

MP&S NONPROFIT AGENDAS NOVEMBER 2012: STRATEGIES AND SOLUTIONS FOR CONTINUING TO GROW YOUR NONPROFIT ORGANIZATION

WHAT YOU SHOULD KNOW ABOUT AN INDEPENDENT AUDIT

Financial health is crucial to a not-for-profit's success. And making a nonprofit's financial results public is a key to the transparency required of many nonprofits today. Although preparing financial statements is the organization's responsibility, an independent audit of those statements can give granting agencies, donors and others confidence that the numbers are accurate and properly reported.

Types of Independent Audits

There are many kinds of audits, including those conducted by state agencies, the Internal Revenue Service and lenders. Here we'll focus on audits of financial statements performed by independent CPA firms.

There are two types of independent audits. The most common is performed under Generally Accepted Auditing Standards (GAAS). The rules for GAAS audits not only include the testing of account balances such as cash, payables, revenues and expenses, but also require a consideration of fraud risk and an understanding of internal controls.

Organizations that receive a significant amount of government funding also might be required to have a compliance audit performed under Generally Accepted Government Auditing Standards, *OMB Circular A-133*. This is required when the organization expends more than \$500,000 in federal awards.

Reasons for an independent audit

Many states require Section 501(c)(3) organizations to have independent audits if they exceed legally defined amounts of revenue or specified levels of contributions. Depending on the state, these thresholds can range from \$100,000 to \$2 million. Organizations not exceeding state limits may still be required to undergo an audit for a specific grant or funder.

When an organization has its financial statements audited, it receives an opinion on the statements and, if significant internal control deficiencies are found during the audit, a letter explaining them. Your auditors are required to understand how your internal controls were designed and whether they're being used appropriately. Additionally, they can suggest ways to improve existing controls and specific measures to implement. It's then your responsibility to act on their recommendations.

Alternatives to the GAAS audit

An organization that isn't required to be audited may nonetheless seek assurance about its financial statements and accounting controls. But if cost is an issue, there are alternatives to an independent GAAS audit. A not-for-profit may, for example, decide at the request of its finance committee to conduct some testing internally to review the support for financial transactions performed by management.

Or the nonprofit might decide to engage an independent CPA firm to perform an Agreed-Upon Procedures engagement (AUP). In an AUP engagement, the nonprofit and the CPA firm agree in advance on specific procedures, such as a review of all checks written over a specified dollar amount or a test of the controls surrounding transactions during a two-month period. The CPA firm reports the findings in a formal letter.

Reviews and compilations are other alternatives to an audit of the financial statements under GAAS. See the sidebar "And if you can't afford an audit . . ."

Your first step

For help in determining what type of audit you'll need, ask your accounting professional. Also consult with granting agencies to determine which level of service they'll require.

LETTING THE PEOPLE YOU HELP *HELP YOU* THROUGH FEEDBACK

Does your nonprofit ask the people who benefit from its services how to improve the organization? If so, do you give these clients, customers or beneficiaries fast and easy tools to tell you what they think?

Mia Birdsong, vice president of the Family Independence Initiative, and Perla Ni, CEO of GreatNonprofits, recently addressed how to make the most of feedback in an online discussion sponsored by the *Chronicle of Philanthropy*.

Why seek feedback?

Feedback can help nonprofits make their work have more impact and improve their services, says Birdsong, whose organization aims to increase the social and economic mobility of low-income families. Also, foundations and other nonprofits can “use consumer feedback to inform funding decisions and understand market demand,” she says.

Using feedback from the people you serve not only can boost your not-for-profit's performance, but it also can let them know their opinions count. And it might impress funders, especially if you incorporate the feedback into your objectives.

What works best?

Here are some suggestions for getting and using feedback that Birdsong and Ni offered in the discussion “How charities get ideas from the people they serve”:

Invite opinions. Use Facebook, LinkedIn, Twitter and other social media to post and share messages that invite feedback from the people who use your services. Keep your messages simple and friendly.

Ni, whose organization provides information on charities to potential donors, volunteers and others, suggests writing something like, “Hey, if you have comments or suggestions or compliments for us — write a review about us!” Include a link to the website where people can post their responses.

Be vigilant and creative. Solicit feedback quarterly from the people who use your services. One charity that assists low-income people wants its customers to write an online review of the organization. So it packs a reminder note in the bags of groceries it hands out.

Be versatile. Use the technological tool or tools you think your clients will respond to best. For example, if you assist young adults, you might want to use texting because it's so popular with this age group.

Be grateful. Let the people who give you feedback know you appreciate it. On GreatNonprofits.org, for instance, some organizations post a response of “thanks!” next to the comments. If the feedback is critical of your organization, try to contact the person directly and schedule a time to meet face-to-face to discuss a solution.

Make changes. Take your clients' and customers' suggestions to heart. For example, students giving feedback to **Communities in Schools of Pittsburgh-Allegheny County, a dropout prevention program, suggested creating** an informal area for hanging out. The organization designated a space and furnished it with some sofas and a coffee table. The students reportedly were delighted.

Don't forget the "computer-less." While most people use the Internet daily, a small portion of the population doesn't even own a computer. So use a paper survey to harvest their opinions. A template you can use and upload will be available at GreatNonprofits.org sometime this fall.

Seek out nonclients and noncustomers. You may need to go the extra mile to figure out why potential clients or customers *don't* use your services. Putting together a focus group is one effective method. A family foundation, for instance, "sweetened the pot" by paying for the time of a group of teens to attend the focus group — a common practice for focus groups, in general — and also paid for the kids' food and transportation.

From the bottom up

Nonprofits pay for a lot of needs assessments, says Ni, "but mostly those are top-down assessments that don't get granular about 1) how the customer/client would prioritize the problems they face and 2) what solutions they may have for overcoming the challenge." Try using the bottom-up approach at your organization, and you might come up with some fresh ideas that will work for you.

SOME FOR-PROFIT BUSINESS PRACTICES YOU SHOULD USE

"You can't do today's job with yesterday's methods and be in business tomorrow," according to often quoted advice from an anonymous pundit. And nonprofits often get the best results when they use some of the most successful practices pioneered by for-profit business.

Executing your strategies

The strategic plan — a map of near- and long-term goals and how to reach them — lies at the core of most for-profit companies. If your nonprofit doesn't have a strategic plan or has been lax about updating an existing plan, creating or updating your plan should be a top priority.

The scope of your plan will be specific to the size and nature of your not-for-profit, and to some degree your changing audiences. But basic principles used in for-profit business apply to most. Pay particular attention to each strategic goal's return on investment.

For instance, consider the resources required to implement a fundraising campaign using social media. You'll need to consider the employee hours involved relative to the minimum donations you'll likely bring in. Working through the financial implications of ideas can help your nonprofit avoid the kind of initiatives that sound good in theory but are unlikely to provide returns — financial, social or otherwise.

Being SMART

Many for-profit companies use "SMART" principles when setting their strategic goals. Such principles help leaders focus on priorities and create achievable objectives.

To be SMART, a goal must first be *specific*. Goals should be as clear and detailed as possible. Include names, dates, locations, processes and requirements for completion.

Goals also should be *measurable*. Clearly identify the outcome you're seeking. For example, if your association needs corporate sponsors, your goal might be "Find at least five sponsors for this year's annual meeting." Simply wanting "some sponsorship" isn't measurable — or motivating.

Additionally, your nonprofit's goals should be *attainable*. Set goals that are within your control. Although it would be great if you could raise 50% more in donations this year over last, is it really within the realm of possibility?

And they must be *realistic*. While there's nothing wrong with dreaming big, it pays to be realistic. Focus on initiatives that you're both willing and able to pursue and that you believe your organization can accomplish. But be careful not to lowball your goals and shortchange opportunities.

Last but not least, goals need to be *timely*. Building in a time factor is essential to staying on track. Time frames can vary by goal. Perhaps you want to increase membership by 20 each month, or have a new program up and running by the end of the year.

Fueling your mission

You probably already develop an annual budget, but how closely does it follow your strategic plan? For-profit businesses use budgets to support strategic priorities, putting greater resources behind higher priority projects.

Businesses also routinely carry debt on their balance sheets in the belief that it takes money to make money. Nonprofits, by contrast, typically do everything in their power to avoid owing money to a bank. But, it's possible to operate so lean that you no longer meet your mission. Although bare-bones budgets are unavoidable in times of economic hardship, consider putting some muscle behind your more promising initiatives as the economy improves.

Applying for a loan or even creating a for-profit subsidiary could provide you with the funds to grow. Building up your endowment also will help provide the additional cash flows essential to pursuing strategic opportunities in the future.

Budgeting for experience

Successful companies usually budget for experienced leadership. Although nonprofits typically can't pay their executives as much as for-profit businesses do, they can ensure compensation is competitive relative to nonprofits of a similar size and mission.

Paying for experience is particularly critical when you're embarking on major fundraising campaigns or looking to expand your program outreach. You may even want to consider candidates from the for-profit world, who might bring to the table greater marketing and financial management expertise as well as new ideas.

Also ensure that you've planned for management succession. Successful companies don't put all their eggs in one basket — or, in this case, one executive — and you shouldn't either.

Grow and learn

In the business world, standing still or being inflexible often is tantamount to failure. Nonprofits can learn from business by applying best practices — both new and traditional — to their not-for-profit worlds.

NEWS FOR NONPROFITS

Survey pinpoints traits, actions and motives of monthly donors

Do you know which arguments work best to convert single-gift donors to monthly donors, who automatically give to your charity time after time?

The fact that these regular donations will create some stable income for the not-for-profit is the most successful argument in persuading a donor to commit to monthly gifting, according to the 2012 Cygnus Donor Survey. Other effective arguments for transitioning single-gift donors to monthly donors are that monthly giving is more convenient, reduces the cost of fundraising and allows the donor to give more generously.

Among other things, the 2012 survey investigated monthly gifts — also called sustaining or automatically recurring gifts — for the first time in its four-year history. Approximately 11,000 U.S. donors completed the survey. Here are some other findings about people who give monthly:

Demographics. Of the total respondents to the survey, slightly more women (30%) were active monthly donors than men (26%). And a larger percentage of those in the 35-64 age group (30%) were monthly givers than those 65 and up (28%) or under 35 (23%).

Gift amounts. Gifts from male monthly donors were higher than those from their female counterparts. Last year male donors gave an average of \$181 per month, while female donors gave only about half that amount (\$95).

Reasons for staying in a program. Survey participants were asked to indicate the most important reasons for staying in a monthly gifting program. Rated highest was “having confidence in the charity’s security measures regarding automatic deduction or recurring charges” (6.0 on a scale of 1 to 7). Good security was followed by “receiving a single annual receipt for gifts made over the year” (5.7), and “being confident about a no-hassle opt-out if donors decide to stop contributing through monthly giving” (5.7).

Reasons for dropping out. Monthly donors showed great loyalty — only 22% of respondents had canceled a monthly gift commitment after being in a program for some time. The top reasons for leaving were: shifted support to another charity that has become a higher priority (39%), financial circumstances changed for the worse (34%) and dissatisfaction with the nonprofit’s performance (24%).

If you’re like most not-for-profits, you consider monthly donors to be “plums” that you want to retain. According to the survey, the average tenure of monthly donors is 30 months, their average annual contribution value is much higher than that of those who give sporadically, and less fundraising money is spent on them.

SPOTLIGHT ON MP&S

MP&S PARTNER ELECTED TO AICP/EAST

In November, MP&S Partner Richard Stern was elected to serve a two-year term as a member of the Association of Independent Commercial Producers (AICP)/East Board of Directors. He concentrates heavily on the media and entertainment industry with a focus on serving commercial producers as well as film equipment rental companies, directors, editors, and music producers. In addition to the AICP, he is also involved with the Association of Independent Commercial Editors and the New York Production Alliance.

DOING BUSINESS IN MALAYSIA AND MAURITIUS

Doing business around the world presents a variety of challenges. Morison International (MI), the association of independent accounting and consulting firms to which MP&S belongs, has just added Malaysia and Mauritius to its *Doing Business Guides* series.

The latest guides accompany the China, India, Singapore, Australia and Romania guides and can be found in the Library on the MP&S website. The guides are written by the MI member firm in the country that is being profiled and provide an introduction to foreign investors on the various aspects of doing business.

FOR FURTHER INFORMATION

If you have any questions, please contact **Michael L. McNee, Partner-in-Charge**, Nonprofit and Government Services Group, at 212.503.8954 or mmcnee@markspaneth.com. You may also contact one of the following members of the group:

Partners

Hope Goldstein

hgoldstein@markspaneth.com

Joseph J. Kanjamala

jkanjamala@markspaneth.com

Warren Ruppel

wruppel@markspaneth.com

Anthony J. Tempesta

ttempesta@markspaneth.com

Directors

Howard Becker

hbecker@markspaneth.com

Robert Lyons

rlyons@markspaneth.com

In addition, more information on the MP&S Nonprofit and Government Services Group as well as all of the firm's services and industries can be found at www.markspaneth.com.

IRS CIRCULAR 230 DISCLOSURE

Treasury Regulations require us to inform you that any Federal tax advice contained in this communication is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

© **Marks Paneth & Shron LLP** 2012 | www.markspaneth.com

MANHATTAN | LONG ISLAND | WESTCHESTER | CAYMAN ISLANDS

[Privacy Policy & Legal Disclaimer](#)