MARKS PANETH

ACCOUNTANTS & ADVISORS

MARKS PANETH NONPROFIT AGENDAS FEBRUARY 2014: STRATEGIES AND SOLUTIONS FOR CONTINUING TO GROW YOUR NONPROFIT ORGANIZATION

LET THE NUMBERS ROLL: 8 WAYS TO MAKE YOUR ACCOUNTING FUNCTION MORE EFFICIENT

Efficiency. We all want it in the workplace. And there's no area where efficiency is more important than in accounting. Here are eight suggestions for making the accounting function at your organization more efficient without spending a bucketful of money.

1. ***Put cutoff policies in place*****.** Create policies for the monthly cutoff of invoicing and recording expenses — and adhere to them. For example, require all invoices to be submitted to the accounting department by the end of each month. Too many adjustments — or waiting for different employees or departments to turn in invoices and expense reports — waste time and can delay the production of financial statements. Moreover, making late adjustments can impair any financial analysis that's underway.

2. ***Keep it timely*****.** You may be able to save considerable time at the end of the year by reconciling your bank accounts shortly after the end of each month. It's a lot easier to correct errors when you catch them early. Also reconcile accounts payable and accounts receivable data to your statements of financial position.

3. ***Design a coding cover sheet*****.** An accounting clerk or bookkeeper needs a variety of information to enter vendor bills and donor gifts into your accounting system. Speed up the process by collecting all of that information on one page. A coding cover sheet should list your organization's general ledger account numbers so that the employee entering data doesn't have to look them up each time.

The cover sheet also should indicate if the invoice is to be paid by check, electronic transfer or credit card, and provide a place for the appropriate person to approve the invoice for payment. Use multiple choice boxes to indicate to which cost center the amounts should be allocated. The invoice or copy of the donor's check can be attached to the cover sheet for reference.

4. ***Batch items to process*****.** Don't enter only one invoice or cut only one check at a time. Set aside a block of time to do the job when you have multiple items to process. Some organizations process payments only once or twice a month. If you make your schedule available to everyone, fewer "emergency" checks and deposits will surface.

5. ***Insist on oversight*****.** Make sure that the individual or group that's responsible for financial oversight (for instance, your CFO, treasurer or finance committee) reviews monthly bank statements, financial statements and accounting entries for obvious errors or unexpected amounts. The value of such reviews increases when they're performed right after each monthly reporting period ends.

6. ***Resist crunching numbers outside of your accounting software*****.** Many organizations underuse the accounting software package they've purchased because they haven't invested enough time to learn its full functionality. If needed, hire a trainer to review the software's basic functions with staff and teach time-saving tricks and shortcuts.

Become more efficient by avoiding any calculations or financial report presentations in Excel® or other spreadsheet programs. Stick with your accounting software and print reports directly from it. This also will reduce input errors.

Consider performing standard journal entries and payroll allocations automatically within your accounting software. Many systems have the ability to recall transactions and can automate, for example, payroll allocations to various programs or vacation accrual reports. But review any estimates against actual figures periodically, and always adjust to the actual amount before closing your books at year end.

7. ***Review your accounting system processes*.** Accounting systems can become inefficient over time if they aren't monitored. Look for labor-intensive steps that could be automated or steps that don't add value and could be eliminated. Often, for example, steps are duplicated by two different employees or the process is slowed down by "handing off" part of a project.

8. ***Share your accounting function*.** If a few nonprofits in your area are willing to outsource their accounting function to your organization, you could share a CFO and support staff. You'd likely be able to improve the efficiency and effectiveness of your accounting function at a cost you could afford. Standard background checks would apply, and carefully document your role in the vetting of the CFO and support staff.

As you review your accounting function for ways to improve efficiency, ask outside sources for their opinion. Your auditors, volunteer treasurer, banker and other financial experts can provide ideas for streamlining processes.

RESTRICTED GIFTS CALL FOR CAREFUL HANDLING

A recent New Jersey appellate court case, *Bernard and Jeanne Adler v. SAVE*, *a Friend to Homeless Animals*, serves to remind nonprofits that restricted gifts need to be treated gingerly. The case involves a New Jersey couple who donated $50,000 to a charity with the understanding that it would be applied to the costs of expanding an animal shelter in their community.

Specifically, the couple wanted their donation to pay for two rooms to house larger dogs and older cats, which are often unadoptable. Additionally, the fundraising brochure the couple received promised a naming opportunity.

What happened, however, was that the animal shelter merged with another, similar organization. It then announced that it would build a smaller new facility in a different location. No specific area for the long-term care of larger dogs or older cats was planned. Nor was any mention of the donors' names planned. The couple filed suit against the charity. And the court ruled that the organization must return the $50,000 gift.

By definition

Restricted gifts, by definition, come with strings attached — many donors want to make sure that their money is spent according to their wishes. By accepting the gift, your charity is agreeing to meet certain conditions.

If you're unable to follow the donors' original intent, you have two choices: You can either ask the donors what they'd like your organization to do with the money since you can't meet their conditions, or you can return the money to them.

A policy in place

Having a gift acceptance policy is one way to help determine whether your organization should accept a restricted gift in the first place. It also can help prevent future problems with the restricted gift's donors or their heirs. Your policy and related procedures should describe how:

- Your organization will decide if it will accept a gift with restrictions, and if there should be a minimum amount — for example, $50,000 — for a permanently restricted gift,
- A potential gift will be evaluated for compliance with your organization's stated mission, and who will be responsible for the evaluation,
- Your organization will communicate with the donor, keeping in mind that today's donors typically expect some involvement and personal attention, and
- Certain noncash gifts (for example, closely held stock or other business interests, land with environmental issues, and art) may be deemed unacceptable.

The policy also should state that your nonprofit won't provide tax or legal advice to the donor — that they should retain personal advisors. And it should specify that negotiations will ensue if the donor's conditions are at odds with your assessment of how the money could be used, but a compromise is considered possible.

Sometimes, though, negotiations may reach an impasse. Consider this Florida case: A state university accepted an $11 million gift from one of its chemistry professors who had developed a synthetic cancer drug. The gift was earmarked for a new chemistry building with dedicated facilities for synthetic organic chemistry.

But the university eventually found the donor's restrictions too expensive and limiting. And most of its chemistry faculty wanted a building that could accommodate all chemistry disciplines. So, following the filing of a lawsuit, the money was returned to the donor.

Saying "no, thanks"

Although no nonprofit likes to say "no" to a donation, doing just that might spare your organization legal trouble and many hours of negotiations. Accept a restricted gift very carefully.

ARE YOU SATISFIED WITH YOUR BOARD'S PERFORMANCE?

Do you rave about your board of directors' performance, telling everyone you know about, for example, its fundraising accomplishments, useful feedback on your performance and success at solving big-picture problems? If you can answer "yes" to this question, acknowledge your good fortune and leadership ability. But if you can't give such a glowing review of your board's performance, take comfort: You're not alone.

It's not all their fault

According to the most recent study of its type, only 20% of more than 3,000 executive directors (EDs) were "very satisfied" with their boards' performance. Almost 50% of respondents were "somewhat satisfied" with their board, leaving 32% who were "a little dissatisfied" or "very dissatisfied." The *Daring to Lead 2011* study, conducted by CompassPoint Nonprofit Services and the Meyer Foundation, found that blame for less-than-stellar board performance shouldn't fall on the board alone, though.

The majority of survey respondents admitted to spending 10 hours or less per month working with or supporting their board. Despite frustration with issues ranging from board members' low fundraising participation rates to receiving little to no job performance feedback, the typical ED devoted only 6% of his or her working hours to board business.

Wherever your nonprofit falls on the board satisfaction spectrum, it can probably benefit from improving the board/executive relationship. This starts by opening the lines of communication between the executive office and the boardroom — and committing to keeping them open.

Confusion ensues over roles and responsibilities

Boards can't do their job if they don't know what that job is. Not surprisingly, the most common source of conflict between boards and EDs is confusion about roles and responsibilities.

Make sure your board understands that it has specific duties that are distinct from the ED's. In effect, the board *governs* and the ED *manages*. The board makes policy and maintains the organization's financial integrity, and the ED implements policy and ensures that the nonprofit runs efficiently and effectively.

Consider writing a job description for your board as well as a list of expectations for individual board members. Also see "The art of board orientation."

Essential board duties

Depending on their mission and size, different nonprofits may expect their boards of directors to assume different responsibilities. But for governance to be effective, your nonprofit's board should consider top duties to be financial oversight and the fiduciary duties of care, loyalty and confidentiality.

Other "big picture" board responsibilities should include creating and maintaining a strategic plan. The board also must regularly review risk exposure, ensuring that internal controls are enforced, insurance policies are in force and policies are followed. And the board should maintain an audit committee of financially knowledgeable board members to oversee internal and external audits.

The board also must establish and monitor its governance policies, including whistleblower, conflict-of-interest, gift acceptance, related-party transaction, and document retention and destruction policies. And the board should hire the ED, regularly evaluate his or her performance, and ensure that executive compensation is reasonable. Finally, along with being an ambassador that represents your organization to the community, the board should develop a leadership succession plan and emergency policies.

Choreograph teamwork for major improvements

Although nonprofits have separate spheres for executives and boards, in reality the jobs often overlap. Your board members, for example, may be expected to court big donors and assume such operational responsibilities as organizing fundraisers and contacting grant-making organizations about funding.

Similarly, your ED doesn't determine your board's meeting agendas, but his or her input is essential if the board is to focus on your organization's critical issues. While your board members should never act as an ED's rubber stamp, they must recognize that the ED is probably better acquainted with your organization's most pressing needs. What's more, your board needs to create an environment that invites your ED to seek its assistance when he or she doesn't have time to solve a problem or simply can't solve it alone.

Communicate, communicate, communicate

You can't control the actions of your organization's board of directors. But you can set the stage for how they perform. Communication is key. Ask for what you want — you just might get it!

The art of board orientation

Be sure to provide all new board members with a thorough orientation to your nonprofit's mission, goals, policies and operations. Bring them to your headquarters on a typical business day, introduce them to staff, and allow them to observe interaction with your constituents. The orientation process also should include mentorship by an experienced board member who has a good working relationship with your executive director.

NEWS FOR NONPROFITS

A broader skill set will be required for future CFOs

A new report from the Association of Chartered Certified Accountants and the Institute of Management Accountants predicts which capabilities organizations will value in their CFOs over the next 10 to 15 years. The *Future pathways to finance leadership 2013* study, which surveyed more than 750 CFOs and other top financial executives, found that experience in financial management and accounting won't be enough. Effective CFOs also will need:

- "Deep business experience" and the ability to form and execute organizational strategies,
- Expertise with financial analytics, including knowing how to correlate, extrapolate and interpret data to make sound financial predictions,
- Experience managing traditional risks — including threats involving the economy, cash flow and regulatory compliance — as well as emerging dangers such as cyber threats,
- Deal-making skills and technical expertise in structuring mergers and acquisitions,
- A focus on customers and the capability to form relationships that extend beyond the organization's executive director to the senior management team and board of directors, and
- An understanding of emerging technologies, such as cloud computing, plug-and-play devices, real-time information and robotic software, that can possibly increase automation and improve workflow among finance team members.

Overall, CFO management skills that will matter in the years to come include leadership (cited by 65% of respondents), communication (60%), strategic thinking (53%) and change management (24%). In the nonprofit environment, communication will likely continue to be a key to success. The ability to interpret financial complexities for all stakeholders in nonfinancial language, along with the willingness to adopt new technologies, also will be valuable.

Depending on your nonprofit's size and complexity, your CFO may not require all of the skills mentioned above. But consider such traits the next time you fill a CFO vacancy or plan training opportunities for your current CFO.

Trouble reported at some national insurance co-ops

Some of the nonprofit insurance cooperatives created to help implement the Affordable Care Act are reported to be in financial trouble, even before the new national health care program gets off the ground. According to an Oct. 23 article in the *Washington Post*, one co-op has closed, another two are ailing and at least eight more have been diagnosed with financial problems via internal government reports and a federal audit. The *Post* attributes the dilemma partly to “onerous” federal restrictions and insufficient funding.

The co-op in your nonprofit’s designated region may not experience such problems. But it makes sense to keep an eye on its viability.

SPOTLIGHT ON MARKS PANETH

MARKS PANETH NAMES NEW PARTNER

Vivian Martinez has been promoted to Partner in the Real Estate Group. Ms. Martinez focuses on serving commercial and residential real estate clients as well as co-ops and low income housing. She is responsible for planning and supervising audit engagements and assists clients with many types of real estate transactions including acquisitions and dispositions. She is also a member of the firm’s China Desk.

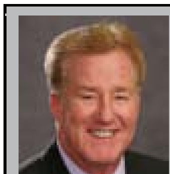
MARKS PANETH PARTNER NOMINATED TO NYSSCPA BOARD

Warren Ruppel, a Partner in the Nonprofit and Government Services Group, has been nominated to serve as a Director-at-Large on the Board of Directors of the New York State Society of Certified Public Accountants (NYSSCPA). He will hold office for three years, beginning, June 1, 2014.

FORMER IRS COMMISSIONER EVERSON ADDRESSES MARKS PANETH

On January 29, Marks Paneth hosted former IRS Commissioner and current alliantgroup Vice Chairman Mark W. Everson, who spoke to an overflow audience. Among the topics discussed, he touched on the Affordable Care Act, where he urged the government to constantly look at it from three angles: the underlying architecture, its execution and the unintended consequences, both good and bad. He also discussed an emerging problem at the IRS: the waning expertise of the agency. Highly experienced people, who had a defined benefits plan, are retiring from IRS. That coupled with the shorter tenure of young people, who are seeking positions in the private sector because the untraditional pension structure, could lead to yet another crisis at the agency.

MEET THE NPG LEADERSHIP TEAM



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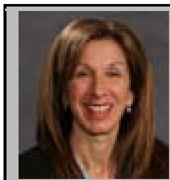

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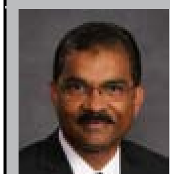

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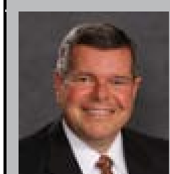

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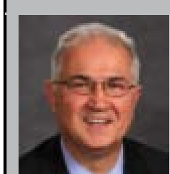

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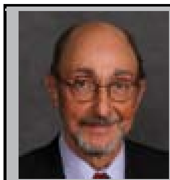

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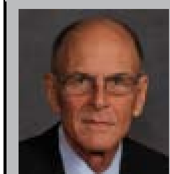

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If you have questions, please contact any of the NPG leadership team listed above.
In addition, more information on the Marks Paneth Nonprofit and Government Services Group, as well as all of the firm's services and industries, can be found at www.markspaneth.com.

HONORS AND AWARDS

Marks Paneth was again voted a 'Top Three Best Forensic Accounting Provider' in 2013 by readers of the *New York Law Journal*. Ours is the only major regional firm to be ranked among the top three firms in the category of forensic accounting for four straight years.

IRS CIRCULAR 230 DISCLOSURE

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