nonprofit agendas

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News for Nonprofits

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Protecting privacy

Meld best practices into your policy and procedures

An appreciation for protecting individuals' privacy has picked up steam in recent years, fueled by public outrage over identity theft and other violations. The protection of an individual's privacy strikes the core of nonprofits, which collect a significant amount of personal data on clients, donors and other constituents. Safeguarding their privacy starts with the development of a privacy policy and procedures to bring it home.

There's plenty to keep in mind when developing — or updating — a privacy policy. In addition to mandates from federal agencies, individual states deliver their own rules and regulations. And professional societies and trade organizations provide standards in their respective niches, such as health care and education.

PRIVACY BILL OF RIGHTS CALLS UP ONLINE TRANSACTIONS

One of the most recent national developments in privacy protection comes from the White House. The Obama administration drafted the Consumer Privacy Bill of Rights (CPBR) as a blueprint for protecting consumers online in the digital age.

Unveiled last February, the document applies to both nonprofits and for-profit businesses and is meant to improve consumers' control over how their personal information is used on the Internet. Concurrently, it aims to help businesses maintain consumer trust and grow Internet commerce. It focuses on such "rights" as security, transparency, access and accuracy.

The White House has asked the U.S. Department of Commerce to begin convening companies, private advocates and other stakeholders to develop and implement enforceable privacy policies based on the document. In July, the topic of mobile applications and data processing was the first in a series of meetings, held by the National Telecommunications and Information Administration, designed to enforce the CPBR.

GAPP PROVIDES PRINCIPLES

Another authority for nonprofits that are creating — or reevaluating — their privacy policies and procedures is the American Institute of Certified Public Accountants' Generally Accepted Privacy Principles (GAPP). Revised in 2010, the principles overlap with the CPBR and are organized into 10 areas:

1. Management. The organization defines, documents, communicates and assigns accountability for its privacy policies and procedures.

Resources for creating a privacy policy

Is your nonprofit creating a privacy policy for the first time, or reviewing the one you already have? If so, you can find useful information on these websites:

WhiteHouse.gov. Information about the Consumer Privacy Bill of Rights can be found here, including a fact sheet. For a detailed report, *Consumer Data Privacy in a Networked World,* visit the White House site and enter "consumer privacy" into the search box.

AICPA.org/privacy. The American Institute of Certified Public Accountants' Privacy Maturity Model provides specifics about establishing and evaluating privacy policies and procedures under Generally Accepted Privacy Principles (GAPP), as well as related articles and a listing of other resources. (To find a link to the model, click on "Privacy Maturity Model (PMM)" under "GAPP-related content" on the AICPA.org/privacy page.)

HHS.gov. At the U.S. Department of Health and Human Services website, you can find information on the Health Insurance Portability and Accountability Act (HIPAA) that addresses the security and privacy of health data in health care systems under its "administrative simplification" provisions. A good summary can be found at the hhs.gov/ocr site; click on "Health information privacy," "Understanding HIPAA privacy," and "Summary of the HIPAA privacy rule."

2. Notice. The entity provides notice about its privacy policies and procedures and identifies the purposes for which personal information is collected, used, retained and disclosed.

3. Choice and consent. The organization describes the choices available to the individual and obtains implicit or explicit consent with respect to the collection, use and disclosure of personal information.

4. Collection. The entity collects personal information only for the purposes identified in the notice.

5. Use, retention and disposal. The entity limits the use of personal information to the purposes identified in the notice and for which the individual has provided implicit or explicit consent. The entity retains personal information for only as long as necessary to fulfill the stated purposes or as required by law or regulation and thereafter appropriately disposes of such information.

6. Access. The organization provides individuals with access to their personal information for review and updating.

7. Disclosure to third parties. The entity discloses personal information to third parties only for the purposes identified in the notice and with the implicit or explicit consent of the individual.

8. Security. The organization protects personal information against unauthorized access.

9. Quality. The organization maintains accurate, complete and relevant personal information for the purposes identified in the notice.

10. Monitoring and enforcement. The entity monitors compliance with its privacy policies and procedures and puts in place procedures to address privacy-related complaints and disputes.

FOLLOW-UP IS CRUCIAL

The most important requirements of a privacy policy for your constituents are that it remains current and is fully executed throughout your organization. Consider asking your CPA to review your privacy policy and its implementation procedures. CPAs also can provide guidance using the GAPP Privacy Risk Matrix to help assess privacy-related risks.

Additionally, make sure that your board of directors reviews your nonprofit's privacy policy annually. ❋

What makes people give?

Individual donations are the lifeblood of many nonprofits and, thus, not-for-profit leaders should have a good handle on *why* people dip into their pockets and donate money or other gifts. Some of the reasons may surprise you.

MIXED FINANCIAL MOTIVATIONS

Tax savings traditionally have motivated wealthy individuals to make charitable donations. After all, charitable donations generally provide an income tax deduction and avoid gift and estate taxes. And certain strategies — such as gifting appreciated assets or setting up a charitable remainder trust — provide donors with "more bang for the buck."

But high-net-worth donors may have less-obvious financial motivations, too. For example, they may wish to limit the amount their children inherit to prevent a "burden of wealth." Warren Buffett, for example, plans to leave the vast majority of his wealth to charity rather than to his children because, as he told *Fortune,* wealthy parents should leave their children "enough money so that they would feel they could do anything, but not so much that they could do nothing." To appeal to these kinds of donors, you may want to offer to work with the entire family so that they can begin a multigenerational tradition of giving.

MAKING A DIFFERENCE

According to a survey conducted by the Center on Philanthropy at Indiana University, younger donors — those between ages 20 and 45 — as well as wealthier and better-educated individuals are more likely to want to "make a difference" with their gifts. Those with lower incomes and a high school degree or less often donate to meet basic needs in their communities or to "help the poor help themselves."

Alan Clayton of London's Good Agency has made similar findings, with younger donors more likely to be motivated by what Clayton calls "outer- and inner-directed needs." Outer-directed donors give to "make the world a better place" and improve conditions for those with whom they have no direct connection. They tend to support international human rights and environmental groups.

Inner-directed donors, on the other hand, are motivated by such desires as making their life "count." They're more likely to respond to charities that appeal to their sense of moral or ethical purpose and allow them to actively direct the use of their donation.

CREATING A GOOD IMPRESSION

Donors are often motivated by the perceived social effects of giving. At least one study has reported that donors typically give more when their gifts will be announced publicly. A perhaps more surprising finding is that charities offering incentives or gifts for donations are *less* likely to be successful when the donor desires to "look good" to his or her peers. Similarly, numerous studies have found that people are more likely to

give — and to give in greater amounts — if asked personally, particularly if they know the person making the appeal. It's safe to say that these donors are concerned about making an altruistic impression.

Social factors can also affect which organizations receive charitable gifts. Donors may, for instance, prefer to donate to organizations that offer them a collaborative role in the charity's mission and that host social gatherings at which they can connect with like-minded people.

DO YOUR OWN STUDY

Knowing the trends that motivate donors to give to charities is one thing — knowing why *your* donors give to your organization is even better, because there may be some variances. Once you've secured a donation, make it a habit to collect donor information on the impetus behind the gift. ❋

Outsource your nonprofit's accounting functions — maybe

As your nonprofit strives to use its resources as effectively as possible, you might at some point consider outsourcing the functions that fall under your accounting and financial umbrella. But wait: You'll need to weigh the pros and cons before making this important decision.

WHAT ARE THE POTENTIAL ADVANTAGES?

Nonprofits often outsource work in areas that require specialized knowledge or a significant number of hours, such as payroll processing and payroll tax preparation. Outsourcing some or all accounting functions also can provide benefits — if it matches up with your organization's needs and its budget.

One potential benefit is accessing a higher level of expertise and greater resources than you could if you hired your own accountant. Outsourcing allows you to work with financial professionals of varying levels of experience and expertise tailored to the functions they'll perform. These responsibilities could include:

- Processing payables, receivables and cash transactions,
- Reconciling accounts at each month-end,
- Preparing financial statements, budgets and forecasts,
- Assisting with tax and grant reporting requirements, and
- Adequately communicating financial matters to your board.

But you don't have to outsource all of these functions; depending on your needs and budget, you can outsource only the ones that make sense for your organization. You also may benefit from occasionally using other firm experts — investment advisors, HR and IT support, and valuation specialists, as necessary.

Some CPA firms offer outsourced CFO services, while others work closely with small firms that provide general accounting services. Many nonprofits turn to outsourcing accounting functions at times of significant personnel transition or workload increases. For the nonprofit that can't afford the day-to-day expertise of a director of finance or CFO, outsourcing certain financial oversight functions, such as review of bank reconciliations, may enhance its system of internal controls.

When considering outsourcing any accounting function, make sure you're working with a manager or partner who'll become familiar with your operations. This will help provide continuity of service as well as a resource to your senior management and board of directors. This manager or partner will also supervise junior firm members, providing an added layer of oversight.

WHAT ABOUT COST?

Depending on your organization's size and complexity, the cost of outsourcing accounting functions might equal or even exceed what you'd pay an experienced accountant internally — or it may cost less. With an outside firm, you pay only for the amount and level of services you require. With an on-staff accountant, he or she may spend some time doing work that someone at a lower pay level could handle equally well. Outsourcing also will spare your nonprofit the expenses associated with a regular employee, such as payroll taxes and health insurance.

A benefit that many smaller organizations derive in working with an accounting services firm is reduced fees for audit and tax services — because of the professional attention to accounting functions you receive during the year. And most of the accounting questions that typically arise in an audit already will have been resolved.

WHAT ARE OTHER CONSIDERATIONS?

A common concern is that there won't be a CFO or business manager whose office you can walk into unannounced whenever a financial question arises. Meetings with the CPA firm will need to be planned and scheduled. It's important for your nonprofit and the CPA firm to understand availability expectations.

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You also need to determine how financial data will flow. For example, will your nonprofit send information to the accounting firm, or will firm personnel come on-site to perform bookkeeping? If the firm is unfamiliar with your accounting software, it may need to perform some tasks on-site, at least initially.

Finally, you must be prepared for some commitment of time during the transition. There will be a learning curve as the CPA firm familiarizes itself with your policies, procedures and systems.

THE FINAL WORD

Even with a CPA firm handling your accounting functions, you won't be able to absolve yourself of financial decision making. Remember, while an external firm can assist and advise you on financial matters, those charged with governance at your nonprofit (typically the board of directors) must continue to have the last word on making significant financial decisions. ❋

NEWS FOR NONPROFITS

"SOCIAL IMPACT" INDEX OF CHARITIES LAUNCHED

Taking a cue from Wall Street, a national philanthropy group has introduced an index of charities based on proof of meeting their mission and the potential to reach more people. The organization, Social Impact Exchange (SIE), on Nov. 14 launched the Social Impact 100 (S&I 100), modeled on aspects of the S&P 500, an index of select stocks.

According to the S&I 100's founders, the index "aggregates top-performing, evidence-based nonprofits so that funders — donors and foundations — can be confident they're contributing to organizations that consistently deliver impact."

On the website SI100.org, potential donors can peruse not only the 100 high-impact nonprofits that, SEI says, have been rigorously screened (through third-party verified studies), but also nearly 16,000 local affiliates. Potential donors can search the site by geographic area and mission, including education, health, youth and poverty. ❋

BBB WISE'S "TRUTH IN ADVERTISING" INITIATIVE

Charities, especially the targets of past complaints, will receive greater scrutiny for the truthfulness of their advertising by the nonprofit group BBB Wise Giving Alliance (BBB Wise), which is the Better Business Bureau's charity watchdog arm.

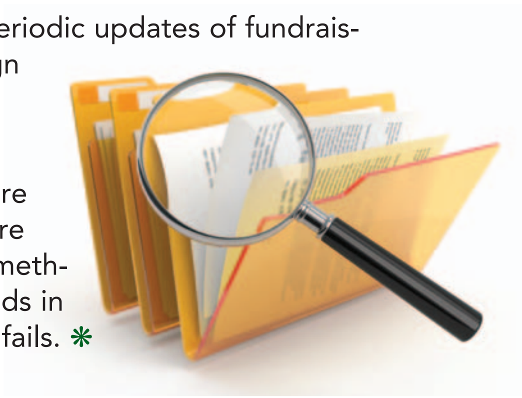
Speaking at the recent National Association of State Charity Officials' conference, BBB Wise president H. Art Taylor said the organization is concerned that some fundraising firms engaged by nonprofits aren't adhering to the "truth in advertising" standards developed by the Better Business Bureau and that some nonprofits are failing to properly oversee the outside firms' work. Exaggerations of financial need, fundraising appeals that look like invoices and inaccurate financial ratio references reportedly are among past transgressions.

The BBB Wise "truth in advertising" initiative emphasizes the responsibility of boards of directors, who will be asked to answer questions about "bad fundraising agreements, misleading copy and overly aggressive tactics," Taylor said.

The initiative also will entail requesting samples, such as fundraising copy, from charities. And, according to Taylor, for those charities that have been the subject of "significant inquiry and complaint," the watchdog group will "request and review every single direct mail and telemarketing script used in the past year to verify the accuracy of appeal content."

Taylor also presented several "tips" for strengthening boards' fundraising oversight, including:

- Getting competitive bids from fundraising firms,
- Reviewing every major fundraising agreement along with each direct mail piece and all fundraising copy, and
- Requiring periodic updates of fundraising campaign results.



Boards also should make sure their charities are using multiple methods to raise funds in case one tactic fails. ❋

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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!!