SCIARABBA WALKER &CO LLP

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

The Nonprofit Edge

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How Can We Help?

Our firm provides a broad range of services for nonprofits, including:

- Attestation services
- Corporate governance
- Tax compliance and consulting
- Cash-flow planning
- Budgeting
- Human resources assistance

Our News Briefs are going electronic!

To receive future news briefs electronically, please email info@swcllp.com.

The Benefits of Outsourced Accounting

By Dylan Wright, CPA

Outsourcing your organization's accounting function is a flexible, cost-effective way to address the ever-changing operational needs of your organization. There are many different accounting tasks that can be outsourced, each of which can provide a variety of benefits depending on your organization's needs.

When you outsource accounting tasks, those tasks are performed by experienced specialists who can bring their technical expertise to bear. This expertise can take different forms depending on the type of task being performed and the professionals who perform it, who may be CPAs, bookkeepers, financial statement preparers, and more. For instance, outsourcing payroll tasks to a payroll expert can be helpful in dealing with the issues specific to payroll, such as the compliance requirements involved in the process of filing payroll tax returns.

If your organization outsources the preparation of monthly or annual financial statements, you can take advantage of the preparer's knowledge of U.S. GAAP or another relevant basis of accounting to help ensure that the financial reports meet your organization's needs. Outsourcing can also provide expertise in specific software programs, such as QuickBooks, and assist with your organization's accounting system more generally. For example, an outsourced accounting specialist can work with your organization to develop a chart of accounts that best suits your organization's particular accounting and recordkeeping needs.

In general, outsourcing can lead to improvements in efficiency and cost-effectiveness for your organization. As described above, specialization facilitates the quick and efficient completion of accounting tasks. In addition, outsourcing can help your organization save on labor costs, since engaging outsourced accounting services is less costly than hiring additional in-house employees to perform those tasks.

As these examples show, outsourcing can keep your organization's financial operations running smoothly, provide relief for your in-house staff, and give you more time to focus on your organization's mission.

When outsourcing your accounting function, it is important to note that there still needs to be oversight from your organization. Even though an outside firm is assisting with your accounting function, it is crucial to remember that those charged with your non-for-profit's governance still bear the responsibility of making financial decisions. Therefore, your organization should have an internal process in order to maintain the proper books and records to support the not-for-profit's financials, have an understanding of the financials, and have board of director oversight related to the outsourced function. Ultimately, the nonprofit organization and its board of directors are responsible for the organization's accounting function, even if it is outsourced.

If you are interested in Sciarabba Walker's outsourced accounting services or have any questions, please reach out to your personal Sciarabba Walker contact or email us at info@swcllp.com.

The New Rule for Tax-Exempt Organizations

By Svetlana Svetlichnaya, CPA

Earlier this year the New York State budget contained a new filing requirement for certain non-profit organizations that solicit charitable contributions in the state.

Organizations that file under Article 7-A and have gross revenue exceeding $250,000 must now file their annual CHAR 500 financial report with the New York Department of Law and the New York Department of State (See N.Y. Exec. Law § 172-b(9)). Previously, the CHAR 500 was filed only with the Attorney General's Charities Bureau (which falls under the New York Department of Law). This law is retroactive and is applicable for 2019 (fiscal year-end 2020) and 2020 (calendar & fiscal year-end) filings.

Under the new rule, an organization is subject to the new requirement to file its CHAR500 annual report with the Department of State if it:

1. Is registered with the Charities Bureau under Article 7-A of the New York Executive Law to solicit charitable contributions in New York State;
2. Annually files Form CHAR500 with the Charities Bureau; and
3. Has more than $250,000 of total annual revenue and support.

Along with the Form CHAR500, organizations must submit copies of the IRS Form 990 and all required schedules (including Schedule B) and applicable financial statements for the most recent tax year.

Organizations must file on or before the 15th day of the 5th month after the organization's year-end, which is generally May 15 for calendar year entities. The filing must be completed online at MY.NY.GOV. After filing, organizations must remit the required $25 filing fee by mail. Currently, it is unclear if an extension can be requested if it there is how one can be obtained.

Additional requirements are imposed on organizations subject to Executive Laws 172-e and 172-f. Under Executive Laws 172-e and 172-f, certain 501(c)(3) and 501(c)(4) organizations are required to annually file Funding Disclosure Reports and Financial Disclosure Reports, respectively.

501(c)(3) Funding Disclosure Report

Executive Law 172-e applies to 501(c)(3) charitable organizations that make an in-kind donation of $10,000 or more to 501(c)(4) social welfare organizations that are required to file a source of funding report with the Joint Commission on Public Ethics (JCOPE). If required, the new 501(c)(3) Funding Disclosure Report must include the name and address of the 501(c)(3) and (c)(4) organizations, the name of at least one person who exerts managerial control over the 501(c)(3), the donation date, amount, and a description of the donation, including any restrictions on use of the donation. The report also must be accompanied by a mission statement and a Form 990, Schedule B regardless of one was filed with the Federal 990. If the Schedule B was filed as part of the annual financial report submission an additional copy is not required.

501(c)(4) Financial Disclosure Report

Executive Law 172-f applies to certain 501(c)(4) social welfare organizations that spend $10,000 or more in a twelve-month period on "covered communications." A "covered communication" is defined as being conveyed to 500 or more members of the general public, and "refers to and advocates for or against a clearly identified elected official, executive or administrative body or legislative body relating to the sponsorship, support, opposition, or outcome of any proposed legislation, pending legislation, rule, regulation, hearing or decision, or advocates for or against action by any elected official, executive or administrative body or legislative body."

If required, the new 501(c)(4) Financial Disclosure Report must disclose the name and address of the organization that paid for the covered communications as well as a detailed description of the covered communication. The names and addresses of the person or entity receiving the payments for expenditures must be provided along with the amount and dates those expenditures were paid. Also included will need to be the names and addresses of any donors whose donation was received by the 501(c)(4) in whole or in part for the support of the covered communication. The report also must be accompanied by a mission statement and a Form 990, Schedule B regardless of one was filed with the Federal 990. If the Schedule B was filed as part of the annual financial report submission an additional copy is not required.

The Funding and Financial Disclosure Reports must be filed with the Department of State within thirty days of the close of each semiannual reporting period. More specifically, reports are due before July 31 (covering January 1 – June 30) and January 31 (covering July 1 – December 31). The filing must be completed online. After filing, organizations must remit the required $25 filing fee via mail.

If you would like more information on how these changes affect your organization, please reach out to your personal Sciarabba Walker contact or email info@swcllp.com.

Changes to Employee Retention Credit for Q3 & Q4

By Michelle Flinn, CPA

On August 4th, 2021, the Internal Revenue Service (IRS) released Notice 2021-49 which provided additional guidance and clarification for the Employee Retention Credit (ERC) for quarters 3 and 4 of 2021.

For all quarters of 2020 and 2021, the employee retention credit could be claimed against "applicable employment taxes," which included the employer's portion of Social Security tax (or its equivalent Railroad Retirement Tax Act portion). For the third and fourth quarters of 2021, the definition of "applicable employment taxes" has been expanded to include the employer's portion of Medicare tax (or equivalent portion of Tier 1 tax under the Railroad Retirement Tax Act).

There have been no changes to the limit of $10,000 of eligible wages including allocable qualified health plan expenses per employee per quarter (same as the 1st and 2nd quarter of 2021). The credit is calculated as 70% of the eligible wages for the quarter which would be a maximum credit amount of $7,000 per employee per quarter. For the 3rd and 4th quarters of 2021, there is an additional limit imposed for recovery startup businesses which does not allow the credit for either quarter to exceed a total credit of $50,000 per quarter after the application of the $10,000 wage limit.

The definition of an eligible employer has been expanded for Q3 and Q4 to include a new category of recovery startup business. An eligible employer is now defined as an employer carrying on a trade or business (1) whose trade or business's operations is fully or partially suspended due to orders from a governmental authority limiting commerce, travel, or group meetings due to COVID-19; (2) that experiences a decline in gross receipts (50% or more reduction for quarters in 2020 and 20% or more reduction for quarters in 2021); (3) or is a recovery startup business.

A recovery startup business is defined as an employer that is not otherwise an eligible employer under conditions (1) or (2) of the preceding paragraph, that began carrying on any trade or business after February 15, 2020, and for which the average annual gross receipts of the employer for the 3-taxable-year period ending with the taxable year that precedes the calendar quarter for which the credit is determined does not exceed $1,000,000.

Tax exempt organizations may also qualify for ERC if they meet the requirements for an eligible employer as described above. While the extension of the ERC given under the American Rescue Plan Act of 2021 did not specifically provide that these types of organization can be an eligible employer due to being a recovery startup business, the IRS and Treasury have determined it is appropriate to treat them as eligible employers if they can meet the requirements of a recovery startup business. The law also did not specifically state that the recovery startup business may be treated as small eligible employers (those with 500 full time employees or fewer) this notice provides that the IRS and the Treasury have concluded it is appropriate to apply the small eligible employer rule as is it applies to recovery startup businesses.

For the Q3 and Q4 2021, there is also some relief from the large and small employer determination when calculating full-time employees to determine what wages are eligible for the calculation of the credit for those employers who are considered "severely financially distressed employers." "Severely financially distressed employer" is defined as an employer that is an eligible employer based on a decline in gross receipts, but the gross receipts for the eligible employer for the calendar quarter are less than 10 percent of the gross receipts as compared to the same calendar quarter in calendar year 2019 (or 2020, if the employer was not in existence in 2019), instead of less than 80 percent. If an employer is eligible as a "severely financially distressed employer," they are able to calculate the ERC for that quarter using wages paid during the quarter regardless of if the employee worked or did not work, to figure out the eligible wages (subject to the $10,000 limit) regardless of how many full-time employees they have. Normally, large employers are only allowed to pick up wages as eligible if they are paid for employees not to work. This new rule allows them to pick up all wages paid as eligible, allowing them a larger credit if they can meet the requirements of a "severely financially distressed employer."

The notice also provided clarification and guidance on several miscellaneous ERC concerns for both 2020 and 2021 credits. This included whether wages paid to an employee who is a majority owner of a corporation or noncorporate entity and/or that individual's spouse may be treated as qualified wages for the purpose of the credit; definition of full-time employees; treatment of tips as qualified wages; the timing of the disallowance of a deduction for wages by the amount of the ERC; the alternative quarter election in determining whether there has been a decline in gross receipts; and how to calculate gross receipts of employers that came into existence in the middle of a calendar quarter for the purposes of the gross receipts safe harbor.

If you would like additional information, please reach out to your personal Sciarabba Walker contact or email us at info@swcllp.com.

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The Importance of Internal Controls in a Hybrid Work Environment

By Ethan Chaffee

Nonprofit organizations have a responsibility to donors to maintain strong internal controls to prevent and detect fraud. Due to the COVID-19 pandemic, many employees are now working remotely, causing controls that were previously implemented to no longer be as effective. Now may be a good time to reassess the risks and effectiveness of your control environment.

Segregation of duties: Duties for custody, record keeping, reconciliation, and authorization for functions such as cash receipts, cash disbursements, and payroll should be segregated as much as possible. Many nonprofits struggle to keep these duties separated. Furthermore, staff working remotely may compound the issue, causing one individual to responsible for two or more of these duties. Utilizing board members or adding a third-party service provider to any of these functions can help mitigate risk and add layers of segregation. As much as possible, the individual responsible for bookkeeping should not be involved in handling cash receipts or the reconciliation process.

Authorization & Approval, Reconciliation & Review: Transactions should be authorized and approved to better control expenditures. Review of specific functions involve cross-checking transactions or records to ensure information is reported accurately. Often, nonprofits authorize and approve a transaction when the transaction is reconciled and reviewed, and is completed by the same individual, such as the Executive Director. In smaller organizations, the Board of Directors may perform this function. Where possible, someone other than the individual responsible for bookkeeping should authorize and approve transactions. Generally, expenditures should be approved prior to the purchase being made.

Consider completing review and approval processes through email or using digital signatures for approval. Many digital signature programs offer enhanced security with automatic independent verification. These programs can also prevent documents from being saved on untrusted servers and being exposed to tampering. For items that require Board approval and review, nonprofits should ensure that the Board is still meeting regularly. Using Zoom or similar a platform easily allows Boards to operate and carry out oversight.

Security: Even with remote work, staff may need to access the office from time to time and a vacant or nearly vacant office may allow for greater opportunity for fraud. Additionally, staff working from home may inadvertently allow access to confidential information. Here are some key controls to consider:

- Cash should be secured using a lockbox or donor management program. If a petty cash drawer is maintained but not frequently used, consider depositing the funds.
- Check stock controls can be enhanced using automatic payments. If printed checks are still required, ensure that check runs are run from the office at designated times (i.e. a specific day of the week). By no means permit staff to take check stock home to print checks remotely.
- File cabinets should be securely locked. Any documents containing confidential or proprietary information should be filed.
- File servers and server rooms need to be monitored and managed. As more work is being performed remotely, processes and controls for electronic file storage and backup has become much more crucial. Evaluate policies and controls for access and authorizations, ensuring only necessary users have access to perform their own duties.
- Physical security of laptops staff members take home also needs to be addressed. Make sure processes, policies, and controls are communicated to staff. Consider setting an automatic lock on laptops after a period of inactivity to prevent access without re-entering credentials.

The above controls are just a few suggestions to consider. Nonprofit organizations need to frequently evaluate risks, especially with large changes brought on by events such as the pandemic. If you have any questions, please reach out to your personal Sciarabba Walker contact or email us at info@swcllp.com.