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News for Nonprofits

NONPROFIT AGENDAS

FEBRUARY/MARCH 2021

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COVID-19 changes the landscape for single-audit compliance

COVID-19 and its economic impact have left the nonprofit niche financially vulnerable, with corporate and individual donations dropping precipitously for many organizations. Relief funding under the CARES Act has helped some nonprofits remain reasonably stable. But funding also will likely impose new single-audit requirements on recipients already struggling to keep their heads above water.

The requirements can seem daunting under normal circumstances. In the midst of a pandemic, they might seem overwhelming. But compliance is critical — here's what you need to know to get started.

What's the general guidance?

The Single Audit Act of 1984 requires nonprofits with federal expenditures greater than $750,000 in a fiscal year to undergo an audit by an independent auditor. The mandate is intended to ensure that federal funds are properly spent. These specific requirements are found in Title 2 of the Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, more commonly known as the Uniform Guidance. In addition, the Office of Management and Budget (OMB) annually publishes the *Compliance Supplement*, which gives auditors detailed guidance on how to audit specific grants.

The OMB issued the most recent supplement in August 2020, for fiscal years starting after June 30, 2019. At that time, the agency indicated it would release an addendum in the fall of 2020 to address new programs created by the CARES Act, as well as existing programs affected by COVID-19. As of this writing, the addendum hasn't been published. Single audits for fiscal years ending June 30 are due March 31, 2021, but the delay in availability of guidance that reflects COVID-19 considerations has led to a push from nonprofits and auditors for an extension.

What's the role of CARES Act funding?

The CARES Act delivered billions of dollars in funding through a variety of programs. For example:

- The Provider Relief Fund for health care providers distributed $175 billion,
- The Coronavirus Relief Fund disbursed $150 billion, and
- The Education Stabilization Fund sent out $30 billion.

The good news is that the Small Business Administration's (SBA) popular Paycheck Protection Program (PPP) isn't subject to the Uniform Guidance. Most other CARES Act programs are, though. Loans (but not emergency advances) received through the SBA's Economic Injury Disaster Loan program, for instance, must be included on the Schedule of Expenditures of Federal Awards (SEFA). This is the form you must prepare under the Uniform Guidance that determines whether you meet the threshold that triggers the single-audit requirement.

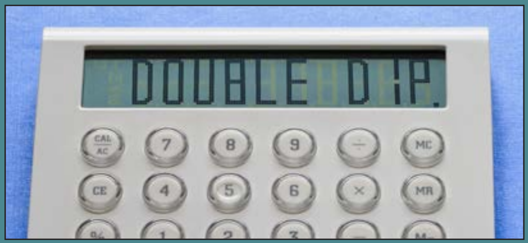
Your SEFA also must include monies under the Coronavirus Relief Fund, the Provider Relief Fund, the Education Stabilization Fund, the COVID-19 Telehealth Program and others. Note that the August 2020 *Compliance Supplement* states that organizations should separately identify COVID-19 expenditures on the SEFA and that auditors should clearly identify audit findings that apply to COVID-19 new or existing programs.

What are the single-audit requirements?

Your auditor will review both the accuracy of your financial statements and your compliance with requirements of your federal award(s). You should determine the applicable requirements by reviewing your grant agreement or award letter and the *Compliance Supplement*. These documents may detail reporting deadlines, allowable expenses, matching contributions and similar requirements the auditor will evaluate.

Your auditor also will scrutinize and test your internal controls for compliance with federal awards. The Uniform Guidance recommends that controls reflect the *Internal Control — Integrated Framework* developed by the Committee of Sponsoring Organizations of the Treadway Commission or the Comptroller General's *Standards for Internal Control in the Federal Government* (the "Green Book").

Don't double-dip



Although Paycheck Protection Program (PPP) loans aren't subject to the Uniform Guidance single-audit requirement (see main article), recipients must exercise caution when applying the funds. One mistake to avoid is so-called "double-dipping." Failure to avoid this practice could jeopardize your ability to qualify for 100% PPP loan forgiveness.

The Office of Management and Budget has made clear that organizations mustn't charge payroll costs paid with PPP funds to other federal awards, as it would result in the government paying the same expenditure twice. To preempt such double-dipping, evaluate your awards for reimbursable expenses that overlap with PPP payroll costs. Then carefully track those costs and document the funds from which they are paid and charged. If they're paid from awards, they can't be forgiven.

Nonprofits should consider how the introduction of new pandemic-related funding programs, combined with the widespread shift to work-from-home, may have affected their control environment. Where necessary, make the appropriate adjustments immediately rather than waiting for auditors to flag gaps.

Proceed with caution

Even if this isn't your organization's first time undergoing a single audit, COVID-19 and the slow drip of guidance from the OMB likely complicates matters. Your CPA can help ensure you don't fall short on compliance.

Board members: Stay alert for these 4 financial red flags

Your board members are undoubtedly well aware of your nonprofit's financial problems during the COVID-19 pandemic. But as 2021 unwinds, the board should keep its eyes on potential problem spots, ask questions and direct remedies as needed.

These four areas can present clues that the organization is headed for trouble.

1. Financial statement flaws. Late, inconsistent financial statements — or statements that aren't prepared using Generally Accepted Accounting Principles (GAAP) — can lead to poor decision-making and undermine a nonprofit's reputation. They also can make it difficult to obtain funding or financing. Statements also can be unreliable if they're not prepared at least quarterly, or preferably monthly, and in accordance with GAAP or another comprehensive basis of accounting. Financial statements that aren't prepared timely or have accounting errors also can signal understaffing, poor internal controls and efforts to conceal mismanagement or fraud. Time-wise, the board generally should receive the nonprofit's financial statements within 30 days of the close of a period.

Some issues are applicable to larger nonprofits. For example, the board or audit committee should insist on annual financial statement audits and expect they'll be able to select the audit firm. And members of the audit committee, or another designated group, should communicate directly with auditors before and during the process. All board members should have the opportunity to review and question the audit report and any related management recommendation letter and receive satisfactory answers.

2. Budget problems. Certain budget-related issues hint at rocky times to come. All nonprofits should prepare a budget and larger organizations should draft budgets for each program or department. Ideally, board members will see that management-proposed budgets are in line with board-developed and approved strategies. A nonprofit with *no* budget is a flashing red light, even in uncertain times. The lack of an operating budget suggests an undisciplined approach to fiscal matters. Because of the pandemic's financial effects, some nonprofits may need to re-think annual budgets that were prepared in more certain times and focus on a shorter term.

Once a budget has been okayed, the board should compare it to actual results for unexplained variances. Some discrepancies are bound to happen, but staff must explain *significant* differences. There may be a reasonable explanation, such as program expansion, funding changes or economic factors beyond the organization's control. Where necessary, the board should direct management to modify activities to mitigate negative variances. Instituting cost-saving measures may be in order.

Board members also should beware of overspending in one program via funding by another. Watch out, too, for dips into the organization's rainy day fund (its reserves), the raiding of an endowment or unplanned borrowing. Such moves might signal a financially unsustainable cycle.

3. Donor worries. If the board starts to hear from long-standing, passionate supporters who're harboring doubts about the organization's finances, that's a very bad sign. What are they seeing or hearing that prompts their concerns?

The board also should note when development staff begin reaching out to historically major donors outside of the usual fundraising cycle. These contacts could mean the organization is scrambling for cash and hoping its most dependable donors can fill the gaps. However, during the pandemic, there may be funds restricted for purposes or timeframes that aren't currently feasible. If need be, the board should direct staff to contact donors to request an adjustment in contribution terms.

4. Power plays. It's understandable that board members who have full-time jobs and other responsibilities might cede some of them to a trusted executive director (ED). However, that may be risky, even in a crisis when an ED naturally needs to step up.

So, what are the signs of an ED who wields too much power? The board should think about changes if the ED 1) insists on choosing the organization's auditor, 2) adds board members who are friends or 3) makes strategic decisions without board input and guidance. Also, an ED shouldn't be allowed to ignore expense limits; going outside of budget or policy guidelines should require board approval. ■

Are you prepared to accept cryptocurrency gifts?

When cryptocurrencies first came on the scene, they were widely viewed as a fringe development, primarily of interest to nerds, doomsday preppers and criminals. Now they've moved closer to the mainstream, even prompting the IRS to add a question to its Form 1040 about transactions with virtual currencies.

As more individuals and businesses have begun accepting payment with cryptocurrency, nonprofits increasingly hear from donors who wish to make donations using the currency. If your organization is one of them, you need to weigh several issues before jumping in.

Cryptocurrency in a nutshell

Cryptocurrency generally refers to a decentralized form of digital currency. You may have heard of Bitcoin or Ethereum, but thousands of others also are available. Millions of people now use cryptocurrencies, particularly young adults and charitable-minded tech investors.

Transfers happen instantly and are tracked in a transparent blockchain ledger. Unlike traditional currencies, the ledger doesn't reside with a central authority, such as a bank or government, but across public peer-to-peer computer networks. The value of cryptocurrencies derives in part from its scarcity. In the case of Bitcoins, for example, the supply is limited to 21 million "coins."

One of the most significant concerns related to cryptocurrencies is their price volatility. The price for Bitcoin can shift more than 10% in a single day. Imagine a donation that drops that much in value within hours of receipt. Of course, cryptocurrencies also can quickly appreciate in value dramatically, which is one reason owners are interested in donating them — to avoid capital gains tax on the appreciated assets held for at least one year. The tax advantage provides a strong incentive for cryptocurrency owners to donate. But how can your organization accept such donations?

Critical considerations

First address whether you should accept cryptocurrency donations directly and assume all of the risks. An option is to accept them through a third-party facilitator, such as The Giving Block, BitPay or Engiven. These platforms provide nonprofits the chance to almost immediately convert crypto donations into dollars, before the value can fall. Facilitators typically charge a small fee, similar to credit card transaction fees. You should check with your financial institution before signing an agreement with a facilitator, though. Some are wary of transactions involving players in the virtual currency industry.

If you decide to accept crypto donations directly, and perhaps benefit from appreciation, you must create a "digital wallet" through a bank or mobile phone app. Wallets store the public and private "keys" required to send and receive cryptocurrencies. And you'll need to implement internal controls and security measures to secure your keys and wallets.

When it comes to reporting obligations, the IRS says you should treat these obligations as non-cash contributions on Form 990 and, if applicable, Schedule M. Nonprofits must file "M" if they receive more than $25,000 in non-cash contributions or contributions of art, historical treasures or similar assets, or qualified conservation contributions.

If you accept cryptocurrency directly and convert it to cash within three years after receipt, you must file Form 8282, *Donee Information Return*, and provide the donor a copy. If the donation is worth more than $5,000, your organization will need to sign the donor's Form 8283, *Noncash Charitable Contributions.*

Here to stay

More than 10 years after Bitcoin launched, cryptocurrencies appear to have some staying power. As many organizations confront financial shortfalls, it probably makes sense to consider accepting the donation of these virtual assets. Proper security and compliance measures — including a gift acceptance policy addendum addressing cryptocurrencies — are essential. ■

Surge in virtual events lowers revenue expectations

The COVID-19 pandemic has shifted fundraising from traditional events, such as annual galas and walkathons, to virtual happenings. But, according to research from the Peer-to-Peer Professional Forum, the revenues raised from these events often fall below projected revenues.

The organization surveyed 120 North American nonprofits and found two-thirds already had hosted a virtual campaign in place of an existing program or completed a new virtual initiative in addition to what had been planned. Seventy-five percent had virtual campaigns underway or were preparing for one and expect to raise only about half of the amounts they had projected for their traditional campaigns.

Several programs have experienced dramatic fundraising declines. The March of Dimes raised $48.9 million with its 2019 March for Babies and set a prepandemic goal of $40 million for this year. But its virtual campaign ended up raising only $25 million. The Arthritis Foundation had set a goal of $8 million for its walks series last spring, but the virtual version raised only $3.5 million. ■

What we know so far about COVID philanthropy

COVID-19 spurred more than $11.9 billion in global philanthropy in the first six months of 2020. That's just one of the findings in the Center for Disaster Philanthropy and information service Candid's new report, "Philanthropy and COVID-19 in the first half of 2020."

Report data came from publicly available sources in English, including press releases, websites, membership reports and surveys as well as funders reporting disbursements directly to Candid. The findings provide guidance to nonprofits in search of new revenue sources.

For example, the report reveals that corporations accounted for two-thirds of funding in the first half of 2020. Community foundations awarded more grants than any other type of grantmaker. And a combined $452.9 million was donated to COVID-19 response through donor-advised funds. ■

Study identifies digital trends

Nonprofit consultant M+R has released its annual study of digital trends among nonprofits, and the results are promising. For example, total *online* revenue grew by 10% in 2019, compared with only 1% in 2018.

This appears to represent a return to the expected long-term trajectory, following "extraordinary volatility" after the 2016 election. Revenue spiked dramatically in 2017, especially for progressive organizations, but 2018 saw relatively flat growth.

The study also reports a 1% increase in email fundraising response rates — the first time it has ever found a year-over-year increase in the metric (though some sectors, such as public media and animal welfare, suffered sharp declines). Giving via Facebook accounted for 3.5% of all online revenue, with the donations heavily concentrated around Giving Tuesday. Find the report at mrbenchmarks.com. ■

The support you need. The service you're looking for.

Succeeding in the not-for-profit sector today requires more than a strong commitment to your mission. It takes shrewd fiscal management, careful regulatory compliance, skillful use of technology and the assistance of advisors who know the issues nonprofit organizations face and how to address them.

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