

Governance Gone Bad: Lessons Learned to Help Your Not-for-Profit

Nicole Riley, CPA, CFE
Audit Director
PKF Texas

Emily Smikal, CPA
Tax Director
PKF Texas

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Polling Question



Bad Apples



Bad Apples

MARTIN COUNTY

Former Indiantown Nonprofit Housing director Donna Carman sentenced to probation

[Melissa E. Holsman](#) Treasure Coast Newspapers

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Donna Carman, former executive director of Indiantown Nonprofit Housing, pleads guilty

Donna Carman, former executive director of Indiantown Nonprofit Housing, pleads guilty in federal court after allegations of embezzling. Video taken Oct. 16, 2019. [Will Greenlee, will.greenlee@tcpalm.com](mailto:Will.Greenlee@tcpalm.com)

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CPAS AND PROFESSIONAL ADVISORS

Oversight and Accountability

- Executive Director credit card and expense report review
- Executive Director performance review and salary determination
 - Have in writing!
- Program accomplishments
- Financial statement review
- Segregation of duties

Polling Question



Embezzlement Myths

- It hardly ever happens to nonprofits.
- My employees are dedicated, honest people – I only employ trustworthy people
- Everyone who works here is a really good person.
- We don't have enough staff to have financial controls.
- Audits catch embezzlement and fraud.

Gift Acceptance Policies



5/12/2021

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Conflict of Interest Policy

Former baseball director charged with embezzling more than \$165,000 from Boys & Girls Clubs of Milwaukee



Conflict of Interest Policy

- Require those with a conflict (or think they may have a conflict) to disclose the conflict/potential conflict
- Prohibit interested Board Members from voting on any matter in which there is a conflict
- State how you will manage conflicts
- Annual discussion by the Board

Red Flags for Governance Issues

Example: College Admissions Cheating Scandal



Red Flags for Governance Issues

Example: College Admissions Cheating Scandal

- Form 990 indicated the review process was that only the President would review, rather than a Board of Directors or Finance Committee
- Governing documents, conflict of interest policy, or financial statements not made available to the public
- No whistleblower or document retention policy on file
- Functional expense allocation not in alignment for an organization of its size
- Donations were made to other organizations, with no records substantiating eligibility or the selection criteria

Common Nonprofit IRS Audit Triggers

- Referrals
- Foreign activities
- Discrepancies of Fundraising Income vs. Fundraising Expense
- Compensation issues
- Form 990 indicators
- Unrelated Business Income (UBI)

Form 990 Indicators

- Form 990 is incomplete or inconsistent
- Omission of any required schedules based on responses to Checklist of Required Schedules
- Reports political campaign activity
- Reports a significant diversion of assets, which could indicate embezzlement or theft

Form 990 Indicators, continued

- Form 990 reports fees for non-employee services but does not report that any 1099s were issued

Part IX Statement of Functional Expenses
Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).

Check if Schedule O contains a response or note to any line in this Part IX

<i>Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.</i>	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
11 Fees for services (nonemployees):				
a Management				
b Legal				
c Accounting				
d Lobbying				
e Professional fundraising services. See Part IV, line 17				
f Investment management fees				
g Other. (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O.)				

Part V Statements Regarding Other IRS Filings and Tax Compliance
 Check if Schedule O contains a response or note to any line in this Part V

	Yes	No
1a Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable		

Form 990 Indicators, continued

- Form 990 reports compensation but does not report that any W-2s were issued

Part IX Statement of Functional Expenses				
<i>Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).</i>				
Check if Schedule O contains a response or note to any line in this Part IX <input type="checkbox"/>				
<i>Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.</i>	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
5 Compensation of current officers, directors, trustees, and key employees				
6 Compensation not included above to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)				
7 Other salaries and wages				

Part V Statements Regarding Other IRS Filings and Tax Compliance (continued)				
		Yes	No	
2a Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return	2a <input type="text"/>			
b If at least one is reported on line 2a, did the organization file all required federal employment tax returns?	2b <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Unrelated Business Income Triggers

- UBI: 3 Factor Test
 - The activity is a trade or business that is engaged in for profit
 - The activity is regularly carried on by the organization
 - The conduct of the trade or business is not substantially related to the organization's exempt purpose
- Have all sources of UBI been identified?
 - Rental income received from debt-financed real property
 - Advertising
 - Facilities Rental
 - Pro Shop Sales
 - Green Fees by Non-members
 - Parking Lot
- How reasonable is your organization's allocation of expenses to unrelated business activities?

Polling Question



Tips from IRS Audit Survivors

- Keep a binder with key organizational documents, such as articles of incorporation, IRS approval letter, conflict of interest policy, and other documents
- Keep a binder for minutes from the Board and any Committee meetings
- Keep Board minutes very brief – action only
- At the end of each year, pull all the brochures, reports, and newsletters for the year and put them in a folder
- Save all financial documents in line with your document retention policy
- *Stay calm*

Resources

- Board Source
 - <https://boardsource.org>
- National Council of Nonprofits
 - <https://www.councilofnonprofits.org/>
- Blue Avocado
 - <https://blueavocado.org>

Thank you!

Questions?

Nicole Riley, CPA, CFE

Audit Director

PKF Texas

NRiley@PKFTexas.com

Emily Smikal, CPA

Tax Director

PKF Texas

ESmikal@PKFTexas.com