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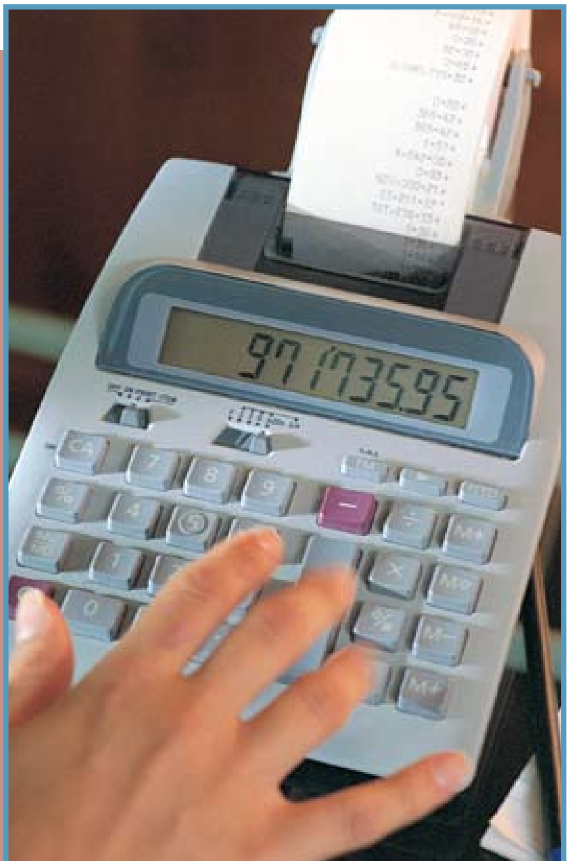
Nonprofit Observer



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Smith & Gesteland LLP

Certified Public Accountants & Business Consultants

Not The Same Old Bottom Line

8383 Greenway Blvd., Suite 400 • PO Box 1764 • Madison, WI 53701-1764

Phone 608.836.7500 • Fax 608.836.7505

mail@sgcpa.com • www.sgcpa.com

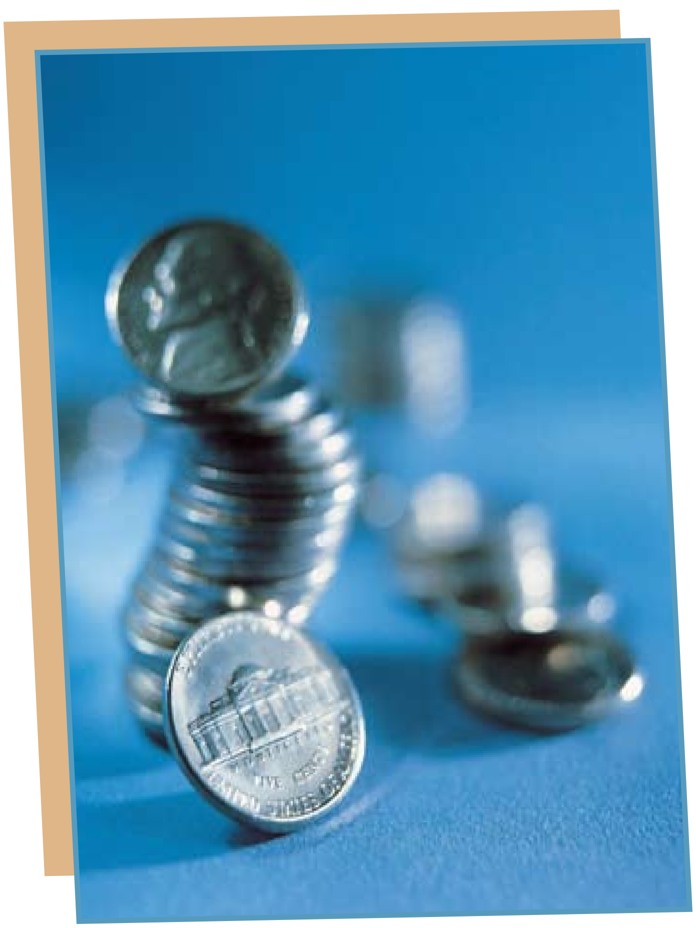
8 common accounting mistakes you can avoid

To err is human, but your supporters and members, not to mention the IRS, may be less than forgiving if the errors you make affect your nonprofit's financial books. Accurately managing money that comes in and goes out is imperative.

Fortunately, if you attend to accounting details and know which pitfalls to avoid, it can be easy. The following accounting missteps are common among nonprofits, so take whatever measures are necessary to avoid them.

1. Failing to follow accounting procedures. Even the smallest nonprofit should set formal, documented and detailed procedures for managing bookkeeping and accounting chores. Your process needs to include all aspects of managing your organization's money, including the proper way to accept, document and deposit donations, pay bills, and handle every step in between.

Put your procedures in writing and make sure you follow each step, every time. This helps to minimize the chances of skipping something important and makes it possible for employees to easily fill in for the person who regularly performs a particular accounting task.



2. Making data entry errors. It's easy to wreak havoc on your accounts by entering a $500 payment as $50 or transposing numbers, so check and double-check every entry every time. Reconcile accounts against bank statements immediately and don't overlook even the smallest discrepancy. Little errors don't go away; they just become bigger problems.

Keep cash under lock and key, and authorize only a few people to make disbursements.

3. Working without a budget. You can't control overspending or invest a surplus if you don't know they exist. That's why budgets are so important; they offer a baseline. Budgets don't have to be intricate to be useful; just look at a few months' worth of bills and deposits to create a starting point. Then refine your plan as you go along. Include a "miscellaneous" category, but don't allow it to account for the majority of your expenses.

4. Outsourcing everything. Hiring contract workers or outside experts to handle taxes and IRS filings is a wise move because you can rely on their expertise to get things done correctly and on time. But don't abdicate all responsibility. Even if someone else is handling the details, your board and executive leadership need to understand the basic accounting operations that are being performed and keep apprised of where everything is in the process. Also, when choosing outside resources, make sure they have nonprofit experience. (See "The nuances of nonprofit accounting" on page 3.)

5. Failing to properly categorize. All money coming in and going out of your organization must be assigned to the appropriate category. This is particularly important if you accept donations that may be earmarked for certain projects or programs. Your CPA can help you set up the initial chart of accounts and define how you should assign items. Make sure everyone who participates understands the categories and how they're used.

The nuances of nonprofit accounting

When choosing an accountant, tax advisor, bookkeeper or other financial professional, make sure that person has experience with nonprofit accounting. Many accounting principles apply universally, but nonprofits have the particular responsibilities of accounting for contributions and managing expense classifications.

It's tempting, particularly for small or startup nonprofits, to accept free help or advice from a board member's brother-in-law who's a corporate accountant or from the founder's neighbor with a tax practice. But don't be pennywise and accounting foolish. Select financial experts who know how to navigate the unique world of nonprofit accounting.

6. Avoiding proper filing. Disorganization when you handle and file important documentation such as receipts, invoices and bank statements can cost you time and money. Establish — and use without fail — a filing system for all accounting paperwork. And don't let paperwork stack up: Establish a daily or weekly filing schedule.

7. Playing loose with petty cash. Small expenditures like picking up a few office supplies or buying a pizza for volunteers who are staying late is much easier to do when you have cash on hand. Establishing a petty cash fund is as easy as writing a check to your organization and cashing it. Handle the cash with care, though. Keep it under lock and key, authorize only a few people to make cash disbursements and require receipts for all expenditures.

8. Forgetting to back up information. Even the best system with error-free implementation will trip you up if it's not backed up regularly. So establish an automatic backup of your accounting program. A Web-based system is particularly useful because it stores your information off-site, making it accessible in the event of a natural disaster, fire or other emergency.

Avoid errors, avoid problems

Taking your time and double-checking your actions will keep you from making many common accounting mistakes. And if you're simply unsure about how to handle a financial matter or need help devising organizationwide policies, talk to an accounting professional.

Hire well and hire once

A methodical process helps ensure recruiting success

If you want to be successful in recruiting and retaining new staffers, you must be methodical about the process. Preparing for the search and carefully following each hiring step are investments in your organization's future. Anything less than your best efforts can lead to poor decisions that waste time, money and energy.

Do your homework

Think seriously about the position you want to fill and analyze your reasons for needing another employee. Is a current staff member leaving? Did a grant proposal include a paid position? Is there a particular area of work that isn't getting done?

Consider what your needs are today, how those needs will evolve, and how this position affects your budget for the short and long term.

Next, consider your alternatives. In a grant situation, you may not have this leeway. But if you're dealing with workload issues or an employee departure, you may have options other than making a new hire. Perhaps a consultant or contract worker can take care of an immediate need that doesn't have ongoing implications. Or are some of the tasks appropriate for volunteers to cover?

If you can find no workable alternatives, you're likely justified in pursuing a new hire. And, now that you're clear on what you need someone to do, you can write a focused, detailed job description with skills requirements.

Look in the right places

Your best source for job candidates is your own organization. Circulate the position opening among your board members and volunteers. Employees are also an excellent source of leads. They know your organization and are likely to recommend candidates who are skilled and, perhaps more important, a good cultural fit. Offer an incentive — such as a cash bonus or extra time off — if you hire someone a staffer recommends.

Other sources to consider include:

- Your organization's Web site, where you can target people who are already interested in your organization and its mission,
- Local college and university job placement centers, which generally serve both recent grads and alumni,
- Outside recruiters who specialize in nonprofits — particularly when you have a difficult or high-level position to fill, and
- Web sites that focus on nonprofit job postings, such as idealist.org, networkforgood.org or opportunityknocks.org.

Determine which traits are "must haves" and which are simply "nice to haves."

Write precise job descriptions and minimum requirements for Web boards to prevent wading through dozens of resumés from unqualified candidates.

Execute with precision

When writing the job description, you need to clearly define the skills the person will need, in addition to the qualities that will make him or her a good fit in your environment — such as the willingness to help out in other areas or an ability to work well with minimal supervision. Determine which of these traits are "must haves" and which are simply "nice to haves."

Use this list when you're sorting through resumés. For example, don't bring in someone for an interview if he or she falls short on three of your four "must haves." And be sure everyone who interviews candidates uses the skills list and cultural fit criteria. This way, all of you will be assessing the prospective employee on the most important issues.

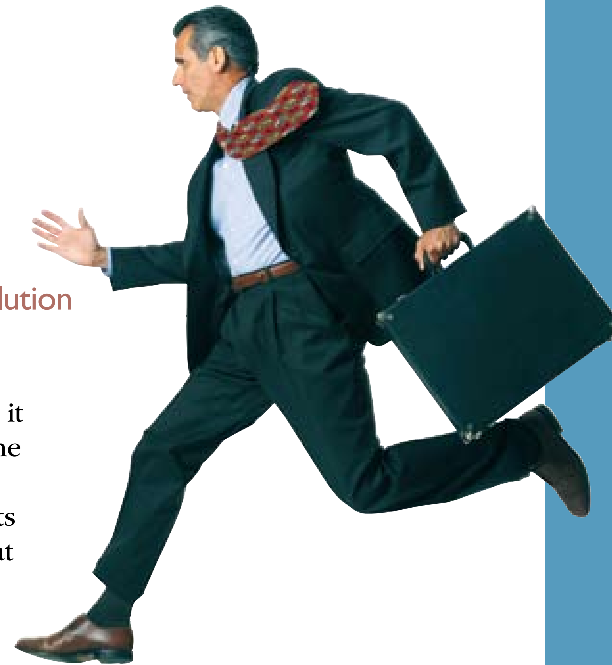
Be clear and honest with your candidates about cultural fit, painting an accurate picture of your nonprofit's environment and what it takes to succeed in it. An otherwise skilled worker who can't adapt to your organization's style won't last long. The best hiring process is one that minimizes surprises for both parties.

Investment in your future

Hiring is a time-consuming process. However, it's an investment that will pay off over and over again when you find and hire the candidate who brings the right skills and attitude to your nonprofit.

Minimizing financial fraud

It's easier than you might think



When the Ethics Resource Center (ERC), a nonprofit, nonpartisan organization that researches ethics in organizations worldwide, talked to employees in nonprofits, they uncovered some very good news: Nonprofits "exhibit stronger ethical cultures" than government entities or corporations, and their employees are more likely to report misconduct.

But the ERC also reports bad news: Illegal and inappropriate conduct is increasing within nonprofits, boards are taking less responsibility for setting the ethical tone of organizations and financial fraud is still more prevalent in nonprofits than in the for-profit business world or government. How can you increase the good news and reduce the bad from your nonprofit?

The process solution

Your first line of defense against financial fraud is establishing sound accounting processes that provide appropriate internal controls. At its most basic, this means you must divide and conquer. Several employees should be involved in processing donations and other incoming funds. For example, the person opening mailed donations should be different from the person responsible for making bookkeeping entries and depositing checks. By separating duties, you reduce opportunities for cash to disappear without at least one employee's knowledge. Another way to prevent missing money is to use receipts with preprinted tracking numbers so that all of them can be accounted for.

Also establish and enforce guidelines for incurring expenses so that money is spent appropriately and within pre-existing parameters. Every incoming invoice should be reviewed by the person who instigated it, to confirm that the goods or services being billed for were actually received. Again, it's important to separate payment duties. The person authorizing a purchase shouldn't be the one who also writes the check. And multiple signatures should be required on large expenditures.

Occasionally auditing your processes will help ensure your employees are following set guidelines and that no gaping loopholes exist. Your CPA can help you study internal practices and identify areas where additional structure might be required and how to implement it.

The people solution

It's possible to curb fraudulent behavior before it even walks in the door. Carefully screen applicants for positions that involve access to and control over cash, donor records, and other sensitive materials. Background checks are a must, as is calling all applicant-provided references and previous employers. Anyone you plan to entrust with financial information needs to be thoroughly vetted.

You can also use behavioral interviewing techniques when screening applicants. A typical behavioral technique is to ask questions that require applicants to tell you how they have handled or would handle certain scenarios. For example, you might ask a job candidate, "Tell me about your process for handling accounts receivable" or "What would you do if you thought accounting records were being kept inaccurately?"

Finally, supervise all employees appropriately. No one should ever be in a position to make decisions or take actions without accountability.

The prosecution and publicity solutions

If, despite your best efforts, your organization becomes victim of fraud perpetrated by an employee, don't sweep it under the rug. Pursue all applicable employment consequences and potential criminal charges.

According to the Association of Certified Fraud Examiners, many nonprofit groups are reluctant to fire or prosecute employees involved in theft, fearing it will generate bad publicity. That's the wrong attitude to have. Although you could experience some negative fallout, it's far more important to reassure your audiences that your nonprofit responds to fraud swiftly and appropriately. You're more likely to be judged by your reaction to the situation than its occurrence, so show that you're working to preserve the organization's integrity.

Plus, when you take action against someone who's committing financial fraud (or any other kind of inappropriate behavior) it sends an unmistakable message to employees that misconduct won't be tolerated. That kind of internal publicity can be a powerful deterrent. What's more, it reinforces the ethical culture you want to instill.

A multifaceted solution

Financial fraud takes many shapes, so it stands to reason that your defenses against it should be multifaceted as well. Put the right controls in place, build a culture with zero tolerance for fraud and take corrective action when your organization experiences a breach, and you'll be more likely to avoid becoming a statistic.

Trim the fat from your meeting budget

Everyone wants to get the most for their money, and nonprofit event planners and meeting managers are no different. Whether you're organizing a gala for thousands or an offsite board meeting for a handful, the following tips can help you stretch your budget as you work with venues, caterers and other suppliers.

Make smart meal choices: Buffets, such as carving or pasta stations, often are less expensive to staff than individually served meals. Boxed lunches are an even more budget-conscious choice, though they're inappropriate for more formal events.

Boot the bottle: When providing refreshments, skip the bottled water and offer pitchers of good old tap water. It's cheaper and more environmentally friendly.

Reduce AV use: Encouraging speakers to ditch PowerPoint® and fancy videos will minimize the costs associated with using projectors, screens and other AV equipment at your meeting venue. Or consolidate those who need AV into one room, or onto one day of the agenda. If you can, bring your own portable projector. And before you rent wireless microphones, consider just how much traveling around the room your speakers will be doing and if they're really necessary.

Negotiate contract items: Consider every line item of a contract to be open to negotiation. You won't win every battle, but few venues or vendors have the heart to say "no" to every request. Seeking bids from more than one vendor gives you leverage, so consider several. And if an event, like a quarterly board meeting, is held regularly, consider using the same vendor and requesting volume pricing.

Avoid overtime: If your event requires extensive setup, arrange schedules so that staffers (yours and the venue's) work during normal business hours and don't incur overtime.

These are just a few suggestions. Keep an open mind and you can find many ways to defray the costs of a meeting or event without diminishing the participants' experience. In a climate where every penny counts, it pays to pinch them.

Are all contributions created equal?

Devise your donation policy now

During this election year, you'll hear a lot about where political candidates' donations come from. What constitutes an acceptable donation is an important issue for nonprofits as well. Is it your policy to accept donations from all sources and all individuals? Or are there circumstances that would make you consider saying "no thank you" to a particular funding source?

If your board or development staff haven't discussed controversial contributions — whether hypothetical or real — now is the time to open the lines of communication. It's essential that you all be on the same page and making the right decisions for your organization.

Donations made with the expectation of influence over your nonprofit's decisions could be undesirable.

Define "controversial"

What's controversial for one organization may be completely neutral — or even sought after — for another. Only your leadership can define what donations, if any, fall into the questionable category. Typically, the most common areas of controversy are donations that:

Are at odds with your mission. These might be donations from companies that manufacture a product or offer a program that conflicts with your organization's goals. Examples include addiction treatment centers and alcohol companies, environmental protection groups and manufacturers cited as polluters, or lung cancer support organizations and tobacco companies.

Could affect your reputation. A donation from a corporation or individual that isn't in good standing with your community or constituency could be controversial. Some examples are companies in the adult entertainment industry, a multinational retailer that imperils locally owned stores or a public figure embroiled in a scandal.

Have strings attached. Donations made with the expectation of influence over your nonprofit's decisions could be undesirable. This can be overt, such as using a donation to influence your organization's direction, or more subtle — for example, applying pressure to hire a particular candidate or appoint a certain board member.

Talk it out

The best time to determine your acceptance policy for controversial donations is well before one lands on your doorstep. Convene a series of meetings of your board and organization leadership to delve exclusively into this topic. You want to make sure your decisions are well considered, represent the best interest of the organization and have full board support.

Encourage robust debate on the pros and cons of any policy proposed and run it through several hypothetical situations to test where any gaps might appear. Then compare your policy against your current list of donors. Would you have to turn down any of them based on this policy? You may also want to test it with staff, volunteers and supporters to ensure that your policy represents your organization's overall mission without impairing fundraising.

Take a stand and stick to it

At the end of the day, you must make good decisions to keep your organization running well and fulfilling its intent. The most important factors in accepting or declining donations are that you're clear about the reasons for your decision and that you apply your policy consistently.

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