NONPROFIT NAVIGATOR

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ABOUT US

Our not-for-profit niche at Henry & Horne, LLP was officially formed 30 years ago, but we have been serving the not-for-profit community since we opened our doors in 1957. We are dedicated to Arizona's nonprofit community, and as a local firm with such a long history, we truly understand what is important to our nonprofit clients. Our team members receive quality continuing education specifically in nonprofit topics and are continually researching various nonprofit issues, which results in a very broad level of nonprofit expertise.

HENRY & HORNE, LLP
Certified Public Accountants

How Does Your Auditor Decide that You Have an Internal Control Deficiency?

By Colette Kamps, CPA

At the completion of your audit, your auditor may issue a "management letter" addressed to the Board of Directors that includes a description of a control deficiency. Do you ever wonder how the auditors make that determination? How do they decide whether it needs to go in the letter or not? Are there any "rules" that they have to follow in making that decision?

Auditing Standards do, in fact, provide definitions for the different levels of deficiencies, and provide guidance on how to evaluate to determine the level, as well as on the requirements for reporting those deficiencies. Under the Auditing Standards, auditors are required to communicate significant deficiencies and material weaknesses in writing. Your organization may have less severe deficiencies that don't meet the definitions of a significant deficiency or material weakness. For those types of less severe deficiencies, guidance says that the auditors use judgement in determining whether those should be included in the letter, based on how important it is for management purposes. The letter should always specify exactly what level each deficiency is – the least severe being just a control deficiency, the most severe being a material weakness and a significant deficiency falling in the middle.

There is a lot of judgement involved and factors to consider in making the level determination, but the Standards do provide specific definitions for each. A material weakness is a deficiency (or combination of deficiencies) where there is a reasonable possibility that a material misstatement will not be prevented, or will not be detected and corrected, on a timely basis. So if the auditors found an audit adjustment to be made, and the amount of the adjustment is considered to be material, there is a very good chance a material weakness could result. The definition of a significant deficiency is simply that it is a deficiency that is less severe than a material weakness, but merits the attention of those charged with governance. Those charged with governance would include both senior management as well as the Board of Directors.

When the auditors uncover a potential deficiency of any level, some considerations in the evaluation could include: the potential magnitude on the financial statement balance, the significance of the accounts that could be affected, other compensating controls, the volume of activity that is exposed, the effect or possible effect on loan covenants, the effect on misleading users with a downward trend, the effect on contractual agreements, the effect on material disclosures, and, in general, the effects to the users of the financial statements.

In the written communication of significant deficiencies and material weaknesses, the auditors are required to describe the deficiency and explain the effect or possible effect that could result. They may also include a recommendation for how to address or resolve the deficiency. For organizations that are always working toward improving their systems and processes, these recommendations can be a valuable opportunity to address something that management may have not known existed. Also, it's helpful for organization's management to know the considerations and definitions so that you can have a meaningful discussion with the auditors about the reasons and cause of the deficiency.

If you have any questions Colette can be reached at (480) 839-4900 or ColetteK@hhcpa.com.



Coordinates

In December, Upper West Side New Yorkers protested the opening of Tina Fey's new movie because she is on the Board of Trustees of the American Museum of Natural History. The Board had voted for an expansion of the museum, which many of the nearby residents oppose. (nonprofitquarterly.org)

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Based on a poll conducted by Saint Leo University Polling Institute, 61% said they are giving more or the same amount to charity in 2015, as they did in 2014. They also said this is a result of the influence of the Pope's visit to the U.S. in September. (philanthropy.org)

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Nonprofit organizations increased the number of emails sent in 2015 by 2.92%, utilized for advocacy, fundraising, and other efforts. (thenonprofittimes.com)

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In 2014, 23.3% of Arizonans volunteered with nonprofits, ranking Arizona 41st in the nation. Their time is valued at $4 billion. (volunteeringinamerica.gov)

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Why We Should Budget from Every Angle

By Samantha Mahlen, CPA

My favorite time of the year is football season. I literally go into a mild depressed-like state-of-mind when the Super-Bowl is over and Sunday television seems to only offer Law & Order marathons and sappy Hallmark movies.

As many sports fans know, the most frustrating part of the game can be "questionable" calls by the referees. Many of you might remember when the Packers were down by 3, with 4 seconds on the clock, and over 70 yards to go against the Lions. As the Packers tried to lateral the ball to each other down the field, the clock ran out and the Lions' defense eventually stopped the play. Game over, right? It would have been had the referee not called a facemask against the Lion's defensive end.

So what does this have to do with budgeting? After the call, the NFL Network compiled several different angles of Taylor's tackle of Rodgers. They re-played it in slow motion, zoomed in and even showed it from a bird's eye view. It was clearly what I like to call a "questionable call". Had the referee been able to see the tackle from all the angles those of us did at home, I wonder if he would have made the same game changing call?

Usually our goal in budgeting in nonprofit organizations is to devise a plan to have enough revenue to cover expenses. However, a budget is useless if it is not realistic. Like the referee's call, if we look at accounts from only one angle, we won't have the right information to make an accurate projection.

A few of the common mistakes in budgeting are:

1. Interrelated accounts budgeted not having a relative comparison
2. Cash budgets projected from prior year numbers that include non-cash amounts
3. Not budgeting for contributions at all due to "donors being unpredictable"
4. "Plugging" the contribution income to cover a shortfall
5. Not considering qualitative factors

For example, it would be unrealistic to decide not to hire a grant writer and cut that budget yet still predict a 5% growth in grant income. I would question any cash budget that projected a 3% increase in contributions from the prior year if the prior year number included non-cash contributions. Hearing "contributions are unpredictable" is like nails on a chalkboard to me. Don't you have a goal and a plan to reach that goal? Not taking qualitative factors into consideration is handicapping your ability to truly budget a realistic plan. If your CEO of 25 years retired and is replaced by a CEO with 5 years' experience in the corporate world and a lack of history with your donor base, I would question your budget listing a 7% increase in contributions. The aforementioned examples would most likely result in significant variances in your budget to actual review at the end of the year.

You may be thinking, "So what? We have variances every year!" Your budget is one of your best tools to help your organization be successful. It's your opportunity to review last year and determine what ideas failed and what succeeded; to brainstorm a plan to increase your contributions and decide where to focus your resources to make it happen; and finally, to consider what non-financial aspects might positively or negatively impact the numbers.

That referee's facemask call resulted in a "free" play and a 15-yard advance for the Packers. Rodgers threw for the longest game-winning/game-ending Hail Mary in NFL history for the Packers' 27-23 win over the Lions. That referee didn't have access to see all angles of the play and there are arguments for and against the controversial call. Likewise, the approach to budgeting can be controversial.

You, however, have access to the necessary resources to analyze every angle of your budget. Use them. The success of your not-for-profit organization depends on it.

If you have questions, Samantha can be reached at (480) 839-4900 or SamanthaM@hhcpa.com.