policies in place, even though there’s no legal or IRS requirement to have them. In some cases, there may be a sound reason why your nonprofit lacks a certain policy. An organization exempt from tax under IRS Code Section 501(c)(5) — a labor union, for example — would follow federal laws regarding conflicts of interest rather than have its own conflict-of-interest policy.

## Transparency is here to stay

All signs indicate that nonprofits may want to provide even greater transparency in the future. Annual reports can be used not only as a tool for donor acknowledgment, but also to provide details on the organization’s

financial position.

Nonprofits also can provide information including management’s discussion and analysis of significant events, such as new programs or funding sources. They might want to offer explanations of operational changes — for example, hiring 10 employees or opening a new location. The explanations can help to explain fluctuations in account balances from one year to the next.

## Seize the day

Transparency as the norm, rather than the exception, presents some challenges, including making the information your nonprofit presents accurate, understandable and consistent. Transparency also is an opportunity to present your organization in the best possible light as the public gets to know “what makes you tick.”



## INQUIRING MINDS (INCLUDING THE IRS) WANT TO KNOW... HAVE YOU IMPLEMENTED A WHISTLEBLOWER POLICY?

*By Jessica Kinney, CPA, CFE, Manager*

IRS Form 990 which is filed by exempt organizations explicitly asks this question. How did you answer?

A whistleblower policy encourages staff and volunteers to come forward with credible information on illegal practices or violations of adopted policies of the organization and specifies that the organization will protect the individual from retaliation and identifies those staff or board members or outside parties to whom such information can be reported.

The keys to implementing an effective whistleblower program include the following:

- Anonymity -- the program should be operated by an independent third party with trained interviewers that is available 24/7, 365 days a year.
- Protocols -- for distribution of each type of complaint to appropriate individuals.
- Training -- fraud/ethics awareness training for all employees.
- Strong tone at the top -- management should

acknowledge and promote the program.

- Communication -- written policies and procedures that are distributed to all employees.

Shannon & Associates has partnered with Red Flag Reporting to offer an independent hotline which helps directly satisfy this need. For information on implementing a whistleblower program in your organization contact Jessica Kinney, CPA, CFE at [jkinney@shannon-cpas.com](mailto:jkinney@shannon-cpas.com) or 253-852-8500.

# ARE YOU COVERED? INTERNAL CONTROLS FIGHT TECHNOLOGY RELATED FRAUD

The ability to accept and make online payments and maintain databases with detailed profiles of constituents offers obvious benefits to nonprofits under constant time and money pressures. But it may also be subject to fraud attempts that can dodge your traditional internal controls. Fortunately, measures are available to combat these risks.

## Making online disbursements

Many nonprofits are now paying their bills online, rather than mailing payments. Of course, the ability to make online payments essentially makes the employee who does so a check signer who can, in turn, make unauthorized payments. Similarly, the employee who oversees direct deposit payroll transactions may choose to pay “ghost” employees, give unauthorized raises or otherwise divert funds.

If your not-for-profit makes these types of online disbursements, ensure that all payments are subject to an independent review by a different employee. The reviewer can check payments online or examine the bank statements for discrepancies. The reviewer should also study payroll reports that come straight from the payroll system (vs. coming from the employee who oversees payroll). Of course, the reviewer should be aware that those two employees might be working together to commit fraud. Your bank also might offer verification services to confirm that payments are authorized before they clear.

## Accepting payments

One of the most significant changes in how nonprofits conduct business in recent years has been the widespread adoption of systems that allow online payments for event registrations, membership fees, product purchases and donations. These payments generally are deposited directly into an organization’s bank account.

The risk is that the employee

responsible for the online payment system could redirect the ultimate destination of payments. If the accounting department records income based on bank deposits, this fraud could go undetected. To close this control gap, make sure you take the added step of reconciling the bank deposits against online income from the donor system.



## Protecting privacy

Many nonprofits possess their members’ and donors’ credit card information and other personal data, making them potential targets for both internal and external hackers and fraudsters. Imagine the consequences if criminals were to access your constituents’ data. It could be disastrous in terms of remedial costs, legal liability and reputational damage.

Perhaps the most effective privacy control is adherence to the Payment Card Industry (PCI) Data Security Standard (DSS). DSS applies to all entities that store, process or transmit credit cardholder data and outlines technical and operational system requirements to protect that data. Although DSS isn’t technically a law, several states have enacted legislation mandating compliance with some of its provisions.

The DSS requirements vary depending on the number and type of credit card transactions an organization conducts, both online and offline. It’s a good idea, though, to take steps to comply with the strictest requirements, including:

- Installing and maintaining a firewall to protect cardholder data,
- Encrypting the transmission of cardholder data,
- Restricting access to cardholder data with unique IDs and on the basis of “need to know,” and
- Using and regularly updating antivirus software.

Although it isn’t a requirement, PCI also strongly recommends “segmenting” (or isolating) the cardholder data environment from the rest of your network. (To learn more, visit <https://www.pcisecuritystandards.org>.)

## Proceed with caution

There’s no turning back from the technological advances nonprofits are currently enjoying. The key is to remain vigilant against the evolving risk of fraud.

We can help with your  
internal controls and  
fraud prevention needs!  
Please contact us at  
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# ARE YOU GETTING THE MOST OUT OF YOUR CPA?

By Linda Shupack, CPA, Manager

When most people think about a CPA, they think of a financial statement audit or review and the preparation of tax returns. However, did you know that your CPA can and should be able to assist you with a wide variety of challenges faced by your organization, from issues related to internal controls and accounting procedures, to consulting on current events and their potential impact to your organization?

A quality CPA firm provides not only traditional services, but also acts as a business advisor to its clients. There are numerous changes on the horizon, including significant proposed changes to financial statement reporting, as well as the continuing and accelerating changes in technology, laws and the economy. Quality CPA firms invest significant amounts of time and money into staying current on these topics, in training their personnel and also in communicating these changes to their clients.

Oftentimes, accounting firms are

chosen based primarily on price due to budget constraints and limited resources. However, cost should be balanced with the consideration of the level of service needed. The lowest price might make sense if the service is just filling a specific requirement and, otherwise, the organization is running very well and has no need for additional assistance. However, it might be the better choice overall to choose a firm that costs a little more but has the knowledge and expertise to aid in improving processes, controls and providing information needed to avoid potential problems or pitfalls. In the long run, and especially if resources are tight, this may end up saving the organization time, money and even reputation.

At Shannon & Associates, LLP, we provide an array of services that can be scaled to provide the most benefit at an affordable cost. We have experts in many areas in addition to attest and tax services. These include internal controls, fraud prevention, accounting process improvements, employee benefit plan selection

and administration, and software consultation. In fact, we can tailor our procedures to accomplish your specific objectives. As a client, you can expect that you will be kept informed, your calls and emails will be answered promptly, and that routine questions and advice are just part of the service. Call us today to see what we can do for you.

**Thank you for your referrals!**

**We appreciate the confidence you have in our services to recommend us to other individuals and businesses.**



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