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Pain Free Audit
What Your Auditor Wants You To Know
June 22nd 2017

Session Overview

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Instructor Bio :Jerry Mercer

- B.S Accounting University Of Alabama
- CPA Since 1985
- Principal Of Mercer & Associates
 - Clients Include:
 - HUD Projects
 - School Boards
 - Airport Authorities
 - Mental Health & 310 Boards
 - Over 50 Non Profits
 - Small Businesses
- Board Member Of
 - The Light Church Of Christ
 - Rotary Club
 - Lincoln Village Preservation Society
 - His Way Recovery Center

Session Overview

- What Are The Auditors Going To Want?
- Psychology Of Good Accounting Internal Controls
- Policies and Written Expectations
- Electronic Data / Reports And All Things IT.
- Responding To Audit Findings
- Changing Auditors
- Unrelated Business Income Tax (UBIT)
- The 990 Form

Auditors Desires

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Co Operative Relationship

Total Open Dialog

Understand Your Non Profit

What Has Changed ?

Being Prepared

Board Access

Board Accountability

Financial Oversight

Remember

Board 's Fiduciary Duty To Ensure That The Agency Is Being Managed Well. Including Financial Reporting

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Accounting / Finance Culture

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How Would You Describe Your Organizational & Financial Culture?



- Who Signs The Checks In The Non Profit?
- Does Management Support Internal Controls?
- Does The Paperwork Used In The Non Profit Support Business Activities?
- How Well Do Reviewers Challenge Paperwork?
- Is There Any Feeling of Distrust In The Organization?

Financial Budget - Control

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Critical Internal Control

Aligned With Management Plans

Complete A Budget Analysis

Agreed Upon Annually By Board

Budget - Annual Baseline

Report Monthly Deviations

Analyze Root Cause Of Deviation

Actions To Address Deviation



Timely Decisions / Authorizations

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Documented Authorization

Business Process With Control Points

Timely Approvals

Effective Approvals

Must Have Management Control

Management Vs. Board Approvals

Policies – Structure / Control

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General	Employment	Compensation	Policies Help Make A Controlled Environment
Harassment	Personnel Files	Work Hours	
Non Discrimination	Reduction In Staff	Pay Periods	
Benefits	Business Expenses	Health & Safety	
Sick Leave	Dinners / Lunches	Inclement Weather	
Vacation & Holidays	Rental Cars	Evacuation	
IT	Other	Other	
Email & Internet Use	Whistle Blower	Conflict Of Interest	
Computer Hardware	Code Of Ethics	Confidentiality	

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Examples Not All Inclusive

Spreadsheets – Friend Or Foe?

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What Are Your Top 5 Spreadsheets?

Who Can Access & Modify Them?

Do You Protect Formulas With Passwords?

How Do You Validate Calculations / Formula's

Consequence Of Having A Bad Spreadsheet?



Data Storage

Archive A PDF Copy Of A Spreadsheet

Are Versions Preserved And Not Overwritten

Data Backup's ? Paper Copies?



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Where Is Your Data?

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Paper & Electronic Record Retention Policy

Physical Safe / Controlled Storage Of Records

Electronic Records Where Are They?

When And Where Do You Backup IT Assets?

Business Continuity Plan – Write It Down

Electronic Data Recovery Test - Annually

Cybersecurity & Access Control



Put IT / Record Management In Audit Scope

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Audit Findings - What To Do?

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Basic Control
Issues

Procedural /
Document Issues

Observation
Opportunities

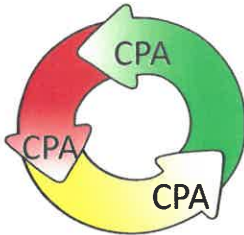
- Auditor Should Make Management Team Aware During Audit Of Agreed Issues
- Responsibility Of Non Profit Board To Address Issues Formally Within 30 Days
 - Via Memo To Management Team / Board / Auditor
 - Including Time Line And Specific Actions To Address Issue
 - How The Board Will Monitor The Corrective Action For Effectiveness And When
- Expect the Auditor Prior Or During The Next Audit To Evaluate Effectiveness Of Action

Don't Pay Comments Lip Service Only
Opportunity To Improve & Board Responsibility

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Should You Change Your Auditor?

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AICPA – Suggests Consistency For
Non Profits / Small Business

Often Non Profits Have Limited
Financial Staff – Tribal Knowledge

Board Audit Committee Has To
Decide On Effectiveness Of Audit

One Solution – Rotate The Auditor
But Retain The CPA Firm

Try To Get A Good Financial Business
Person On Your Board

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UBIT–Unrelated Business Income Tax

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Must Understand Non Profits Purpose Vs. Activity

IRS Is Focused On How Income Was Earned Not Used.

From AIPCA Website:

“Unrelated business income is:

•income from a trade or business which is regularly carried on and is not substantially related to the charitable, educational, or other purpose that is the basis of the organization's exemption. “

Unrelated Gross Income Over \$1,000 Trigger's UBIT Reporting

50% Of Non Profits Have UBIT

Consult Your Auditor To Determine Liability Tax Escalates To a 39% Rate

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990 Form

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Filed Annually - Penalty For Late Filing

Public Document On Web

Executive Team & Board Details Listed

Compensation Data Listed

Conflict Of Interest Policy

Whistle Blower Policy

Board Responsible For Knowing & Understanding Contents Of 990

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TW **Takeaways**

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-  Board Accountability
Fiduciary Duty
-  Budget Is An
Internal Control
-  Timely Effective Approvals
In Control Culture
-  Need To Have Well
Documented Policies
-  Spreadsheet
Management Practices
-  Record Management Policy
IT Data Management
Audit Focus
-  Audit Comments Are
Opportunities To Improve
-  Auditor Consistency Is A
Plus, Board Ally.
-  UBIT – Check
Income Sources
-  990 - Know Your
Non Profit
Information

Closing Comment From Your CPA

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- Financial Understanding On Non Profit Boards
 - A Needed, But Missing Skill On Boards
 - Try And Locate Someone With This Skill
- On A Personal Note, Thank You For All You Do In Helping This Community

THANK YOU.

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