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Nonprofit Insights

A Newsletter for Nonprofit Decision Makers Winter 2020

Declaring Independence

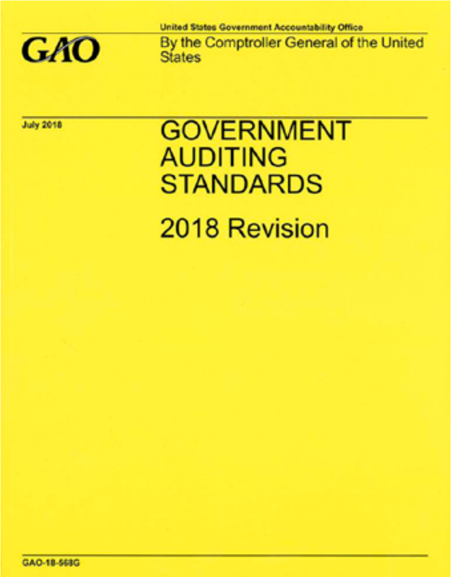
Yellow Book Includes New Guidelines for Independence

In July 2018, the U.S. Government Accounting Office (GAO) released an updated version of its Government Auditing Standards reference, also known as the Yellow Book. The revision contains stronger guidelines to ensure an appropriate level of independence and transparency in the performance of audit services.

The new audit rules apply to any nonprofit organization required to provide audited financial statements under generally accepted government auditing standards (GAGAS).

Independence Required

To understand the concept of independence from an audit perspective,



consider that an audit is a confirmation of an organization's financial statements and performance. If the same person or entity is preparing the financial statements—the input of the audit—and then doing the audit itself, there is a potential threat to independence, and safeguards may have to be applied.

It's not unusual for nonprofit organizations to outsource their bookkeeping and accounting to a firm that also provides auditing services. To avoid problems with independence, the GAO defines "significant threats" and suggests "safeguards" to reduce the threats to an "acceptable level."

Here's how the Yellow Book defines these three key concepts:

Threats are relationships or circumstances that could impair independence. In other words, if the preparation of financial statements and audit testing are performed by the same entity, that can be a self-review threat or a management participation threat.

Safeguards are actions or other measures that may eliminate or reduce a threat to an acceptable level. For example, some CPA firms have separate accounting and audit departments with significant barriers between them.

Acceptable level is the level at which a reasonable and informed third party who is aware of the relevant information would be expected to conclude that a member's independence is not impaired.

To summarize the required independence framework, the first step is to identify potential threats, including non-audit services. The next step is for the auditor to evaluate the threat's significance by considering the skills, knowledge, and experience of the non-audit service provider. If the threat is considered significant, then you must implement safeguards to reduce it to an acceptable level.

What would a reasonable and informed third party conclude about the independence of the auditor? "Acceptable level" is the crux of the matter. A possible conclusion is that using one firm to prepare financial statements and perform the audit would impair independence. But there is a caveat in the new Yellow Book revisions: The verbiage clarifies that preparing the financial statements "in their entirety" creates a significant threat that should be reduced to an acceptable level by safeguards.

It may be that your financial statement preparation is largely conducted in house or by another non-audit party, which would greatly reduce the threat to independence of

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Word to the Wise

What's on Your Mind? Nonprofit Outlook Survey Report

Nonprofit organizations are stressed. The Tax Cuts and Jobs Act has affected charitable giving, and nonprofit executives are seeking more innovative ways to attract talent and attention to their mission.

To explore the current challenges and opportunities facing nonprofit organizations, Wipfli polled more than 700 financial professionals and executives from the nonprofit sector across the U.S. The resulting report, the Nonprofit Priorities Benchmark: 2019 Outlook Survey Report, highlighted several concerns, and a clear theme emerged: uncertainty.

Here are three areas of interest:

Fundraising

It's no surprise that fundraising is the top challenge facing respondents' organizations. Recent pressures have increased financial uncertainty for nonprofit organizations of all sizes.

The survey suggests nonprofit organizations need to not only expand their fundraising activities, but also get smarter about their funding sources and donor retention rates. Understanding generational and demographical communication preferences let organizations better target communication channels that include mobile, social, online, and direct mail.

To grow recurring gifts, the survey suggests that nonprofit organizations need to reconsider their giving options. For example, setting up a monthly giving option affords better stability and predictability. Plus, a monthly giving event provides another touchpoint to not only express thanks but also reinforce commitment.

The survey also points out that fundraising efforts should be expanded across the organization and not be the sole responsibility of the development team. Grassroots efforts from staff members using social media provide a direct appeal and form a broader intake strategy.

Also, the way donors give continues to shift. All nonprofits need to be present and active in the online fundraising space.

Recruitment & Engagement

A close second to fundraising involves staffing management—recruiting, workplace culture, and employee engagement. The competition to attract staff has seen significant changes in the recent years as unemployment rates have decreased.

The nonprofit organization's benefit of "doing good" still has power but it is competing with workplace policies in the for-profit arena that include unlimited vacation, work-from-home options, and socially conscious office culture.

Nonprofit organization leaders must learn how to keep staff informed and excited about the mission. Providing continuous feedback and educating staff about accomplishments and goals is the first part of the strategy. The second part is linking individual performance to the impact on the overall mission.

Operational Efficiencies

The survey showed that many of the respondents were taking a hard look at their systems and processes to improve operating efficiency and control costs.

Moving from local, separate systems to more comprehensive cloud-based offerings allows for more integration options and remote accessibility. This, in turn, increases engagement.

Streamlining processes is an essential part of creating efficiency across the organization and may not involve big system changes. Feedback from staff, donors, volunteers, and board members can identify outdated routing processes.

Identifying and controlling uncertainties in fundraising, staffing management, and operations will serve your organization now and in the future.

Our team can help you address your fundraising, recruitment, and operational challenges. Let's talk!

Pay Attention to State Registration Requirements

Are you up to date on your state registration and reporting? It's estimated that as many as 90 percent of nonprofit organizations failed to register to solicit funds in one or more states, even though they were required to do so by state law.

The IRS and state governments are taking notice.

Crossing State Lines

It's easy to get tripped up on state registration and reporting because state laws governing charitable solicitation registration aren't consistent.

Most states and the District of Columbia require charitable nonprofits—and any consultants hired to fundraise—to register with the state *before* solicitations are made. Note that it is the solicitation, not the receipt of funds, that triggers the charitable solicitation registration requirement.

When you were exclusively sending out solicitations by mail or had a phone list, you had more control over where your solicitations would occur. But fundraising methods have changed dramatically thanks to social media and the internet.

What's a Solicitation?

Does the "Donate Now" button on your website constitute a solicitation? What about that clever local fundraising challenge that goes viral?

Here are a few points to consider:

States vary. Forms and requirements vary widely from state to state. While some states use a common form, they frequently ask for additional information or have unique

signatory requirements. It's best to visit each state government's website for specifics.

Register selectively. Simply registering in every state might not be the best approach. Paying registration fees and renewals, plus preparing the forms, can be significant. Also, if you decide to stop soliciting funds in a state in which you are registered, you may need to inform that state.

Check exemptions. There are exemptions in most states for educational institutions, nonprofit hospitals, charities that only solicit members, religious communities, and very small nonprofits. But even these organizations may still have some registration burden.

Get help. Most of the information required is on your IRS Form 990. Because of this, some nonprofits rely on their CPAs to manage the registration and renewal process. Additionally, there are firms specializing in charitable registrations and fundraising. Of course, if you outsource any of your fundraising, ensure that your partner is registered properly.

Be savvy. Some fundraising websites can be sensitized to the organization's geographic solicitation profile to remove solicitations for states you aren't registered in.

Avoid penalties. The unfortunate reality is that if you are required to register but you don't, you might be penalized. You can be required to return donations, pay a penalty, or both.

Looking Ahead

To reduce hassle and increase compliance, several organizations are currently attempting to create a universal application for state registration. Until that happens, consult with your CPA to discuss your specific circumstances.

New Yellow Book Rules

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the outside auditor. Maybe the outside auditor merely assists in drafting footnotes, for example.

Of course, in every scenario, your auditor will need to document threats and the safeguards in place to mitigate them and include them in the audit materials.

Next Steps

The new guidelines apply to financial audits, reviews of financial statements, and attestation engagements for periods ending on or after June 30, 2020, and for performance audits beginning on or after July 1, 2019.

Although early implementation is prohibited, now is the time for a conversation with your non-audit and audit providers about the new independence rules, potential threats to independence, and how to ameliorate them. For example, it might make sense to evolve your internal capabilities so that you are performing many of the accounting and controller services in house.

Above all, complying with the new independence rules requires a thoughtful approach to your accounting and audit choices. Be sure to involve your CPA and financial advisors in these decisions.

Want to find out more about the new Yellow Book rules? We can answer your questions.

Our goal is to provide the highest quality tax, accounting and consulting services for our clients.

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The Benefits of an Advisory Board

All nonprofit organizations have boards of directors, but many have advisory boards as well. Unlike boards of directors, advisory boards have no formal governance or fiduciary responsibilities, nor any decision-making authority. Their role is to provide guidance to the executive staff and board members on strategic or tactical objectives.

For example, an advisory board might tackle an important and specific initiative such as a reorganization, a technology overhaul, or a capital campaign. More broadly, an advisory board can be a training ground for potential new directors or a place for retiring directors to assume a different role but still provide institutional knowledge and continuity.

Advisory boards can also offer deep expertise in specific program areas or help to establish stronger connections in the communities you serve. Advisory board members can serve as “ambassadors” for your organization and represent your cause on related boards, at events, and professional meetings.

In terms of structure, advisory boards should have a primary leader or chairperson, with a staff member or a director attending meetings as a liaison to the organization. Communication between groups will improve outcomes and strengthen your mission.

The advisory board’s mission should be defined—even if its vaguely established as a group to assist the board of directors with special projects—to give members an idea of the type of work and time commitment involved. Subgroups of the advisory board can be helpful to address smaller projects.

Of course, once you have an advisory board established, you must be ready to tap into the wisdom of the group and listen to their advice. For committed volunteers, there’s nothing more demoralizing than being asked for input and then being ignored.

To avoid confusion, some nonprofit organizations refer to this group as an advisory council or advisory committee or something that doesn’t contain “board” in the title.