

## **Accounting Rules For Nonprofit Groups Increase Workload, (Part One)**

*By Gerald Archibald, CPA, The Bonadio Group*

Our firm recently held a series of client education events for tax-exempt organizations across New York State. The agenda, as well as the attendants at these events, reminded me of the quote from a diet infomercial of more than 10 years ago. That is to say, the accounting profession's rule makers and government funders have gone "over the edge" in terms of expectations and reforms affecting tax-exempt service providers.

It is interesting to note that each of the topics discussed in this column will, most likely, increase the administrative costs of a tax-exempt organization. These "reforms and changes" are intended to provide "clarity and clear guidance" but, unfortunately, I believe that each proposed change results in more confusion and compliance risks for nonprofits.

The topics, which affect, in some way, virtually every tax-exempt organization, must be understood and implemented in accordance with their requirements. The topics are as follows:

- Federal single audit requirements known as uniform grant guidance or UGG;
- Implementation of new accounting rules for leases;
- Comprehensive reforms on financial statement presentation for tax-exempt entities; and
- Virtually every tax-exempt needs to evaluate the implementation or upgrade of a self-policing regulatory compliance program.

### **Uniform Grant Guidance**

Every nonprofit organization receiving federal funds directly or indirectly through state and local sources should be well aware of the UGG requirements, since the majority of them went into effect on December 26, 2014. However, the most significant changes related to "procurement requirements" had a two-year delay that made them effective January 1, 2017.

Even though the procurement requirements pertain only to purchases with federal grant dollars, I believe it is clear that every organization should review these requirements and decide whether it is appropriate to have two different sets of policies and procedures for procurement of materials, supplies, and services.

The most positive change coming from UGG was an increase in the single audit threshold requirement from \$500,000 to \$750,000 of expenditures. This single change eliminated the

need for additional federal single audit procedures to be performed by your independent accountants. If your federal funding, direct or passed through another governmental entity, is less than \$750,000 you may have saved somewhere between \$5,000 and \$10,000 of single audit fees.

However, it is clear that tax-exempt entities are being given federal directives that should apply to all organizations. The responsibilities of the tax-exempt in internal control procedures include the following requirements:

- Establish and maintain effective internal controls over federal grant dollars;
- Comply with federal statutes, regulations, terms, and conditions of the funding;
- Evaluate and monitor compliance with the above requirements;
- Take reasonable measures to safeguard protected personally identifiable information, with focus on health and medical.

For purposes of compliance, with the above, please refer to the “Standards for Internal Control in the Federal Government,” commonly known as the Green Book ([www.gao.gov/greenbook](http://www.gao.gov/greenbook)). In addition, the federal government has adopted the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations, commonly referred to as COSO ([www.coso.org](http://www.coso.org)).

Guidance with respect to UGG is extensive. The most significant changes relate to purchasing and procurement rules, with all organizations required to maintain written policies and procedures over procurement. It is noteworthy that UGG specifically requires these policies and procedures to:

- Be necessary and reasonable;
- Be open to competition;
- Adhere to conflict of interest policies; and
- Maintain thorough and proper documentation.

It is impossible to review all of the procurement requirements in this article. However, it is important to understand that all organizations must use one of the following methods of procurement:

- Micro-purchases – purchases under \$3,500;
- Small purchase procedures – simplified acquisition threshold of \$150,000;
- Procurement by sealed bids – purchases over \$150,000;
- Competitive proposals – RFPs must be publicized, with responses from an adequate number of qualified sources; and
- Noncompetitive proposals – sole source.

Micro-purchases, defined as supplies or services less than \$3,500, can be awarded without soliciting competitive quotations, “if price is considered reasonable.”

Small purchase procedures for acquisitions under \$150,000 require price or rate quotations from an adequate number of qualified sources. Although not defined, in practice, this usually means three potential vendors.

Purchases in excess of \$150,000 requiring sealed bids (e.g. construction projects) must be publicly solicited through fixed price contracts awarded to the lowest qualified bidder. This method is preferred for procuring construction quotes.

If competitive proposals are deemed necessary, the request for proposal must be publicized adequately. Proposals must be received from an adequate number of "qualified sources." The organization must have a written method for conducting evaluation of proposals received. Finally, the contract awarded to the firm with the proposal "most advantageous to the program" should include consideration of price and other qualifying factors.

Non-competitive proposals are only appropriate in the following instances:

- Goods or services are only available from a single source;
- There is a public emergency;
- After soliciting a number of vendor sources, competition is deemed inadequate; and
- The federal award agency expressly authorized noncompetitive proposals as appropriate in response to a written request from the tax-exempt.

In order to avoid the risk of noncompliance with UGG and specifically its procurement guidelines, please be aware of the following:

- For any costs paid with federal funds between \$3,501 and \$149,999, you must comply and document appropriately that your organization has followed the new procurement rules effective January 1, 2017;
- The other four procurement sectors discussed above are also effective January 1, 2017. If you have not implemented the necessary procedures, please do so immediately;
- Your independent auditors will be required to specifically test your agency's compliance with these new procurement regulations when they audit calendar year 2017; and
- If you have not implemented comprehensive policies and procedures to adjust to these new requirements, your federal single audit reports will most likely include deficiencies. Deficiencies of this nature will be receiving increased scrutiny due to the fact that the procurement regulations have been publicly available for more than two years.

If for some reason, you have not implemented the necessary procedures, your organization should definitely obtain expert advice as soon as possible.