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The new normal
What to expect in a remote audit

During the early phase of the COVID-19 pandemic, audit firms and their clients scrambled to adapt to performing remote audits. Although the pandemic's grip has loosened, some firms are continuing to conduct remote audits — and they could stick with this approach for the long term. Here's what you need to know to make the process as efficient and painless as possible.

Initial meeting is critical

As in the past, your relevant staff will meet with the audit team to discuss, among other things, significant occurrences during the audit period and any challenges facing your organization. This is also when expectations and timelines should be set. For example, will your employees involved in the audit be working remotely or in the office? When do they need to be available? What kind of lead times are required? What are the due dates for schedules and other audit work papers?

To reduce delays, you also should establish your communication preferences, including the frequency of video conferences and the means and timing of when the auditors should relay open items and other requests.

Assumptions may require revision

COVID-19 and the rocky economy of the past few years have likely disrupted many aspects of your operations. With that in mind, don't be surprised if your auditors approach the audit almost like the audit of a new client.

In particular, you might find that assumptions that previously garnered little scrutiny — because they might have been reasonable for years — get more attention. Auditors must determine whether historical assumptions are still valid in light of recent events and conditions.

Internal control issues may have changed

When organizations moved to remote work in 2020, some were better prepared than others. Those that hadn't yet shifted to a primarily digitized environment (from documentation to invoice approval and bill payment) should have adopted new controls

Leverage technology for a better audit experience

Many nonprofits, particularly those with smaller budgets, tend to lag behind the curve when it comes to technology. But making technological investments can lead to more efficient operations and less burdensome audits, remote or otherwise.

Remote audits will prove very difficult for organizations that aren't equipped with high-quality hardware and software for tasks like video conferencing, screen sharing, file sharing and document scanning. Email alone won't cut it. Neither the auditor nor your staff will enjoy dealing with prolonged strings of emails when questions need to be answered and documentation provided.

It's also worth exploring migrating to a cloud-based general ledger. This can facilitate easy access for both remote employees and auditors. And adopting automated accounts payable can reduce human error, strengthen internal controls and cut costs.

as they made the shift. But the rushed nature of the transition could have left some gaps. This may be particularly true if you were short-handed and required employees to wear multiple hats.

Requisite testing of these controls could prove more difficult in a remote environment. You may need to consult with your auditors to determine how best to test the design and implementation of your controls, because it might not be possible to observe them in real time. Will it suffice to have an employee walk the auditors through over a video feed? Or will the auditors require live feeds so they can get a truer picture of how things are done, rather than a more selective view presented by an employee?

Remote audits ultimately can make the process less time-consuming and stressful for the staff who must participate.

Fraud is a stronger focus

The unusual circumstances of the past few years have created a variety of new fraud risks. For example, employees who were facing big bills or felt like they were doing more than their fair share of work may have had an easier time rationalizing embezzlement. And gaps in internal controls might have provided greater opportunities for those inclined to perpetrate fraud.

For these reasons, your auditors may pay more attention than they traditionally have to changes in key employees, third parties who have access to your systems and other points of potential vulnerability.

Generalizations won't cut it

The effects of the pandemic on nonprofits' financials have been far-reaching and well documented. They include significant declines in revenue, higher expenses, below-average returns on investments and budget deficits. Internally, you and your staff likely understand such variances as simply "due to COVID-19."

That likely won't satisfy your auditors, though. They'll quantify variances and expect detailed explanations from you, with supporting documentation. The sooner you prepare these, the quicker the audit will go.

Longer but more structured

Change is always difficult, especially in something as inherently fraught as your audit. But remote audits, with their more streamlined structure, ultimately can make the process less time-consuming and stressful for your staff. In fact, you may find you prefer remote audits yourself. ■

Tips for navigating a tough labor market

Employers in all sectors are facing a tight job market. Posted positions may remain empty for months, and some employees seem to have few qualms about jumping ship, due in part to changes in worker expectations. But the situation doesn't have to be dire for savvy nonprofits willing to adapt to the current circumstances.

The nonprofit advantage

The so-called Great Resignation has seen millions of people voluntarily leave their jobs, presumably for greener pastures. According to the U.S. Bureau of Labor Statistics, the "quit rate" hit record highs in November and December 2021, at 3% of total employment — about 4.4 million individuals per month. The number has since fallen but not by much: The 2.7% quit rate in July 2022 translated to about 4.2 million individuals.

In other words, many talented people have been looking for new positions. The promising news for nonprofits is that a number of these individuals, especially younger workers, left their prior jobs because they crave work that's more meaningful to them. Nonprofits — with their mission-based focus — have a natural competitive advantage in this area.

Ways to seize the opportunity

Your nonprofit can be proactive about leveraging this advantage. Here's how:

1. Emphasize your mission. Leading with your mission will attract job candidates who share your values. Your mission-related outcomes and impacts will likewise affect them, so don't be shy about including outcome statistics in your recruitment materials and talking them up during interviews.

Be explicit, too, about how an applicant's work would contribute to your mission. Explain how they may be able to make a tangible and positive difference in their community. Perhaps include testimonials from current employees and some of the constituents you serve.

2. Rethink how work gets done. The pandemic has made clear that the old ways aren't the only ways to achieve your mission. To appeal to the employees who have grown wary or tired of traditional approaches, think about how you can shake things up. Start by reviewing your long-standing procedures and practices (including meetings) to determine which are truly productive and which are simply "how it's always been."

Moreover, it's time to value employees for their contributions. Focus more on the value they add, rather than when, where or how they do their work. This allows you to offer the flexibility that so many employees — especially women, who have long accounted for the majority of the nonprofit workforce — are prioritizing.

3. Walk the walk on culture. Talk about the role of workplace culture is nothing new, but it has seemed to increase recently. The "Me Too" movement, COVID-19 and racial justice protests prompted many organizations to respond with related policies and statements. But actions speak louder than words, as employees will tell you (see "Newsbytes" on p. 7).

Demonstrate your commitment to your employees and their well-being by, for example, advocating employee self-care and work-life balance. Encourage them to take the time off they're entitled to. Create channels for transparent two-way communication, giving employees the opportunity to voice concerns and ideas without fear of negative consequences. Asking employees about what they value is the first step to keeping them satisfied and onboard.

Be the greener pasture

The changing labor landscape has many employers scrambling, but it could work out to your advantage. Recognizing the signals employees are sending and responding appropriately could help you attract high-quality employees whose values align with those of your organization. ■

Minimize the risks to your volunteers

For many volunteers, possible legal and tax liabilities that may result from their service to your organization would never cross their minds. And it's usually not a big consideration for nonprofit organizations either. But failing to review possible ways your volunteers can become subject to either legal or tax liabilities can put your volunteers and your organization at risk. Let's take a closer look.

Legal liabilities

Volunteers face a real risk of being sued for their actions (or inactions) while performing services for your organization. The risk is particularly significant with nonprofits that provide medical services or work with vulnerable populations. But even such simple tasks as driving can result in litigation.

The federal Volunteer Protection Act of 1997 offers some degree of defense for volunteers acting within the scope of their responsibilities. Many states have passed similar laws to shield volunteers. But the liability can vary significantly from state to state, with different limits, conditions and exceptions. For example, Alabama provides broad coverage in the absence of "willful or wanton misconduct." Michigan, on the other hand, protects volunteer directors and officers only if the nonprofit expressly assumes liability for claims in its articles of incorporation.

Volunteer protection laws, however, don't preempt the need for appropriate insurance coverage. In fact, some state laws explicitly require nonprofits to carry insurance to limit volunteer liability.

Reducing risk

To minimize risk, organizations should carry comprehensive general liability insurance that specifically covers volunteers, as well as directors and officers liability insurance. If volunteers will operate vehicles for your organization, check whether your auto insurance covers them. Add them as additional insureds, if necessary. Larger organizations might consider amending their bylaws to include a broad indemnification

clause for volunteers when the claims against them exceed insurance limits.

Also consider implementing processes and procedures to control the risks of harm or injury caused by volunteers. For instance, you should devote time upfront to screen and train volunteers appropriately, and restrict certain client-facing activities to employees.

Tax liabilities

The possibility that federal or state taxing authorities might come after people because of their volunteer activities doesn't necessarily spring to mind as an obvious risk. But it can happen. For example, you could inadvertently create taxable income for your volunteers if you provide them benefits such as services or compensation beyond reimbursements for actual out-of-pocket expenses incurred. Reimbursements that exceed actual expenses are considered taxable.

If your volunteers sometimes need to cover costs with their own money (such as picking up supplies for an event), inform them beforehand — in writing and verbally — that they must provide receipts of their spending on the organization's behalf. This may seem burdensome to people just trying to do some good, so explain that it's for their own protection as well as that of the organization.

Volunteer protection laws don't preempt the need for appropriate insurance coverage, and some states require nonprofits to carry insurance to limit volunteer liability.

Protect your most valuable assets

Volunteers contribute critical services, freeing up employees to work on other vital matters, and rank among most nonprofits' most valuable assets. That's why it's important to take steps to minimize their risk of tax or legal liabilities. Start by talking with both your legal and insurance advisors to ensure you're covering your volunteers. ■

NEWSBYTES

DAF giving holds strong

Inflationary concerns may have cut into some giving to nonprofits, but donor advised funds (DAFs) continue to provide strong support. Schwab Charitable reports that its donors increased their grants by 27%, to more than $4.7 billion, for the fiscal year ended June 30, 2022. They recommended 993,000 grants to 117,000 charities, a 24% jump in the number of grants over 2021. Donors averaged 13 grants each. Notably, unrestricted grants accounted for 72% of the total, giving recipients greater flexibility.

Fidelity Charitable has reported similarly impressive figures. In the first half of 2022, its donors made almost a million grants, totaling $4.8 billion — an 11% increase from the first half of 2021. Fidelity's total giving in 2021 was a record-setting $10.3 billion, 41% more than in 2019. The 2.2 million grants in 2021 went to 187,000 organizations. According to Fidelity, the giving was the result of an average 12.4 grants per account. ■

Do actions matter more than words? Employees signal "yes"

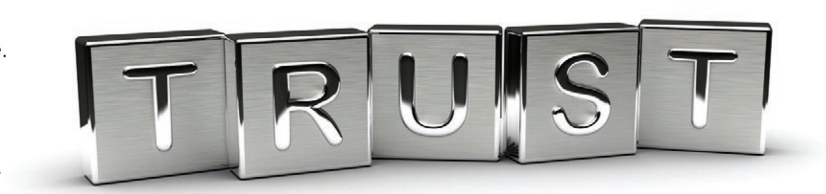
In 2020, as calls for racial justice intensified and the world grappled with a public health crisis, many organizations rolled out new policies and pronouncements on these issues. But a new report from Catalyst, a global nonprofit established to advance women in the workplace, finds that 68% of employees believed their employers' COVID-19-related policies for the care and safety of their workers weren't genuine. Moreover, in majority white countries, 75% of employees said their employers' racial equity policies weren't genuine.

The report emphasizes the risks of "performative policies" that aren't backed up with empathy. Catalyst's research shows employees who perceived their organization's COVID-19 and racial equity policies as genuine experienced more inclusion, engagement, feelings of respect and ability to address work-life demands. Perhaps most significantly, they also were more likely to remain in their jobs. ■

Age and trust in nonprofits

More than half of U.S. adults (57%) still trust nonprofits. That's one of the positive findings from the "Most Trusted Brands 2022: Trust in Nonprofits" survey and analysis, conducted by Morning Consult, a Washington, D.C., research and technology firm. The report also includes some warnings, though.

For example, the average level of trust in nonprofits varies greatly by generation. Baby Boomers have the highest level of trust (67%), but only 46% of Gen Z adults trust nonprofits. The younger cohort is less aware of the 50 nonprofits included in the survey than the general public. Their plans to give, however, are in line with or higher than those of other generations. Morning Consult's analysis concludes that Gen Z should be a priority for nonprofits as they seek to build their reputations with the next generation of donors and volunteers. ■



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Building Better Boards

A Guide to Successful Nonprofit Board Building

A nonprofit organization's board plays a big part in the success or failure of the organization, and is responsible for its fiduciary wellbeing. Finding the right board members and maintaining a balance within the board itself requires a great deal of consideration and dedication. So how can a nonprofit organization ensure that its board is an effective one?

Effective boards include board members that:

- *Act in an ethical manner*
- *Maintain a mission-oriented focus at all times*
- *Come from diverse backgrounds (e.g. economic, ethnic, profession, gender, age, etc.)*
- *Act as ambassadors to the mission*
- *Take responsibility for fundraising*
- *Provide strategic direction*
- *Ensure adequate resources*
- *Provide financial oversight*
- *Prioritize and maintain a strong relationship with the organization's CEO*

A successful process for the creation and preservation of an effective board will encompass three activities: **Recruiting, Engaging and Replacing**.[1]

RECRUITING

Assess needs of the board

In order to successfully recruit, you must assess what your organization needs from the board on a macro and micro level. Ask the following questions:

- *What are the goals of the organization's strategic plan?*
- *In what direction is the organization going?*
- *Is the board connected to the community it serves?*
- *Is the board diverse currently?*

It is important to identify the skills that are needed by all of the members of the board and those special skill sets that may be held by only a few members. Creating a board matrix can help in assessing the organization's current skills.

ENGAGING

Engaging refers to the ongoing process of developing relationships with new and veteran board members. Hold new board member orientation to quickly engrain them in the board's history and culture. Stress the importance of mentoring and encourage seasoned board members to pair up with newly elected members. Foster relationships between board members outside of the organization, an example would be a board retreat. Ensure that your board members' time is used wisely by holding effective meetings with a clear purpose and clear goals.

REPLACING

Finally, it is vital to continually inject fresh perspectives into your organization. Set term limits to help avoid lack of engagement among board members. Watch for any signs of dysfunction in the board and do not hesitate to replace a member that is not acting in the best interest of the organization.

IN CLOSING

Building a quality board is not something that happens overnight, but the effort it takes will pay off with board members that are engaged, productive, and committed to the success of your nonprofit organization. For questions on how to develop a successful board, contact LaPorte Tax Director Jack Wiles at jwiles@laporte.com.

[1] BoardSource. *The Board Building Cycle: Finding, Engaging, and Strengthening Nonprofit Board Members, Third Edition. 2019 https://boardsource.org/product/board-building-cycle-third-edition/*