

The Evolution of Accountability in the Not-for-Profit Industry

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On December 8th, 2011, Ted Browning, CPA, Johnson Lambert's recently retired partner, was interviewed by Audrey Newton, CPA, Partner, on the "Evolution of Accountability in the Not-For-Profit Industry". A link to the complete webinar presentation is included at the end of this article. This discussion provided insight into the industry over the past 35 years and his perspective of what is to come in the not-for-profit (NFP) industry in the future.

Evolution of Standards

Prior to the late 1970s there had not been many standards affecting the not-for-profit industry. Starting in 1978, the industry observed a change from valuing investments at original cost to recording investments at fair value, and various standards which affected the operations of and reporting practices for NFPs. These standards included the Statement of Financial Position 78-10, *Accounting Principles and Reporting Practices for Certain Non-Profit Organizations*, Statement of Financial Position 87-2, *Accounting for Joint Costs of Informational Materials and Activities of Not-For-Profit Organizations That Include a Fundraising Appeal*, Statement of Financial Position 98-2: *Accounting for Costs of Activities of NPOs and the State of Local Governmental Entities That Include Fund Raising and more recently, Uniform Prudent Management of Institutional Funds Act (UPMIFA)*. The continual changes in Form 990 also had a strong impact on the NFP industry. All of these standards motivate operational shifts in non-profits.

Mr. Browning forecasts that there will be a continual modification of the standards as opposed to recreating them completely. He anticipates more rules regarding endowment funds and fair value, and more review of the standards surrounding temporarily restricted contributions.

Frauds, Risks, and Challenges – “Lessons from the Past”

Mr. Browning also reflected on some of the major scandals that occurred in the NFP industry such as the Baptist Foundation of Arizona, United Way of America, the New Era Ponzi Scheme, and the United Way of the Greater Washington Area. These key scandals directly impacted some accounting standards and the way NFP organizations operate. There are several lessons that can be taken from each of these scandals.

Mr. Browning’s advice was as follows:

- There is a serious red flag if the purpose for the existence of new or modified entities is not clearly defined.
- Always be aware of the risk of damaging the reputation of your organization for any action you take. Be conscious of how your actions will look if they were to be “exposed” to the public.
- When you make an investment, if you do not understand the risks associated then it is not a good investment.
- As far as Form 990, good governance will result in a better answer, and good compliance will result in good governance.
- When dealing with fraud, how aftershocks are handled is critical to an organization’s future.

Management and Governance

The interview also included a discussion of how non-profits are operating today and Mr. Browning's perception of effective management and governance. The major points were as follows:

- **Development of NFP Professionals**
 - Continue developing and educating professionals as well as reaching out to third parties in order to bring credibility to your organization.
- **Organizational Development**
 - Modify the organization in a way to be more effective and efficient, allowing boards to focus on their responsibilities without having to be constantly involved in day to day operating.
- **Manage Risk**
 - For every risk there should be an action taken to mitigate the impact on operations.
- **Make Sense of Best Practices in Governance**
 - Popular practices are not always best practices.
 - Find best practices for your organization and fit them to your individual needs.
- **Form a Team**
 - Management and boards have very different responsibilities, but should work together to support the organization. This type of seamless relationship requires a team approach where management provides the board with timely information so that the board can effectively make decisions.

Looking Forward

Due to current economic challenges, NFPs have to “do more with less”. Constituents of these organizations have more needs and at the same time, organizations have fewer resources due to business challenges and lower disposable incomes. Mr. Browning gave his final recommendations for what he thinks will be critical for NFPs as we look towards success in the future:

- Show that you are providing value.
- Minimize overhead and convert to programmatic dollars.
- Balance unrestricted and restricted funds, because you need both to operate efficiently.
- Develop your resources and relationships, don't just raise funds.
- Develop a franchise.
 - Make sure that you can demonstrate your advantage over other organizations.
 - Find a way to measure your results and impacts.
 - Consistently delivery to those whom you are expected to deliver to.
- Think strategically.
 - Utilize board members and volunteers.
- Act tactically.
 - Convert strategies into something tangible and act promptly.
- Always engage with constituents.

Here is a link to a recording of the webinar:

<https://jlco.webex.com/jlco/lcr.php?AT=pb&SP=EC&rID=22576612&rKey=1320c40e59f2790d>

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