

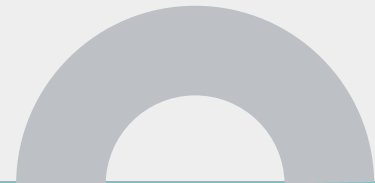


A S S U R A N C E D I M E N S I O N S

Tuesday, September 13 Breakout Session 7, 3:00-4:00pm

Board Fiscal Responsibilities- from Financial Statements to Fraud

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Personal

- Live in Tampa Bay, FL Area
- Married with two young children
- CPA
- Graduated University of South Florida
- Grant Thornton Alum
- Industry experience-medical, research, IT, non-profits, manufacturing, construction, financial, education, etc.
- Experienced internal audit, consultation, and IPO prep
- Non-Profit & Single Audit Practice Leader
- 2016-2017 Leadership Tampa Bay class
- Hobbies-Recreation sports, Axe Throwing, Travel, Scramble Golfer

Business

- Currently the auditor for 18 NAVREF member organizations
- 4 physical offices with employees in multiple states and outside the US
- 5 partners, 40+ employees, 10 CPAs, 3 Chartered Accountants,
- Registered throughout the US, Canada and Virgin Islands
- Experienced team from a wide range of backgrounds, nationalities and experiences
- Over 500 clients served annually
- Annual NAVREF Conference Sponsor
- Private, SEC, Non-Profit, Retirement Plans
- Small, medium and large organization experience

What are the most common entity level financial risks for non-profits?

- Weaknesses in the control environment
 - Ex. lack of segregation of duties
- Changes in management
- Going concern considerations
- Related-party transactions
- **Monitoring and Oversight**
 - Lack of entity expertise necessary to prepare the financial statements,
 - Lack of oversight over the preparation of the financial statements.
 - Motivation by management to fraudulently misstate the financial statements

Objectives

1.

General Good Board Meeting Practices

2.

Financial Statements

3.

The Role of Your Annual Audit and Tax Filings

4.

Risk Management



01

General Good Board Meeting Practices

Some Basics

Good Practices for Board Fiscal Oversight and Meetings

- Regular meetings with full attendance
- Clear communication and reports ahead of time
- Set the agenda
- Ensure you cover past items and project manage tasks
- Appointed committees with designated Chair Members
 - Finance Committee in particular
- Keep meetings and ensure they start and end on time
- Complete appropriate RFP process
- Complete annual conflict of interest statements

Common Financial Board Reporting Issues

- How often are you getting reporting to meet your needs?
- How long does it take to “close the books” and present to the board
- Is the information presented clear and concise to make informed decisions?
- Make meetings succinct
 - Don't provide too much information for general reporting
 - Deep dives for only high concern or committees
 - Use Special/Emergency Meeting if necessary
 - **Data v Information-overload**
 - Don't put them to sleep!
 - Easy-to-Read & Easy-to-understand board reports

Typical Board of Directors Reporting

- Balance Sheet – Current year & prior year comparison (restricted & unrestricted net assets)
- P & L – YTD & Quarter current year comparatives
- Budget to Actual
- Cash Position and cash flow forecast
- Status of governmental reporting, audits, banking
- Annual audit communication

02

Financial Statements

Keys to Reading Your Financial
Statements

Statement of Financial Position and Statement of Activities

- Understand the accrual method line items and their purpose
- Compare your current assets vs current liabilities and total assets vs total liabilities
- Put emphasis on revenue related line items like receivables, deferred revenue
- Understand and establish policies around reporting with and without donor restrictions
- Understand your various types of funding
 - grants vs. contract; Federal vs. non-federal; IPAs and other
- Review P&L activity for use of donor restricted net assets
- Review revenues vs expenses-net income (“change in net assets”)
- Key on non-operational income and expenses (i.e.-interest, gains/losses, PPP loans, etc.)
- Focus on large differences year over year
- Review annual results vs. budget

Cash Flows

- Converts your GAAP accrual statements to cash
- Explains changes in the cash balance sheet amounts between periods
- Pulls out non-cash related items
- Breaks down cash inflows and outflows between:
 - operating
 - investing
 - financing activities
- Discerns cash from investments activity
- Discloses non-cash activities as well as interest and taxes

Statement of Functional Expenses

- Detailed financial statement required of all non-profit organizations
- Typically, only required on the audited statements
- Many organizations utilize a P&L by class or job to present expenses related to each study that supports this report's totals
- Explains to readers the utilization of funds between
 - different program activities
 - fundraising and
 - management/general administration
- Discloses non-cash activities as well as interest and taxes

03

The Role of Your Annual Audit and Tax Filings

External Oversight

Audit Oversight

- Choosing the Auditor
 - Look for knowledge experience
 - Professional capabilities
 - Resources
 - Understand the audit team
- Communications with the Auditor
 - Before
 - Communicate areas of audit focus
 - During
 - interviews
 - After
 - Governance letter or presentation



Auditor Responsibilities

- Perform an audit based on GAAP standards
 - An audit provides reasonable, not absolute assurance
- Form and express an opinion about whether the financial statements prepared by management, with your oversight:
 - Are materially correct
 - Are fairly presented
- Communicate specific matters to you

An audit does not relieve you or management of your responsibilities.

Management's Responsibilities

- Preparing and fairly presenting the financial statements
- Establishing and maintaining effective internal control over financial reporting
- Providing us with written representations
 - A copy of the representations are being provided to management.

Uniform Guidance Single Audit

- Single audit threshold requirement is \$750,000 in Federal Expenditures
- Compliance and Internal Controls Audit of your Federal Programs
- **How to read the single audit section**
- Additional Reporting-Compliance and Internal Controls
 - Requires a Schedule of Expenditures of Federal Awards (SEFA)
 - Schedule of Findings and Questioned Costs
 - Unique cluster reporting required for of research grants
- Filing with the Federal Audit Clearinghouse (“FAC”)

04

Best Practices for NFP Risk Management

Reading Your Financial
Statements

Common Accounting Issues

- **Proper Revenue & Expense Recognition**
 - Ensuring all expenses are entered in the period incurred
 - Invoicing funding source in the period expenses were incurred and/or per agreement/budget/CRADA
- **Net Assets With/Without Donor Restrictions (formerly restricted equity) and Deferred Revenue**
 - Identifying/Reporting specific equity categories such as Board restricted funds, PI Residual funds, or separate categories by activity
- **Expense Allocation**
 - Payroll - wages, taxes and benefits properly classified (CRC, Admin, specific study for IPA's & Subawards)
 - Direct Expenses – charged to the appropriate study if IPA or Subawards, or properly classified to CRC or Admin
- **Prepaid Expenses & Accrued Expenses**

NPPO Findings

- Reports due June 1
- Complete a review of the VHA HANDBOOK 1200.17 against your current Organization polices and procedures
- Complete the questionnaire and address any gaps now!
- Review their Audit Preparation Checklist
- Be prepared to discuss any Single Audit findings
- Written and consistent policy application
 - Residual Funds Policy, Accounting, and Communication
 - Preparation and Preparer Documentation (Signatures)

Tax Reporting Highlights

- Financial Position of the Organization
 - Revenue (Contributions or Program Revenue??)
 - Statement of Program Services
 - Be descriptive → Tell your story
 - Make sure expenses are correctly allocated between program, management & fundraising. → It matters
 - Donors/ Grants
 - Must report name, address & amount if total contributions exceed the greater of \$5,000 or 2% of Gross contributions
 - Independent Contractors
 - Must report the 5 highest paid contractors over \$100,000



Tax Reporting Highlights

- Reportable Compensation:
 - Officer & Directors
 - No minimum threshold – Compensation must be reported
 - Former Officer - Must report if over \$100,000
 - Former Director – Must report if over \$10,000
- Key Employees
 - Have responsibilities, powers, or influence over the Organization
 - Must report if over \$150,000
- Highly Compensated
 - Must report the 5 highest over \$100,000 (other than above)



Tax Reporting Requirements

- Form 990 Tax Return Due Date: 15th day of 5th month after year end
- Can extend for additional 6 months
- State Requirements differ, but most have an annual registration.



04

Supervising an Organization

Traditional Risk Management
Approach

Risk Assessment

- Allows an entity to understand the extent to which potential events might impact objectives.
- Assesses risks from two perspectives:
 - Likelihood Impact
 - Is used to assess risks and is normally also used to measure the related objectives.
- Employs a combination of both qualitative and quantitative risk assessment methodologies.
- Relates time horizons to objectives.
- Assesses risk on both an inherent and a residual basis.

Risk Response

- Identifies and evaluates possible responses to risk.
- Evaluates options in relation to entity's risk appetite, cost vs. benefit of potential risk responses, and degree to which a response will reduce impact and/or likelihood.
- Selects and executes response based on evaluation of the portfolio of risks and responses.

Traditional Risk Management Approach

Service
Delivery
Operations

Donor and
Endowment
Activities

Finance
Risks

Human
Capital
Risks

IT Risks

Legal and
Compliance
Risks

Reputation
Risks

Service Delivery Operations

- Underlying principles:
 - Every entity, whether for-profit or not, exists to realize value for its stakeholders.
 - Value is created, preserved, or eroded by management decisions in all activities, from setting strategy to operating the enterprise day-to-day.
- Very Entity Specific

Donor and Endowment Activities

- **Donor Identification**
- **Donor Congruence**
- **Very Entity Specific**



Finance Risks

Finance Risks	Risk Management Techniques
<ul style="list-style-type: none">• Fraud• Investments• Misuse of Funds• Tax Liabilities• Tax-Exempt Status• Fundraising• Physical Assets	<ul style="list-style-type: none">• General Management Controls• Accounting Controls

Accounting Controls

- Are you really “in control” of your organization?
- What are financial controls?
 - Procedures, policies, and means by which an organization monitors and **controls** the direction, allocation, and usage of its **financial** resources
 - The core of resource management and operational efficiency in any organization.
 - Holds everyone accountable.
 - Helps mitigate fraud & theft



Human Capital Risks

- Human capital risk accumulates in four primary categories:
 1. **Absence activities**
 2. **Collaborative activities**
 3. **Knowledge Activities**
 4. **Process activities**

Information Technology Risks

- IT Use
- IT Processing
- IT Storage
- IT Transmission

Legal and Compliance Risks

- Changing Compliance Environment
- Development of new contracts, grants, MOUs, etc.
- Meeting grantor, state, federal compliance standards of reporting and expenditures
- Meeting

Reputation Risks

- To identify and manage reputational risk you must ask:
- Who are our most important current and future stakeholders?
 - What do they expect of us?
 - What behavior would they find unacceptable now?
 - What behavior are they likely to find unacceptable in the foreseeable future?
 - What conflicts are there between their expectations/sensitivities and our values and delivery?

04

Best Practices for NFP Risk Management

Board Member Consideration

Risk Factors

- **Risk Factors:**
 - Management characteristics and integrity.
 - Financial roles and responsibilities.
 - Control activities.
 - Significant events or unusual transactions.
 - Organization and management structure.
 - Nature of the business

Risk Factors (continued)

- **Additional Risk Factors:**
 - Business environment.
 - Financial results.
 - Business relationships and related parties.
 - Prior knowledge and experience.
 - Likelihood of intentional misrepresentation (i.e., fraud).

Fraud Risk Triangle

Attitudes/Rationalizations



Fraud
Triangle

Incentive/Pressures

Opportunities

THANKS

Do you have any questions?



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