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Smolin Lupin

By James P. Ferrone, CPA, PSA

A 2008 report on fraud in the nonprofit world found that organizations "lose on average 6 percent of their 'revenue' to fraud every year." As challenging as the loss of revenue from fraud is, the cost in reputation to a nonprofit can be devastating. Fortunately, there are simple measures nonprofits can take to prevent a significant amount of fraud, including nonprofit leadership must set a tone of zero tolerance for inappropriate operational behavior; at any event where donations can be made, ensure two individuals work together to create oversight and limit mistakes; all expense checks should require two signatures and the individual who maintains the books and records should not solely have the right to approve a bill for payment; all invoices should have an approval document, which includes information on who is requesting the payment, what it is for, and a signature of approval; and for expenses paid online (where no signatures are required) the board should vote and approve this process. Internal controls to prevent fraud can be difficult and time consuming, but compared to the loss of reputation, they are truly "the ounce of prevention better than a pound of cure."

Sobel & Co., LLC

By Bridget Hartnett, CPA, Partner, Nonprofit & Social Services Group

While performing an audit for a nonprofit client we were asked to develop a best practices approach to manage the information flow in their organization. To solve their problem, we used a process known as data mining, which involves an automated analysis of large quantities of data in order to reveal previously unknown patterns. These patterns may be seen as groups of data (cluster analysis), unusual records (anomaly detection) and dependencies (association rule mining). Through our data extraction, we used the information to analyze the problem the client was facing. Interesting results were discovered when we compared the employee payroll to the vendor files, with identical employee names and addresses turning up on both lists. Spouses of employees were performing arms-length services and, although there was no actual wrongdoing, there was no formal documentation in place to properly manage a potential damaging conflict-of-interest situation. The organization leaders realized they needed a policy regarding using employees' relatives as vendors. Based on the picture that materialized, they decided to adopt "best practices" for assessing and documenting each unique situation on its own merits. Applying data mining assisted in redefining the organization's governance policies, making them more efficient and effective.

WeiserMazars LLP

By Mitch Lewis, CPA, Partner-in-Charge, Not-For-Profit Group

Acting as a "business" is a concept many nonprofits are warming to, but still need to aggressively promote internally in the face of reduced endowment earnings, government funding and public support. Management must leverage the same tools as their for-profit counterparts. To be a successful mission-driven business, nonprofits need to generate surpluses to meet their goals; provide capital for programs that are in deficit; evaluate and consider elimination or restructuring of long-term deficit programs; prior to the new fiscal year, prepare and review budgets with the board; update and compare actual to budgeted results quarterly; and review methods used to allocate indirect costs. Some organizations have entered into joint ventures, cost-sharing arrangements or mergers or acquisitions with similar groups. As transparency grows in the sector, nonprofits are structuring their audited financial reports to include explanations of significant revenue and expenses and circumstances impacting their operations. Focus on disclosures within the financial statements to help readers understand your "business" (mission) and significant issues that impact that mission. Form 990 should be as descriptive as possible on mission and organizational issues in order to drive donor support. By utilizing these proactive steps, you help guide your organization towards its mission.

WithumSmith+Brown, PC

By Joyce M. Mayeresky, CPA, PSA, CFE, CGFM, Partner

A client's financial statement showed declining contribution revenue, resulting in a loss from operations during the year. The client had permanently and temporarily restricted funds invested in a combined portfolio. Very few withdrawals to support operations were made from these restricted funds, portfolio balances were higher than those in the fund accounts and a reconciliation was not performed. We assisted the client in preparing a spreadsheet to track fund activity and to maintain information on the exact purpose of each fund. We generally recommend, as a best practice, that an organization, which has multiple permanently and temporarily restricted funds, maintain a spreadsheet outside of the general ledger to analyze the transactions recorded in the general ledger and determine the remaining funds in restricted net asset accounts. Upon completion of the spreadsheet, we discovered that the client had been utilizing only unrestricted funds for program expenditures and not properly releasing temporarily restricted funds and transferring cash. After recording a journal entry to correct the errors, this resulted in a significant-

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