

Grant Watch

Christopher Reeve Paralysis Foundation

The Christopher Reeve Paralysis Foundation is committed to funding research that develops treatments and cures for paralysis caused by spinal cord injury and other central nervous system disorders. The foundation also works to improve the quality of life for people living with disabilities through its grants program, paralysis resource center, and advocacy efforts. Two types of grants are offered, one that supports nonprofit organizations that address the needs of persons living with spinal cord injuries, their families, and caregivers, and one that offers health promotion awards to nonprofit organizations that address paralysis caused by spinal cord injuries and various other injuries, diseases, and birth defects.

ELIGIBILITY: Nonprofit organizations that have received tax-exempt status under section 501(c)(3) of the IRS Code and are not private foundations.
FUNDING: The foundation has provided \$5.6 million in grants since 1999, with grants awarded in amounts up to \$25,000.
DEADLINE: March 1, 2005.
FOR MORE INFORMATION: Visit their web site at www.christopherreeve.org.

Housing Trust Fund Corporation

The HOME Program funds a variety of activities through partnerships with counties, towns, cities, villages, private developers, and community-based non-profit housing organizations. The program provides funds to acquire, rehabilitate, or construct housing, or to provide assistance to low-income home buyers and renters. HOME Program funds may only be used to assist households with incomes at or below 80 percent of area median income. Rental projects must primarily serve households with

incomes at or below 60 percent of area median income. Assisted rental units must remain affordable for a period of between five and 20 years, depending on the initial amount of subsidy provided for the project. Funds may only be used with respect to residential housing.

ELIGIBILITY: Any private for-profit or not-for-profit entity that can demonstrate the capacity to develop and operate a qualifying project. Units of general local government that have not been designated by HUD as participating jurisdictions and not-for-profit corporations that meet certain administrative tests may also apply as local program administrators. Jurisdictions that receive HOME Program funding directly from the federal government may not apply for New York State HOME Program funds.

FUNDING: Approximately \$39 million. A minimum of 15 percent of available funds is required to be reserved for projects developed, owned, or sponsored by Community Housing Development Organizations (CHDO). Seed money loans of up to \$45,000 per project are also available and may be requested at any time.

DEADLINE: Applications for locally administered programs must be received by 5 p.m. March 21, 2005 and site-specific project funding must be received by 5 p.m. February 28, 2005.

FOR MORE INFORMATION: Please contact your regional offices: New York City: Deborah Boatright, 25 Beaver Street, 7th Floor, New York, NY 10004; (212) 480-7644.

Division of Housing and Community Renewal (DHCR)

DHCR announces the Low-Income Housing Credit Program (LIHC). The tax credit amount is based upon the actual cost of acquisition, rehabilitation and/or construction of rental properties for low-income households.

ELIGIBILITY: Persons or firms that construct and/or rehabilitate rental housing that is reserved for low-income households.

FUNDING: Approximately \$20 million in credit with \$1 million being the maximum annual credit dollar amount that may be requested. Applicants requesting credit for projects in which a majority of the units will serve large families or special populations may request up to \$1.2 million.

DEADLINE: 5 p.m. February 28, 2005.
FOR MORE INFORMATION: Please contact your regional offices: New York City: Deborah Boatright, 25 Beaver Street, 7th Floor, New York, NY 10004;

(212) 480-7644.

Housing Trust Fund Corporation

RESTORE funds may be used to pay for the cost of emergency repairs to eliminate hazardous conditions in homes owned by the elderly when the homeowners cannot afford to make the repairs in a timely fashion.

To be eligible for assistance, homeowners must be 60 years of age or older with an income that does not exceed 80 percent of the area median income. Work undertaken cannot exceed \$5,000 per building. Funds must be used in one- to four-unit dwellings owned and occupied by low-income elderly households.

ELIGIBILITY: Not-for-profit corporations and municipalities.

FUNDING: Approximately \$400,000.

DEADLINE: 5 p.m. March 21, 2005.

FOR MORE INFORMATION: Please contact your regional offices: New York City: Deborah Boatright, 25 Beaver Street, 7th Floor, New York, NY 10004; (212) 480-7644.

How Can We Help You?

Cerini & Associates, LLP provides non-profits with financial expertise and quality service. Our specialized understanding of the not-for-profit industry enables us to provide unique and proactive advice for the success of your organization.

If you need any of the following services or you are seeking financial advice please feel free to call us at (631) 582-1600.

- ♦ Audits / multidimensional approach geared for not-for-profits
- ♦ Business consulting
- ♦ Financial statements
- ♦ Cost reporting
- ♦ Operational reviews
- ♦ Taxes
- ♦ Non-profit establishment
- ♦ Trend analysis
- ♦ Board education



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Winter 2005

Business Advice for Not-For-Profits

The NFP Advisor

Internal Controls for Small Non-Profit Organizations

Public sector improprieties seem to be dominating the headlines. People are beginning to realize that the word "fraud" is no longer reserved for the likes of Enron, Worldcom, and Global Crossing. Improper activity is occurring in the non-profit sector as well. How can you make sure that your organization won't be tomorrow's headline? The same principles that ring true for publicly-traded entities also apply to small non-profits. A strong system of internal controls is needed for every organization, regardless of size, industry, or purpose. Pardon the pun, but no one is exempt.

The issue for small non-profits has always been, is, and probably always will be, a lack of funding. How can I have a working system of internal controls if I only have five employees? How can I afford to pay my accountant to perform a so-called "operational review" to uncover where my weaknesses are when I have little to no discretionary funds? And what the heck is an operational review anyway? Wouldn't my external audit uncover any system problems we might have? These are valid claims. No one can dispute the difficult position that small non-profits are in. Similarly though, no one can dispute the importance of maintaining the public's trust and upholding the fiduciary duty that comes along with managing and overseeing a non-profit agency.

To the average executive director, internal controls are confusing, costly, and a major cause of headaches (pass the aspirin please). People tend to procrastinate when dealing with issues that they're not completely comfortable with. Executive directors and Boards may not understand the importance of internal controls, so they push off implementing them. That's where

the accountant comes into play. If your accountant hasn't been stressing the need for improved internal controls and enhanced corporate governance, then your suspicions may be right, he/she may not be providing you with the services you need. That is not to say that when an accounting firm does your annual audit they are performing a full assessment of your control environment, but it is their responsibility to understand your operations and controls and provide insight into areas of improvement. A good accountant can boil down the major issues involved with establishing a functional control environment and make simple recommendations that, while not groundbreaking, will certainly add to the strength of your organization's control environment. These should be included in the management letter provided to you by your accountant.

More detailed operational reviews can be had as part of a separate engagement, but chances are, if you're running a small non-profit, you can't afford to sacrifice any more program dollars for general purposes anyway. Until you can, you need to implement some form of controls before it's too late. Think of it as taking a vitamin C pill every morning. An ounce of prevention...well, you know the cliché. There are two basic types of controls; preventative, which are aimed at stopping problems before they occur, and detective, which are supposed to uncover improper activity after the fact. For small organizations, the idea is to stop improper activity before it starts, so we'll focus more on the preventative side for now, lest we make this newsletter eight pages long instead of four.

Most small non-profits survive on

grants, contributions, and special events income. Without an effective control environment, revenue dollars can become appetizing targets for misappropriation to cash-hungry employees. Incoming cash could potentially be pocketed without anybody detecting the loss. It becomes obvious that the ultimate preventative control is to hire moral individuals that are not inclined to commit such fraudulent acts. All employees, from the six-figure big-wigs to the college interns, need to be properly screened. This should include background checks, performed by a member of senior management, into the individual's education and employment background, motivation to work for your organization, and references. No stone should be left unturned when dealing with new hires. Hiring the right people up-front will save your organization the bother of having to question their actions at a future date, and don't forget the costs that may pop up along the way. Many people fail to realize that the bookkeeper is central to your organization. Small non-profits tend to entrust a significant amount of power and control in the hands of a relatively low-paid bookkeeper. This

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The NFP Advisor Winter 2005

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individual, whoever it may be, needs to be put through the most painful of all litmus tests to ensure that the potential for improper activity is as close to zero as possible. First impressions are important; trust your gut. If you have any qualms about someone, keep searching. Your instincts are probably right. If this means paying your bookkeeper a little more than most non-profits would to get a qualified, trustworthy person, then do it. The extra cost is worth it.

The term "tone at the top" has become overused in management circles recently. It's fast becoming the "where's the beef" of the 2000's. Nowhere is the need for ethical management more necessary than in the non-profit world. You, as the leader of your organization, must lead by example. Your actions must always be in-line with your policies and procedures. Management override of controls is occurring all too often. If your employees feel like you don't respect your controls, then why should they? After all, they're just gears in the machine. You're the grease. If the grease dries up, the gears will stop turning. If this means that for reimbursements of meals, you need to provide a detailed description of who was attending, what you ate, etc., then do it. It may seem like an inconvenience, but everyone that touches your expense report will know for sure that

the standard is set high, and that nothing less will be accepted. Other, more specific preventative controls can be used to protect the assets of your organization as well. For cash receipts, ensure that pre-numbered receipts are used whenever possible when dollars are flowing through your door and that duties are segregated. For instance, the person opening the mail on a daily basis should not be the same person recording transactions in your accounting records, or reconciling the bank accounts. Much of the issues surrounding cash receipts can be resolved by having mail forwarded directly to a bank lock box. For cash disbursements within a small non-profit's walls, the way to go, again, is segregation of duties. All disbursements should be carefully scrutinized by authorized signatories. These authorized signers should not be the ones initiating the transaction, handling the bank statements, or preparing the bank reconciliations either, although they can be the individual that ultimately reviews the bank reconciliation. In small organizations, an active Board can serve as the last set of eyes to view every disbursement and, in turn, sign the checks. After all, your Board is supposed to be the

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standard bearer in terms of honesty and fidelity in your organization. Another measure to prevent fraud is to have an individual separate from the bookkeeper open the bank statements each month.

Think about it, suppose a fraudulent check makes it through the system. If the bookkeeper wants to cover it up, he/she could destroy the cancelled check, and perform the bank reconciliation without anyone ever knowing of the check's nature. By having an upper-level manager open and view the bank statements first, no such cover up can occur. Bookkeepers also normally have the ability to post journal entries, write offs, and change the master data files without approval. This allows for more means for cover up. Executives need to be responsible for approving all journal entries and modifications to master files for customers, vendors, and employees. Limit access to different functionality within your software to specific people. The person that opens the mail and receives checks should not have the right to make adjustments within the receivable system. One detect control that could provide upper-level management with an overall view of the organization's operations is a monthly budget-to-actual comparison. Any significant variances should be explained in full detail, so that

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News from the Internal Revenue Service (IRS)...

2005 Work Plan:

The IRS has issued its 2005 work plan, and leading the list of items under scrutiny will be: US charities making grants overseas, abusive tax avoidance transactions, credit counseling organizations, excessive compensation, and exempt organizations that have not filed past returns.

In reviewing overseas grants, the IRS is specifically interested in monies being diverted to fund terrorist-related activities. The IRS will establish a complex financial fraud unit which will be responsible for monitoring information obtained during investigations.

The IRS will also look at perceived abuses surrounding 509 (a) (3) supporting organizations, 501(c) (15) entities and producer-owned reinsurance companies, donor-advised funds, and organizations involved in HUD programs.

The IRS has revealed that it is issuing letters to some 2,000 charities asking them to detail how they determine executive compensation. In addition, new applications for exemption will be

filtered through a new Dedicated Determinations Screening Group. This new group will screen applications with particular scrutiny of credit counseling organizations, tax avoidance schemes, and scam organizations created to personally benefit an individual.

In addition, the IRS has mailed a "large number" of delinquency notices to exempt organizations that have not filed 990 forms. A recipient of such a notice should respond in one of three ways: Provide proof that the return was previously filed; provide support that the return wasn't required; or file the return.

Inflation Adjusted Numbers Released:

The IRS has released the following inflation-adjusted amounts for 2005:

Charitable organizations are allowed to distribute low cost items in connection with fundraising events without the fear that the IRS will treat the activity as an unrelated business activity, or subject the organization to quid pro quo rules. The low cost item threshold for 2005 is \$8.30.

The deductible portion of a donor's contribution normally must be reduced by the value of anything received in return for the donation, unless such item is de minimis in value. For 2005, the following alternative limitations are used to determine if benefits are insubstantial:

1) The fair market value of the item provided to the donor is not more than the lesser of \$83 or 2% of the amount of the contribution.

2) The contribution is at least \$41.50 and the cost of the item is no more than the \$8.30 threshold outlined above.

3) In connection with a fundraising campaign, the benefits are distributed free to potential donors who neither requested nor expressly consented to receiving them, and their cost is no more than the \$8.30 outlined above.

New 990?

The IRS has announced it is revamping its form 990, but it has not provided any timeframe as to when the new and improved 990 will be available.

Ask The Expert

The NFP Advisor: There's a tremendous level of discussion regarding the Medicaid program. What are the principle issues surrounding the program?

O'Connell: The Federal, State, and local governments are all looking for ways to cut the costs of Medicaid. The impression that's generally created is this is an expensive program for poor people, somewhat similar to welfare in the old days. The problem is that Medicaid is not simply a poverty program, it's an integral part of financing a health care system which is in a very precarious situation at the moment. Reduction of benefits and reduction of payments to providers can start the process of creating serious chaos both on Long Island and nationally.

The health care system gets reimbursed either through private insurance companies, the government ... you know Medicare and Medicaid, or self pay. So when you look at the health care continuum on a macro basis, when you adjust the Medicaid system you're not simply tinkering with some sort of welfare program that's off on the side that affects a small amount of people. This will affect the entire health delivery system, which is everyone.

The NFP Advisor: How is the government looking to reform the Medicaid system?

O'Connell: There has been a move across the board, with all governmental units that fund the Medicaid system, to deal with the rising costs of Medicaid by cutting the benefits or actually redoing the entire program as opposed to raising the revenue needed to adequately fund the program.

Now the Bush administration wants to turn the Medicaid system into a block grant system, which is scary to just about everyone. The government points to what happened in the Welfare system in 1996 when this system was converted to a block grant system. The amount of people on public assistance, however, pales in comparison to the amount of people that use the health care system. So when a couple of million people drop off the Welfare system, all of a sudden you get a windfall.

The problem is that there is not going to be a couple of million people dropping out of Medicaid. People don't choose to get sick. They get sick, they go to the hospital, and if

they don't have health insurance, they become self pays ... or no pays, which puts a major strain on the health care environment.

You need to realize that 60% of all Medicaid expenditures go for long-term care, like nursing homes. Because we have a lot of seniors that rely on Medicaid on Long Island, and a lot more that will be needing long-term care over the next decade, a change in Medicaid could have a material impact on the financing of local long-term care.

The NFP Advisor: We've seen a tremendous increase in the number of programs that are now funded by Medicaid, including mental health. Why all of a sudden a push for cut backs?

O'Connell: New York State has moved many of its programs to Medicaid because this way they can draw down 50% of the money from the Federal government. At one point, New York State was the only state to do this, but now all the other states have caught on. So now the Fed's are saying, well now we've got to change the rules.

So if cut backs occur, we, as a State, stand to lose a serious amount because as you said, there are so many programs ... hospitals, nursing homes, mental health agencies, drug and alcohol agencies, substance abuse agencies ... where a large percentage of their funding is based upon third-party reimbursement, which in most cases is Medicaid. This is a scary item.

The NFP Advisor: So if cuts are going to occur, where do governmental agencies suggest agencies make up these shortfalls?

O'Connell: You know that's sort of the million dollar question. What seems to be happening out there is that politicians have become experts at just pushing things along from one year to the next. Think about it, the Governor presents a budget in January, and then the legislature argues about it until August before it passes some sort of unproductive alternative. If you think about it, a few months later the Governor is submitting his next budget. So if Westchester Hospital is going down the toilet or Nassau County Medical Center is in the sewer, they will add a special line item budget to bail them out. So all of a sudden this \$100 million grant pops on to the budget to solve the immediate crisis.

ASK THE EXPERT

featuring...

Jack O'Connell

Jack O'Connell, President/CEO of the Health & Welfare Council of Long Island, has been with HWC since 1978, and has been its chief executive since 1988. HWC is the umbrella organization for the Island's public and non-profit providers of health and human services. It is also a lead agency on Long Island for enrolling children into Child Health Plus and has served as the coordinating agency of the region's Post 9/11 projects.



Jack O'Connell can be reached at (516) 483-1110

It seems like this is how everything is done. This clock is starting to strike 12 on a lot of these things and the Medicaid piece is just one.

The NFP Advisor: What do you see as the answer?

O'Connell: My sense is that no one focuses enough on the preventative side. In health care, the earlier a problem is caught, the less expensive the treatment. Unfortunately, when payers, like Medicaid, make cuts, it's usually on the preventative side.

So in a certain sense, what all of the health care providers talk to me about is massive education both at the doctor level, as well as the consumer level. What that includes is smoking and alcohol use and abuse, obesity, and all of those things that appear to be benign but in reality become costly health care issues down the pike. ■

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the possibility of fraudulent activity affecting operations is detected and addressed immediately. This requires management and the Board to be more detail oriented in creating a realistic monthly budget.

This listing is meant to be a starting point. There's no newsletter that we can produce that can possibly fit all of the systems controls that could potentially be utilized. The point is to do something...do anything. If you don't, you may wind up on page 3 of your local paper. ■