



EXCERPTS OF RECENT MEDIA COVERAGE

NONPROFIT AND EDUCATION PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q1 2014

► NONPROFIT QUARTERLY

DRAFT TAX REFORM ACT OF 2014 PROPOSES PROFOUND IMPACT ON TAX-EXEMPT ORGANIZATIONS

By **Laura Kalick**



On February 26, 2014, Ways and Means Committee Chairman Dave Camp (R-MI) released draft legislation for the Tax Reform Act of 2014.

Over the past three years, Congress has held more than 30 hearings in the process of developing this proposal. Also, Chairman Camp and Ranking Member Sander Levin (D-MI) formed 11 separate bipartisan Tax Reform Working Groups to focus on specific issues that included tax-exempt organizations and charitable giving.

While the Draft's many provisions will be debated throughout the year ahead, and it's doubtful that it will even be voted on in 2014, it's crucial that tax-exempt organizations and charities stay on top of the process and understand the possible ramifications of the bill's many provisions.

Some of the most significant highlights of the Draft Legislation include:

- Repealing the tax exemption for professional sports leagues
- Imposing a two-percent Adjusted Gross Income (AGI) floor on deductible charitable contributions
- Imposing a 25% excise tax on compensation paid over \$1,000,000 by exempt organizations to their five highest-paid employees
- Expanding the reach of Intermediate Sanctions
- Tightening the rules on the unrelated trade or business income tax (UBIT)
- New and increased penalties related to return preparation
- Eliminating future tax-exempt private activity bonds...

It is very early in the process and we have no way to predict whether any of these provisions will become law, however it would be worthwhile for all tax-exempt organization to take a look at the provisions to see what the impact could be.

► THE NONPROFIT TIMES

RED FLAGS: BEWARE THE FRAUD TRIANGLE

By Marty Daks

The director of facilities at the Woodruff Arts Center in Atlanta pleaded guilty in April 2013 to embezzling more than \$1.1 million from the nonprofit. According to the Federal Bureau of Investigation, former employee Ralph Clark stole the money



For 100 years, BDO has provided services to the nonprofit community. Through decades of working in this sector, we have developed a significant capability and fluency in the general and specific business issues that may face these organizations. With more than 2,000 clients in the nonprofit sector, BDO's team of professionals offers the hands-on experience and technical skill to serve the distinctive needs of our nonprofit clients – and help them fulfill their missions. We supplement our technical approach by analyzing and advising our clients on the many elements of running a successful nonprofit organization.

In addition, BDO's Institute for Nonprofit Excellence (the Institute) has the skills and knowledge to provide high quality services and address the needs of the nation's nonprofit sector.

from the visual and performing arts center by submitting invoices for bogus expenses, picking the checks up in person, and then depositing them into accounts over which Clark had signatory authority...

Fraud can be difficult to detect, especially if higher-ups are involved. There are some "red flags" that can serve as early indicators that something's wrong.

"Splitting up responsibilities among multiple people — with each serving as a check or balance on the other — is a basic form of internal control," said **Nidhi Rao, a director in the Greater Washington, D.C., office of BDO Consulting.** "Nonprofits tend to have relatively small staffs, so it can be a challenge to find enough employees to segregate duties in an adequate manner. This can be a big problem," she said.



Bank reconciliations that aren't being done in a timely manner could be a red flag for fraud, she noted.

"Another red flag is when one person has control over disbursements with no oversight," she added. "In one case we discovered that an executive director at a nonprofit was able to improperly charge about \$1 million of personal expenses to a corporate credit card because there were no monitoring processes in place."

Her advice: "Get creative. Management should identify creative compensating control solutions to address the risk of fraud when duties cannot be adequately segregated. The board of directors and senior management of the organization should also take steps to ensure that appropriate tone at the top is established and that employees have a venue to anonymously report their concerns and issues."

►NONPROFIT QUARTERLY

DOING BUSINESS WITH THE GOVERNMENT: ADMINISTRATIVE CHALLENGES FACED BY NONPROFITS

By **Eric Sobota**



Nonprofit organizations face a variety of challenges that begin with fundraising and can include a range of issues, including meeting growing demands for services

to complying with requirements set forth by their backers. For nonprofit recipients of federal funds through grants or contracts, government agencies require highly specific reporting and accountability structures to avoid fraud, waste, and abuse. Adhering to these government requirements can generate significant challenges and increased administrative burdens. What do some of these challenges look like, and what can you do to help mitigate them?...

One of the most significant obstacles nonprofits will face is harmonizing their cost accounting practices when awarded both contracts and grants. Nonprofits covered by OMB Circular A-122, "Cost Principles for Non-Profit Organizations," can also be subject to CAS, depending on their contract awards. The Cost Accounting Standards provide a more stringent set of requirements related to cost charging practices than OMB A-122 guidance. CAS-covered nonprofit organizations should follow CAS with respect to the measurement, assignment, and allocation of costs. To avoid noncompliance issues, organizations will need to provide assurance that there is consistency in estimating, accumulating, and reporting expenditures incurred, and that costs incurred for the same purpose in like circumstances have been treated consistently as either direct or indirect costs. Many organizations opt for multiple segments to alleviate this burden...

With the recent release of the Uniform Requirements, Cost Principles, and Audit

Requirements for Federal Awards in December 2013, more commonly referred to as the Supercircular, nonprofits should make it a priority to review their current practices for compliance. The Supercircular aims to impart clarity to a complex process, and many nonprofits will need to alter the way they do business to get up to speed. However, the promise of the Supercircular is that once organizations implement the new guidance, they will no longer be subject to a confusing array of regulations and will be more prepared to appropriately administer their grants and contracts.

►THOMPSON'S GRANTS COMPLIANCE EXPERT

PART I: NONPROFITS, GRANTEES MUST REMAIN VIGILANT ABOUT FRAUD

By Karen Norris

Nonprofits and other grantees generally understand that improper payments, fraud, waste and abuse can occur at every phase of the grant cycle, and in fact, throughout standard business practices. Being watchful is a shared responsibility among grantees, program offices, grants offices and general oversight offices.

BDO, a financial consulting firm with offices throughout the U.S. and worldwide, presented a December webinar moderated by Laurie De Armond, a partner in BDO's Nonprofit & Education industry group, about the cascading impacts of fraud.



Presenters **Tim Mohr, a principal with BDO Consulting,** **Mike Sorrells, BDO's national director of nonprofit tax services,** and Randal Simonetti, a reputation and crisis management consultant, highlighted key issues relating to fraud that can often challenge nonprofits and other recipients, with damage extending well beyond the



initial act. "Poor public perception and

reputational risk can outweigh the monetary loss," warned Mohr...

Steps to Reduce Fraud

"You can never completely prevent fraud, but you can reduce the exposure and likelihood of it," said Mohr. "You can detect and deter." Mohr suggested recipients evaluate reporting areas that may be susceptible to misstatement, internal controls, screening processes, audit procedures, travel and other employee expenses, risk assessments and personnel who could possibly manipulate the financials. "Trust, but verify," Mohr advocated...

Diversions of Assets

Sorrells discussed the 2009 results from Internal Revenue Service audits of 285 organizations that found "roughly \$170 million in diversions."

Diversion of assets, according to Sorrells, includes any unauthorized conversion or use of the organization's assets other than for authorized purposes, including embezzlement or theft and misuse of grant funds.

"Sports teams, parent teacher associations and other small groups have fraud," said Sorrells. "It's not just the large groups." As federal and state officials increase scrutiny over the expenditure of grant funds, Sorrells expected increased investigations.

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