

MaherDuessel

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AICPA Risk Alerts for Nonprofits

How This Alert Helps You

- Helps to plan and perform audits for Not-For-Profit (NFPs) entities and/ or provides pertinent information to NFP's.
- Provides info. to assist you to achieve a better understanding of the business, economic, and regulatory environments in which NFP's operate.
- Helps identify risks that result in the material misstatement of financial statements.
- Delivers information about emerging practice issues and current accounting, auditing, and regulatory developments.

How This Alert Helps You

- Understand the meaning of audit risk and obtain evidence to draw conclusions to base your opinion's on, by performing:
 - Risk assessment procedures
 - Further audit procedures that compromise:
 - Tests of controls
 - Substantive procedures that include tests of details & substantive analytical procedures
- Helps develop an audit plan that includes the nature and extent of planned risk assessment procedures, as determined under **AU-C SECTION 315**.



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Economic and Industry Developments

Key General Economic Indicators during 2019 leading into 2020.



GDP



Unemployment rate



Minimum Wage- unchanged in PA/ bill pending



Job Growth



The Federal Reserve- Interest rates


Economic and Industry Developments- Economic


- Low jobless rate 2019 (3.5%)/ June 2020 11.1%. Bureau of Labor and Statistics
- Increase in GDP 2.1% for end of 2019/ First Quarter 2020 -5%. Department of Commerce
- Investments : S&P was up 28% at Dec 2019/June -6.58% from a year ago or -1.14% for 2020. yahoo Finance


Economic and Industry Developments – Industry Developments


- New(ish) tax laws concerning itemization of contributions : no sig decrease in contributions. Tax Cuts and Jobs Act 2017
- Significant use of Donor Advised Funds. It allows donors to make a charitable contribution (irrevocable), receive tax deduct. and then recommend grants over time
- Online Donations preferred method of 54% of donors. **Triggers!!**


What NFP's should consider while accepting online donations

 Is the organization's gift acceptance policy current? (other states, investments, real estate, art)


 Are procedures in place to ensure donor restrictions or conditions are properly reflected in the accounting records?


 Has a reconciliation process been developed to ensure all donations received have been deposited?

 Is a process in place to handle exceptions, chargebacks, and refunds?

 What reporting will be required to maintain an audit trail?

 Is appropriate segregation of duties in place?

 Have IT controls and access been updated? Using a vendor for processing?

 Will the organization be required to comply with the European Union's General Data Protection Regulation? Or other states registrations

On- Line Donations- Service Provider

- Is the NFP's third party merchant service provider compliant with the PCI Data Security Standard?
- Did you get/ need a SOC Report?
- Are fraud management settings in place, such as the following:
 - *CSC or card verification values (CVV)*
 - *Address verification services (AVS)*
 - *Three – domain secure (3DS) authorizations*
 - *Suspect transaction notifications*

SOC 1 Reports!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!

- NFP remains responsible for effective controls even when outsourcing.
- To effectively monitor : on- line donations, payroll, cloud networks, data storage get a SOC Report.
- What to look for:
 - *Does it cover the services outsourced?*
 - *Did the service provider further outsource a key process? What then?*
 - *Is the period covered sufficient? Bridge Letter*
 - *Qualified opinion? Exceptions? Implement your own/ change provider*
 - *Any complementary user controls?*

So do I need one?

Do I really need a SOC Report?

- Understand the agreement: Responsibilities, fees etc.
- Do you collect the data in Company software and submit to a 3rd party for payment processing?
 - Access controls/ reconciliation
- Do you use a 3rd party to capture and report sales?
 - Access controls/ reconciliation and SOC

Vendor Management Program

- Due diligence and ongoing monitoring procedures involving vendors should include the following:
 - *Financial stability*
 - *Security and vulnerability management (SOC ?)*
 - *Business continuity and disaster recovery*
 - *Incident response and breach management*
 - *Third party management*
 - *Cyber insurance*
- Two factors to consider while selecting vendors to review:
 - *The business criticality of the relationship to operations*
 - *The sensitivity of the data hosted, managed, or accessed by the vendor*



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Legislative and Regulatory Developments

Legislative and Regulatory

- Repeal of “parking tax”.
- Separate line of business reported separately/ can’t offset losses.
- E-file informational returns.
- Enforcement around Syndicated conservation easements (circumvent limitation of deduction by setting up syndications to allow multiple investors to share the deduction).
- Contributions if received a state income tax credit- generally reduce charitable deduction if FMV of the property transferred exceeds amount of deduction for state/ local tax.

Legislative and Regulatory

- Federal OT rule? Under the FLSA – went from 23,660 to \$35,568- effective 1/1/20
- PA employers will need to follow both the new federal OT rules and the OT requirements of PA Min Wage Act

Impact Assessment

- Nonprofits may consider taking the following steps when determining compliance with the ruling:
 - Verify that all exempt employees with compensation below the threshold have been identified and appropriate action taken.
 - Conduct a wage and hour audit of exempt positions
 - Review the FLSA duties test to ensure exempt employees are properly classified as exempt

Other Items

- COVID legislative and regulatory items will be covered in a separate presentation



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Audit and Attestation Issues and Developments

Enhanced IT Controls Testing Needed During Financial Statement Audits



Perimeter Security: network entrances should be secured to detect and prevent attacks (firewalls, intrusion detection systems)



Vulnerability Management: Organizations should identify and mitigate the risks of exploitations. New vulnerabilities are identified every day.



Back-up Management and Disaster Planning: Maintaining successful backups is vital to ensure that data can be recovered after file corruption, system failure, ransomware, or another disaster situation.



Application Security: Creating password parameters, account lockout settings and MFA configurations can mitigate these threats.

COVID IT ISSUES

- If use a 3rd party vendor for IT are they able to perform all the functions in the contract?
(there should be a contract)
- How are you monitoring 3rd parties?
- Is all data properly backed up?
- How do you determine employees are not downloading sensitive info and saving?

COVID IT ISSUES

- Employees working remotely: How does the employee access the network? VPN? Wifi? Wifi password?
- Using personal laptop or company?
- If personal is there virus protection?
- If company computer can remotely install software, delete info is stolen or misplace?
- Video conferencing and sensitive data?

Audit Issues

- Debt Covenant- Recording PPP as a loan? LOC high?
- Functional Expenses- if staff reassigned is time charged to the right program? Supervisor time?
- Going Concern- Cash flows impact in 2020? Management plan if losses/ cash issues.

Audit Issues

- Investments – Risks and uncertainty disclosures?
- Subsequent events- PPP forgiveness after 6/30? Open a program after 6/30?
- Asset impairment/ Goodwill: based on cash flows? Might need to write- down

Audit Issues

- Controls- did they change during March?
Segregation of duties? Might need to test two sets. Documentation?
- New Major program? CARES Act
- Test PPP forgiveness.



Accounting Issues and Developments

Accounting Implementation

- Liquidity and availability disclosures include qualitative and quantitative info about managing liquid resources.
 - Going concern if small portion of assets available?
 - No if can narrate use of restricted resources and/ or estimate and disclose what you expect to typically receive even if can't record.

Consolidation Issues- Leases

- Consolidation of related entities: leasing arrangement? Use **FASB ASC 958-810** for special purpose entity lessors. Consolidate if:
 - All lessor's activities involve assets leased to the NFP
 - Owners made no substantive equity investment that is at risk/ unless 3rd party
 - Risks and rewards stay with NFP (e.g.NFP receives lessor's sales proceeds in excess of stipulated amount)

Consolidation- Nonprofit

- Consolidation of Affiliated NFP's, main concepts:
 - Control: (a) the direct or indirect ability to determine the direction (b) majority voting interest in the gov board (c) control by other means via contract, affiliation agreement or similar arrangement.

Sole Corporate Member is common

Consolidation- Nonprofit

- Economic Interest: (a) An entity holds or uses significant resources that must be used for NFP
(b) an entity is responsible for liabilities of the NFP.
 - ex: solicits funds for, entitled to net assets upon dissolution, assigns significant functions

Consolidate? Nonprofit

- Controlling financial interest?
 - Consolidation required.
- Economic interest and control through majority voting interest?
 - Consolidation required.
- Economic interest and control through other means?
 - Consolidation optional (Disclose).
- Economic interest or control but not both
 - Consolidation prohibited.

Consolidate - For - Profit

- Consolidate if controlling financial interest.
(50% of voting interest of stock generally)
- Lower than 50%? Look at contracts, agreements, court decrees for control.

Consolidate – General Partnership

- Consolidate for-profit general partnership when the NFP has control of general partnership, focus on decision making rights established in the partnership governing docs.
FASB ASC 970-810.

Consolidate - Limited Partnership

- If general partner control is presumed/ consolidate with certain exceptions (kick-out rights or substantive participating rights).
 - **Kick out rights:** *limited partner can dissolve the partnership or remove general partner*
 - **Participating rights:** *limited partner right to participate in certain financial and operating decisions like selecting, terminating, setting comp of management or establishing operating and capital decisions including budgets.*

Limited Partnership – Limited partner

- If NFP is a limited partner would determine if directly or indirectly own more than 50% of the limited partnership's kick-out rights through voting interests; if so consolidate.
 - Exception if other limited partners have substantive participating rights , then no control do not consolidate **FASB ASC 958-810**.

Termination Benefits - Voluntary

- Special termination benefits (**FASB ASC 712-10-25-1**).
- Benefits provided to an employee as an incentive to elect a voluntary termination.
 - Accrual and expense in the period the employee irrevocably accepts the offer and the amount of liability is estimable.
 - What if additional services after offer: recognize the special termination benefit over the service period the employee is required to work to earn the benefit.

Termination Benefits– Involuntary, Plan

- Generally benefits for someone involuntarily terminated : salary continuation, severance benefits, job training/ counseling, continuation of health, disability/ Life ins.
- Same Criteria as for compensated absences:
 - *Rights based on service already rendered.*
 - *Obligation relates to rights that vest or accumulate.(no future service).*
 - *Payment probable.*
 - *Amount can be estimated (same as GAAP for compensated absences **FASB ASC 710-10-25-1**).*
 - *If don't meet all 4 record when probable that a liability has been incurred and amount can be reasonably estimated.*

Termination Benefits- Involuntary, No Plan

- Involuntary. Follow: **FASB ASC 420-10-25-4:10.**
- Not part of an ongoing or other plan that entity already had in place. The obligation to provide one – time benefits does not occur until the promise to provide the benefits is communicated to the affected employees and the following criteria is met:

Termination Benefits – Involuntary, No Plan

- *Management commits to a plan of termination*
- *The plan identifies the # of employees to be terminated , their job classifications/ functions and locations and expected completion date.*
- *Plan established terms of the benefit arrangement in sufficient detail to enable employees to determine the type/ amount of benefits.*
- *Unlikely there will be significant changes or plan withdrawn.*

Termination Benefits – Involuntary, No Plan

- Communication date is the key factor – recognize expense immediately if no additional service required or over the additional required service term to obtain the benefit.
- Use this guidance when you communicate this is a one-time event triggered by a pandemic so would not be available in the future.



On the Horizon

Ongoing Projects Significant to NFP's



Proposed SAS Audit Evidence: Addresses the evolving nature of business, audit services, and issues that have arisen since existing AU-C section 500 was originally issued.



Proposed SAS Auditing Accounting Estimates and Related Disclosures: address the challenges that auditors face when auditing accounting estimates by providing risk assessment requirements and further audit procedures.



FASB proposing changes to NFP reporting of gifts-in-kind: To improve transparency around how NFPs present and disclose contributed nonfinancial assets, also known as gifts-in-kind.

Where to Purchase

- A&A Guide: [www. aicpastore.com](http://www.aicpastore.com)
– \$100

Questions? Contact Me!

Lisa A. Ritter CPA, CFE, CITP

lritter@md-cpas.com