nonprofit agendas

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News for Nonprofits

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Case in point

Keep projects in motion with a RACI matrix

The board of the fictional Anytown Literacy Volunteers (ALV) has approved a new project: launching a "Foods of the World" fundraiser in its community. The vision is to recruit students, volunteers, and area cultural groups to prepare and donate a wide assortment of ethnic foods and offer them to the public. ALV hopes to attract at least 10,000 visitors to the two-day festival, and raise at least $50,000 to help fund expanded English as a Second Language courses.

A management tool that will be highly useful to the ALV project team — and to any project team where multiple participants are involved — is the Responsibility Assignment Matrix (RAM), also known as a RACI matrix.

WHO'S DOING WHAT?

The ALV leadership anticipates that all areas of its organization will be involved in the project — from operations employees, who'll research possible venues and arrange for setup and cleanup, to the volunteer oversight staff, who'll line up cooks and servers, to public relations employees, who'll publicize the event throughout the surrounding communities, and to board members, who'll secure donations from corporations to help defray costs.

In managing any project, the most important element is knowing who's responsible for what. ALV decides to use a RACI matrix to sort out and assign people to project tasks. RACI stands for:

- **R**esponsible — Who is responsible for executing the task?
- **A**ccountable — Who has decision-making authority and approves the work?
- **C**onsulted — Who are the subject matter experts to be consulted?
- **I**nformed — Who needs to know about decisions or actions?

Individuals who are "consulted" differ from those who are "informed." Two-way communication takes place with the former, while one-way communication is usually sufficient for the latter. ALV consults the leader of another nonprofit who held a vegetarian food fair for operational advice during the "Foods of the World" project. And the full staff is informed of the dates of the fest as soon as they're pinned down.

Task	Responsible	Accountable	Consulted	Informed
Assigns dishes to volunteers	Kelly, Jake	Laurie	Suri, Maria, Marcus	Susan, Young Public Relations

WHAT DOES THE MATRIX LOOK LIKE?

As seen above, the RACI matrix is typically created with a vertical axis (the left-hand column) of tasks and a horizontal axis (top row) of the roles in the execution of the task.

Another RACI matrix format is to identify the person or department in the heading and indicate their role in each task (R, A, C, I). You also may want to include completion dates for each task. And, if your organization is large, include the department name linked to each duty or the outside firm you hire.

ARE PEOPLE MERELY COGS?

As the RACI process moves on, managers should resist the temptation to treat employees involved in the project as mere cogs in the process. Employees tend to do their best work — and work most creatively — when what they're doing is meaningful and connected to the larger goal. Returning to the example above, if your volunteers know generally *how* the money from the Foods of the World fundraiser will be used, they might be more enthusiastic about committing to make homemade dishes. Keep everyone posted on the project's overall progress toward its goals. And offer guidance when employees become stuck on a task. Last but not least, remember to give *positive* feedback as well as correcting and redirecting.

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KEEP IT SIMPLE

Developing a simple matrix like RACI can clarify and expedite a complex project. People know what's expected of them and communication is easier. Everyone can save time, for instance, because they're *not* receiving excessive e-mails asking unnecessary questions about their duties. ❋

Web-based project management

You can find many free or low-priced project management tools on the Web. Some use Responsibility Assignment Matrix (RAM or RACI) principles and offer unlimited storage options. They provide a central location for all of your project-related data.

Some of the Web-based tools pull, and simplify, features from professional project management systems such as Microsoft Project; others are IBM Notes®-based. Many of the companies offer 30-day trials. A listing, "Top 15 Web Applications in 2014," is available at ProjectManagement.com.

Accounting and tax mistakes

Is your nonprofit making these 6 common slipups?

Your accounting function is key to your organization and should be reviewed regularly. The following six errors are made frequently by many nonprofits. Make sure you address each area.

1. Lacking formal, documented accounting processes. All aspects of managing your not-for-profit's money should be reflected in a detailed, written accounting manual. This should include the steps for accepting and depositing donations and paying bills. The person who regularly performs the accounting task should follow these processes to a "T," and so should anyone who fills in for that employee.

2. Overrelying on accounting software. Many nonprofits now use accounting software to track their accounts, and it's an effective tool. Nonetheless, mistakes still happen. Always double-check entries and reconcile your bank accounts to ensure that the transactions your staff has entered are complete and accurate. Even if you use spreadsheets or manual books, this step is essential.

3. Failing to report unrelated business income (UBI). IRS officials have cited "failing to consider obvious and subtle" UBI tax issues as *the* top tax mistake nonprofits make. According to the agency, organizations commonly fail to report UBI — or they underreport this income. Follow guidance in IRS Publication 598, *Tax on Unrelated Business Income of Exempt Organizations*. If you need clarification, consult a CPA with nonprofit expertise or the IRS.

4. Wrongly classifying employees as independent contractors. This is another area in which the IRS says that nonprofits often make errors in judgment and practice. You must withhold and pay various payroll taxes on employee earnings, but don't have the same obligation for independent contractors. If the IRS can successfully argue that one or more of your independent contractors meet their criteria and should be classified as employees, both you and the contractor possibly face financial consequences.

5. Investing too little in the accounting function. Compared with private industry, not-for-profits typically dedicate fewer resource dollars to their accounting function. For example, it's important to use the services of an accountant or CPA with experience in the nonprofit sector, whether that person is on staff or external. Not having the right professional handle your accounting and tax issues is a problem that can lead to many other mistakes.

6. Having no off-site data backup. Would your accounting information be safe if a fire, natural disaster, terrorist attack or other emergency took place? Your accounting data should be backed up automatically and frequently. Web-based systems fit the bill because they store the information off-site. ❋

How to protect your tax-exempt status

What would happen if your nonprofit lost its federal tax-exempt status? The thought might send shivers down your spine, and it should. Here are reminders about some of the actions that are required — or should be avoided — to maintain your 501(c)(3) status.

A TITANIC LOSS

If your 501(c)(3) designation is revoked, your nonprofit will no longer be exempt from federal income tax — it will have to pay corporate tax on annual profits. It also might be subject to back taxes and penalties for failure to pay corporate income taxes as of the revocation's effective date.

And that's just the tip of the iceberg. Losing your tax-exempt status also might subject your organization to state taxes on income, property, and sales or usage.

The hits on your finances wouldn't end there. Your donor base might be whittled away because donors would no longer be able to receive a tax deduction for their gift to your organization. And if you receive funding from private foundations, that would likely end, because their guidelines usually require grant recipients to be tax-exempt public charities.

But don't despair. If you play by the rules, your organization will likely be able to keep its special status.

REPORTING DUTIES

First of all, make sure that you're filing required reports on time. This involves filing some type of IRS Form 990 each year — Form 990, Form 990-EZ or Form 990-N, depending on the amount of your total annual receipts and total assets. If you fail to do so for three years in a row, your tax-exempt status will be revoked.

If you're required to file the full Form 990 or Form 990-EZ, be sure to annually complete Schedule A, Part I ("Reason for Public Charity Status") to identify why you aren't a private foundation. Check the box that coincides with the reason that you're a public charity for the current tax year.

Also on Schedule A, if your nonprofit is largely supported by a government unit or the general public or is a community trust (Box 5, 7 or 8 on Schedule A, Part I), you'll need to pass the public support test on Part II. If your organization is exempt because it receives more than one-third of its support from contributions and activities related to its exempt function, as outlined in IRC Section 509(a)(2), you'll need to pass the public support test on Part III each year.

You also must file all required payroll tax returns for your employees and 1099 forms for independent contractors, and answer related questions about these workers on your Form 990.

EXECUTIVE COMPENSATION

Setting salaries for key employees requires a formal process. Information on the salaries and benefits you pay your executive director and "key" employees is available to the public on your Form 990. This has been identified as a primary focus of exempt organizations' audits by the IRS.

Even more important than the compensation total is the process you use to determine that the compensation is reasonable and comparable to amounts paid by organizations of similar size and activity. The IRS sees this review and approval as a responsibility of your board of directors or one of its committees.

Setting salaries for key employees requires a formal process.

Not only is granting executives an out-of-whack salary frowned upon, but you also can't operate for the "benefit of private interests." In other words, no part of a 501(c)(3) organization's earnings or equity can benefit individuals, such as the organization's founders, executives or board members — or their family members.

UNRELATED BUSINESS INCOME

As your organization carries out its operations, it must be careful not to raise what's considered excessive unrelated business income (UBI). UBI is income from a trade or business activity that is regularly carried on that is unrelated to your exempt mission. Although the Internal Revenue Code is silent as to how much is too much, excessive UBI has been interpreted as spending a "significant" amount of time on the unrelated activity.

For example, if an organization has more expenditures for the unrelated activity than program expenses, the IRS likely will consider terminating its exempt status. But courts have considered a nonprofit spending even as little as 10% of its total efforts on a UBI activity to be too much.

GOODS AND SERVICES

Your organization also must make sure that it doesn't pay more than market rate for goods and services. It's wise to secure at least three quotes before purchasing a significant asset or establishing a service contract or standing order for supplies. If you ever decide to do business with related parties (board members, founders, executives or their businesses), the other quotes will support the "going rate" in your market and show you aren't providing an *excess* benefit to the related party.

Should the IRS determine that you've provided excess benefits, your organization and its leaders will be subject to penalties. The possibility of losing your exempt status also exists.

LOBBYING AND POLITICAL CAMPAIGN ACTIVITIES

The IRS requires that tax-exempt entities avoid "substantial" lobbying and political campaign activities. To determine whether lobbying activities are "substantial," consider the time spent by compensated employees and volunteers on lobbying activities or use an expenditure test.

Your nonprofit can elect to use the formal expenditure test — called a 501(h) election — by filing Form 5768. (Note that churches are ineligible.) The 501(h) election sets a defined limit on the amount of resources an organization can use to influence legislation before losing its exempt status, based on a percentage of its exempt purpose expenses.

Political campaign activities include making contributions to a political campaign fund or making public statements for or against a candidate (either written or verbal). Participating in any of these activities can result in the IRS either revoking your exempt status or imposing certain excise taxes on your organization.

YOUR LIFELINE

Your nonprofit's tax-exempt status is its lifeline. Make sure that you and your staff do all that is required to maintain it. Follow the suggestions above, and discuss the matter with your CPA. ❋

NEWS FOR NONPROFITS

WASHINGTON POST STUDY TARGETS FRAUD DISCLOSURES

More than 1,000 nonprofits checked the box on Form 990 for reporting a "significant diversion" of assets, according to a WashingtonPost.com article on the "hidden world of thefts, scams and phantom purchases" at U.S. nonprofits. In looking at filings from 2008 to 2012, the *Post* found that these disclosures involved losses connected to theft, investment fraud, embezzlement and other unauthorized uses of funds.

The *Post* identified the list of nonprofits revealing the diversion of assets with the help of GuideStar, which gathers and disseminates federal filings by not-for-profits. ❋

FOUNDATION CEOs SHARE MIXED OUTLOOK ON PROGRESS

Foundation CEOs lack confidence about the overall progress toward their organizations' key goals. But they're more positive about how well their own foundations contribute to society, according to a new research report, *How Far Have We Come? Foundation CEOs on Progress and Impact*, from the Center for Effective Philanthropy.

Only 25% of the CEO respondents said that all contributors, together, have made a lot of progress toward the specific goal where they focus most of their resources. What's more, over half of the CEOs said they are only "somewhat confident" or "a little" confident in their assessment of overall progress. CEOs see the greatest barriers to making progress as *outside* their foundations' walls, particularly the "current government policy environment" and economic climate.

But almost two-thirds of the CEOs think their foundations have contributed greatly to the progress associated with their organizations' missions. Most CEOs believe their own foundations are already taking actions that have "the most effective impact" on their constituents. ❋

AUDIT THRESHOLD RAISED FOR NFPs RECEIVING FEDERAL FUNDS

If your nonprofit spends $750,000 or more in federal awards in a fiscal year, it will be required to undergo a single audit, according to new guidelines from the Office of Management and Budget. The guidelines, issued in December, raise the threshold for compliance audits from $500,000 to $750,000 per fiscal year. They'll take effect for fiscal years beginning on or after Jan. 1, 2015.

Nonprofits that spend less than $750,000 in a fiscal year will be required to make records available for review or audit by officials of the federal funding agency, any pass-through entity and the U.S. Government Accountability Office. The new federal rules contain other changes to the requirements for nonprofits and for their auditors. Contact your CPA for more information. ❋

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ABOUT SASSETTI LLC

Our firm was originally founded by Frank L. Sassetti in 1921. For more than 90 years, the firm has provided creative and proactive tax, accounting and audit services to its diverse client base.

Today, Sassetti LLC's clients consist of a broad range of family-owned businesses, SEC regulated companies, employee benefit plans and not-for-profit organizations. Our goal is to maximize business effectiveness and cost-efficiency, and to help clients understand the ever-changing complex accounting and tax rules.

Our staff of 25 experienced professionals strive to understand your needs, propose solutions and deliver timely and cost effective products.

EXPERIENCE COUNTS

For more information on how we can help your organization, contact Jeff Schroeder at **(708) 386-1433** or email **Schroeder@sassetti.com**. We look forward to speaking with you!!