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Lindley & Associates LLC newsletter is written by Martha Lindley CPA, providing timely articles for nonprofits. As a national speaker on nonprofit issues and Single Audit compliance, she personally writes and provides the quarterly newsletter to over 400 nonprofits as a contribution to our nonprofit community.

We specialize in not for profit organizations and government funded entities providing audit, reviews and tax preparation services. We are committed to those agencies that provide services to our community.

THIS ISSUE

Supervision—Number 1 Reason for Audit Failure

Easier Audit—Six Easy Steps

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Volume 62
June 2018
Issue 61

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The information in this newsletter is necessarily brief. No final conclusions on these topics should be drawn without further review and consultation. For additional information, PLEASE CONTACT US.

NUMBER ONE REASON FOR AUDIT FAILURE

By Martha A Lindley CPA

Supervision! Surprised? Thought it was GAAP, or faulty accounting or missing documents? I have performed over 2,000 audits, and the number one failure was caused by lack of management supervision of staff and their work product.

This failure has a technical audit term, "Significant deficiencies".

Significant deficiencies are a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with Generally Accepted Accounting Principles (GAAP) such that there is more than a remote likelihood that a misstatement of the entity's financial statements (that is more than inconsequential) will not be prevented or detected by employees in the performance of their everyday tasks.

Reasons for supervision failure:

1) No written standard operating procedures (SOP) for job performed. SOPs create consistency on how processes and tasks are performed. They are clearly documented and replicate able, and are checklists that employees can follow, and in doing so minimize mistakes (which, my good friends, is the definition of why significant deficiencies exists). This also eliminates – "that is not how it was done before, and I didn't know." It encourages recognition for a job well done. Other advantages of written procedures: facilitates cross training, basis of performance evaluations, promotes consistent work, enhances quality control, and my personal opinion – your job is important and that is why it needs to be done correctly.

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IDENTIFY FRAUD USING SIMPLE CHECKLISTS

By Martha A Lindley CPA

Well, actually, you can't. I recently saw a ten point checklist to detect fraud. Well-meaning publications make detecting fraud sound as easy as making a good cup of coffee.

Nothing could be further from the truth. A person who is stealing cash or goods from your organization is a (alleged) criminal. Any theft over \$50 is a felony. Yes, there are exceptions of good people doing the wrong thing.

A person who is stealing from your organization knows they are stealing, and will go to

great lengths to avoid detection.

Nonprofits are run by good people who support services to the community, not former police officers and detectives. They are not trained to detect criminal behavior and deal with the subversive behavior of a thief.

Just for your consideration, have you considered these infrequent, but very effective steps:

1) Run a vendor list and payment history report and verify these are ap-

proved vendors (run the list yourself, do not ask someone else, who could edit and then run an edited report).

2) Run an list of employees on the payroll (see "run yourself" hint above).

3) Contact the bank and obtain a list of active credit cards.

4) If someone else prepares the bank reconciliation, on a surprise basis, perform it yourself (and have supervisor initial and date as approved).

5) If mail is always delivered to someone else, have it delivered to you.



SUPERVISION –FAILURE

Continued from Page 1

2) Employees self teaching themselves the job. One job is a piece of the puzzle of how a company works. A better approach is to require a position be performed according to written procedures, and then recommendations can be made. Jobs and tools change over time, but each new employee should not reinvent a job – especially in the accounting department – accounting is a fairly rote function. I note when a mistake happens in my office, the explanation of “I thought” is in the first phase in the reason why things went wrong. I explain that “I thought” is relying on yourself to know everything. The response should be, “I asked, I verified, I researched, I examined”

3) No management verification that the procedures are followed. What is the definition of a supervisor? “A person who observes and directs the execution of a task or keeps watch over someone in the interest of their and other’s security”. So a supervisor directly reviews the work of other people.

4) No second verification of work product completed and FILED/STORED (for audit). It is not unusual during an audit that people cannot locate information, both signifi-

Tech corner

By Ryan Kauzlarich, Senior Audit Manager

Spotlight on a Word & Excel function:

Format Painter

A very powerful and time saving tool is the “Format Painter”. You know, the little paint brush icon that



you’ve been ignoring forever, . You can select specific text, a row of text, a cell, or a range of cells and a single-click of the format painter tool will copy that formatting, then click or highlight where you want that formatting to be copied and viola! you have continuity in your formatting! If you double-click the icon it will change the mouse pointer to the format painter icon and you can highlight or click cells at will, pasting the original format selected into as many new locations as you want. To return to a regular mouse pointer, simply click “Esc” once and format painter is now de-selected.

SUPERVISION-FAILURE

cant and trivial. It is not unusual that the “former” person had their own system (as there were no written procedures, they could self teach themselves and were not adequately supervised), both for hard copies and for electronic files. In fact, an electronic filing system seems most problematic unless a written system is adhered to.

5)) No verification that supervision has been performed. The cornerstone of internal control is segregation of duties – someone does, someone reviews. In the audit world (and the real world) if there is no documentation (initial and date as reviewed) IT DID NOT HAPPEN.

6) Saying employees supervised are “trusted”. Amiel Handelsman, executive coach, says this about trust:

When you ask yourself, “Do I trust this person?” you can break it down into four questions:

1. Do I trust that they are competent in the thing I want them to do?
2. Do I trust that they are sincere when they make a commitment to doing it?
3. Do I trust that they are reliable?
4. Do I trust that they care for me and my interests?

A few examples:

Know anyone who is great at keeping promises, but you’re never sure if they’re being up front with you? You can trust their reliability but not their sincerity.

How about someone who takes care of your interests– you always know that they’re doing their best to help you be successful–but half the work they do with you is mediocre? You can trust their care but not their competence (in at least some areas of work).

How about a person who knows their job cold, cares about your success, and is 100% serious when he makes promises, yet is lousy at follow through? You can trust their competence, care, and sincerity, but not their reliability.

7) Lack of supervision increases risk. If you are not supervising to minimize risk, you are underestimating the risk of system failure. Everyone acting independently in their own timeframes and their own priorities increases the risk of audit failure. The client has not calculated their risk and have not understood the consequences of the risk.

A significant number of audit failures would be eliminated if each employee had written standards operating procedures, was effectively supervised, the supervisor documented the supervision and standard filing procedures were followed.

FAILURE TO FILE FORM 990 TIMELY

1) We haven’t filed timely - what should we do?

If an Organization is required to file, and does not, that is violation of a federal law. This may need to be disclosed on federal grant applications, “are you in compliance with all federal laws” and on other documents. There is a failure to file penalty.

2) How much is the failure to file penalty?

Currently it has been reduced from \$50 per day to \$25 per day and not exceed the lesser of \$10,000 or five percent of the Organization’s receipts. Returns are computer checked for date of filing, so the penalty will be automatically generated. If your response is inadequate to have the penalty waived, the next step is IRS Tax Court.

3) Are there any exceptions for a failure to file?

Yes, there is, for a one time use, if you are in compli-

ance with the following assertions:

- A) The Organization has not incurred any IRS tax penalties in the three prior tax years.
- B) The Organization has filed all required returns or extensions up to this year’s issue.
- C) The Organization had no outstanding debt for delinquent payment of IRS related taxes.”

4) What else can happen?

The Organization’s tax exempted status can be revoked for failure to file for three consecutive years. At IRS.gov, search, “Automatic Revocation of Exemption List”. A quick search “Bellevue WA” provided 1,869 NFPs with revoked tax-exempt status.



SIX STEPS TO AN EASIER AUDIT

Audits are not created equal. Have you noticed that some years go smoothly and others not? You and your staff can make a significant difference in the pace and “smoothness” of the audit. The following are suggestions to an easier audit:

Be prepared. Review the client request list (the list the auditor sends prior to fieldwork). If you don’t usually receive one – request it. It will save you significant time and many interruptions. Assign tasks to staff. Assemble the information in the order of the client list. Unfortunately, good intentions do not replace this critical step.

Print a full general ledger. Include the detail by transaction (unless you are King County, whose general ledger is so large it is on microfiche). Run by account number with all 12 months under each account number (versus a month by month printout). This step alone will decrease auditor questions by 50%.

Be available. Many questions require “face time” with the historian of the

organization. Numbers alone do not tell the full story – we need people to talk to.

Ask questions about anything and everything. This will reduce your frustration (what do they want that for!) and you will learn a lot about the audit process (which I guarantee will make the audit process easier, and more interesting, for you).

Be serious about the audit. Your commitment to answering questions timely and supplying information promptly will make the audit easier for you. This may seem counterintuitive, as of course it makes the audit easier for the auditor, but your commitment to timeliness has a significant impact on the efficiency of the audit overall.

Be sensitive to given timeframes. Audits are done on a “project” basis. Time has been set aside for your audit to provide you timely and efficient services. When you delay responding to auditor requests, such as supplying information and reviewing draft finan-

cial statements, your audit process is extended past the time set aside for your audit. Your auditors may have now commenced the next audit and have less “dedicated” time to assist you.

During a long audit, there is client phenomena that we call “Audit Fatigue”. The client has provided document after document, only to be faced with more audit documentation requests.

The initial “excitement” of the audit has passed and no amount of donuts will bring the luster back.

It is so common that the experienced auditors can recognize the moment it happens. It may be related to the perception of just another audit, just another auditor, just another request. Clients should fight thru this by accepting their role in risk management.

