

SAVE THE DATE!

**Holtz Rubenstein Reminick
2005 NFP Fiscal Workshop**

You are invited to join us on
Tuesday, November 8, 2005, 1:30-5 p.m.
at the Huntington Hilton
for our annual Not-for-Profit Fiscal Workshop:

**Do You Know What You Need to Know?
Considerations for NFP Management**

Get answers to the top questions:

- What is the IRS thinking?
- What are the latest in NFP regulations?
- Should you consider subsidiaries or other organizational structures?
- Are you complying with your donor's intentions?

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**Information Security Continues to be
Top Technology Concern**

Technology has made our lives easier in many ways, but it has also introduced a significant element of risk to the business operations of both not-for-profit and for-profit organizations. It's no surprise then that information security is the country's No. 1 technology concern — and has been for the past three years — according to the *2005 Top Technologies* survey by the American Institute of Certified Public Accountants.

**Making it a
priority**

Information security should be of vital interest to all not-for-profits because they're expected to operate with the utmost integrity. This means protecting confidential information pertaining to clients, donors, employees, volunteers and others with whom not-for-profits interact.

Failing to do so exposes your organization to numerous risks, such as irreparable damage to your reputation, potential legal liability

and possibly even regulatory sanctions, depending on the industry in which you operate. For instance, the Health Insurance Portability and Accountability Act requires health care providers to meet certain standards for protecting personal health information.

Evaluating practices

Not only do you have an obligation to safeguard your not-for-profit's information, but you have a duty to protect employees and volunteers from offensive or harassing electronic communications.

An information security program is built on three key objectives: availability, confidentiality and integrity. Information systems should be available when needed and safeguards used to protect the confidentiality and integrity of data, preventing

unauthorized disclosure or modification.

How well does your organization address these key objectives? Gauge the soundness of your practices by answering these questions:

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Information Security Continues to be Top Technology Concern

Do you have comprehensive information security policies? Carefully crafted security policies are the backbone of an effective program. Your not-for-profit should have written policies, procedures and standards that govern your information systems and establish expectations for the use of technology such as:

- E-mail,
- The internet,
- Software,
- Cellular phones, and
- Personal digital assistants (PDAs).

Include this information in your policy and procedures manual. This helps protect your organization from legal risks and provides a basis for enforcement action.

Do you educate employees about security issues? A security framework will be effective only if you take the time to raise awareness about security issues with employees and others charged with safeguarding your data and information. So meet regularly with workers, vendors and other key groups to discuss information security issues, and provide education and training to ensure they understand their roles in carrying out policies and procedures. Also, ask employees to sign a document acknowledging they understand the information security policies and will abide by them. Finally, be sure to enforce policies so that your staff realizes that violations have consequences.

Do you have up-to-date technological safeguards in place? You'll want to ensure that your not-for-profit observes all protocols when it comes to protecting your information systems. In addition to taking precautions such as using virus protection and antispyware software, firewalls, and passwords, encrypt or remove as much sensitive information as possible from computer files, especially those residing on laptop computers, PDAs and smart phones.

Not only do you have an obligation to safeguard your not-for-profit's information, but you have a duty to protect employees and volunteers from offensive or harassing electronic communications that may take the form of spam. And if your organization exchanges sensitive

Top 10 Technology Concerns

Are your technology concerns similar to those of other not-for-profits? Here are the top issues, according to the American Institute of Certified Public Accountants' *2005 Top Technologies* survey:

- Information security,
- Electronic document management (paperless or less-paper office),
- Data integration,
- Antispam technology,
- Disaster recovery,
- Collaboration and messaging applications,
- Wireless technologies,
- Authentication technologies,
- Storage technologies, and
- Learning and training competency (end users).

For additional survey information, visit www.aicpa.org. ■

information with external partners, verify that they adhere to similar standards.

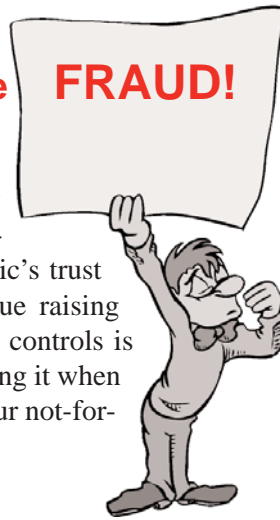
Do you treat information security as an organizational issue? Effective security is not just a technology issue. It's a responsibility shared by the information technology staff, the executive director, managers and even the board. These individuals should work together to help your not-for-profit identify, evaluate and address risks and threats, and ensure proper practices are in place. Organizational leaders also play an important role in helping technologists communicate the importance of information security and balance cost-benefit issues.

Minimizing risks

Information security threats are continually growing and changing, making it unlikely that security concerns will subside anytime soon. It would be wise to review your practices in this area to gain assurance that your organization isn't inadvertently exposing itself to the very real and significant risks that can arise if you neglect security issues. ■

6 Ways to Reduce **FRAUD!** in Your Organization

The consequences of fraud can be devastating for any organization, especially not-for-profits, which risk losing the public's trust along with their ability to continue raising funds. A strong system of internal controls is key to preventing fraud and detecting it when it occurs. Let's look at six ways your not-for-profit can tighten procedures.



1. Screen workers

Many problems can be averted by performing background reviews, including criminal checks, on prospective employees and volunteers. At a minimum, screen those who will have access to cash and other assets. Verify previous employment and check references from two or three prior jobs.

Don't hire individuals if their references seem hesitant or you receive negative information about them. It is also a good practice to run credit checks; employees with significant debt could pose a risk. Just be sure that your organization gets written permission from the applicants to do so.

But not-for-profits don't always take the time to do background checks properly. For example, one not-for-profit executive left his job and fled town after the organization suspected him of embezzlement and seized his computer. Yet this individual was subsequently hired by a not-for-profit in another city. A thorough background check probably would have uncovered the individual's prior employment and the circumstances surrounding his departure.

2. Segregate financial duties

Divide responsibilities as much as possible so that more than one person handles day-to-day financial matters. Try to avoid, for instance, having one person receive, deposit and record donations flowing in.

Even in the smallest organizations, you can segregate duties by assigning certain tasks to nonfinancial staff. For instance, the receptionist or an employee in the marketing or development area could receive checks and create a deposit slip before forwarding receipts to the bookkeeper.

Breaking up these tasks helps prevent a worker from misappropriating funds and then covering it up. It can also reduce the possibility of innocent bookkeeping errors.

3. Use multiple checks and balances

Any action you can take to add another layer of checks and balances to financial functions is worthwhile. Here are some strategies to consider:

- Require two signatures on most checks.
- Present invoices along with checks to be signed. (Then code the invoice as paid.)
- Have someone other than the bookkeeper initially receive and review bank statements for irregularities. Small organizations might call on board members to help them carry out some of these responsibilities.

4. Have a written code of conduct and be sure everyone follows it

Fraud often occurs at not-for-profits with good procedures in place because no one enforces them. Your board should ensure that business practices are followed by everyone, including the executive director. If your organization's policy is to require two signatures on checks or receipts for all expenses over a certain amount, adhere to this rule. If exceptions do occur, be sure to investigate them.

5. Conduct audits

This practice shows a commitment to fiscal responsibility. So let employees know that your not-for-profit periodically brings in an external auditor to review your financial statements and internal control environment. An audit may also help to detect fraud.

6. Acquire fidelity bond coverage

Safeguard your organization by buying insurance that covers losses resulting from fraudulent acts. Costs vary depending in part on the amount of coverage. Typically, organizations require a minimum of \$25,000 to \$50,000 of coverage, depending on the amount of liquid assets.

Implement strong controls

Keep in mind that fraud is a crime of opportunity. By combining strong internal controls with ongoing scrutiny, you can minimize the chances of it occurring in your not-for-profit. ■



Review Retirement Plan Options in Light of New Regulations

Those attracted to not-for-profit work typically are drawn by a commitment to a cause, rather than lucrative salaries. But if not-for-profits don't at least keep pace with the private sector when it comes to benefits, particularly retirement plans, they're likely to have problems attracting and retaining good people.

If your organization has experienced recruiting or retention problems, or if you haven't reviewed your retirement plan lately, take the time to evaluate it and ensure it's competitive with the marketplace.

Proposed 403(b) plan changes

Changes are coming to the 403(b) plan, which has long been a favored retirement plan of 501(c)(3) tax-exempt organizations. The IRS has proposed eliminating most of their advantages, essentially making them subject to much of the same rules as 401(k) plans.

The most significant changes proposed would increase employer fiduciary responsibility for 403(b) plans and require a written plan document — both proposals that would make the plans more burdensome for not-for-profits to administer. Although at publication time the proposed IRS rules have not been finalized, changes are expected to take effect in 2006.

The 403(b) plan's popularity has hinged on its administrative simplicity and cost-efficiency. If employers didn't contribute to the plans, they could simply act as a conduit by making information available to workers and handling payroll deductions. But, under the proposed rules, formal plan documents would still be required.

For employees, a current drawback of 403(b) plans is that investing options are usually limited to high-cost annuity products, which typically have much higher fees to the investor than other investment options such as mutual funds. Many organizations invest in annuities because employees will have more oversight and responsibility for investment performance.

On the other hand, 401(k) plans offer participants significantly more investing options but are more costly to employers and have added administrative burdens, including annual fees and requirements for federal compliance reporting and discrimination testing. An annual audit is also required for 401(k) plans with more than 100 participants. Despite these requirements, the 401(k) has become more widely used by not-for-profits in recent years. (See the sidebar "What are other not-for-profits doing?")

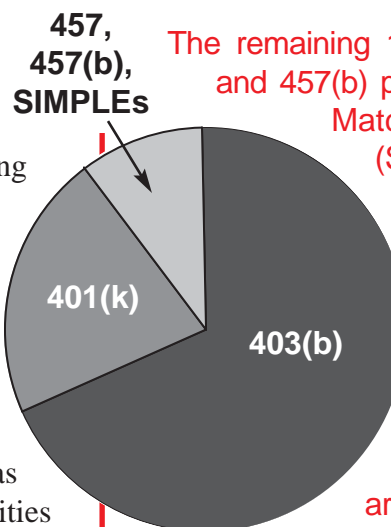
What works for you

If indeed the 403(b) plan becomes more comparable to the 401(k) in terms of cost and administrative requirements, more not-for-profits might opt for the 401(k) as their primary retirement plan. Like the 403(b) plan, the 401(k) allows for discretionary employer contributions and a safe harbor provision,

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What are Other Not-For-Profits Doing?

When it comes to benefits, one thing is for sure: Most not-for-profits offer some type of defined contribution retirement plan. *The Not-for-Profit Times 2003 Pension Survey* found that 94% of respondents offered a 403(b) or 401(k) plan. Of that percentage, 68% of the plans were 403(b) plans and 22% were 401(k)s.



The remaining 10% of plans included 457 and 457(b) plans and Savings Incentive Match Plans for Employees (SIMPLEs). 457 and 457(b) plans are deferred compensation plans designed for a limited number of managerial-level employees. As the name suggests, SIMPLEs are easy and inexpensive to administer; contributions are made to IRAs on behalf of employees. ■

Can You Lower Your Unemployment Insurance Costs?

Laws pertaining to unemployment insurance vary among states, but one commonality is that states collect billions of dollars in overpaid unemployment benefits. Your organization could be among the many employers who are paying too much.

Here are some ways you may be able to reduce your unemployment costs:

Audit unemployment benefit charges

The burden is on employers to ensure unemployment charges are accurate and to seek repayment if overcharged. Periodic audits of your benefit statements can sometimes uncover instances of

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Review Retirement Plan Options in Light of New Regulations

which removes the need to comply with discrimination testing and top-heavy plan requirements while allowing so-called “highly compensated employees” (generally defined as those with salaries exceeding \$90,000) to maximize contributions.

With the pending changes to 403(b) plans, it makes sense for not-for-profits that offer the plans to evaluate whether they remain consistent with their needs and goals. Organizations may not want to take any action, however, until the rules are finalized.

In weighing your options, consider key factors such as cost, ease of administration, investment options, funding flexibility and tax savings for both employer and employee.

An attractive benefit

There are many important considerations in deciding on a retirement plan — several are quite complex and depend on your not-for-profit’s circumstances. But don’t forget what should be one of the most important considerations for every employer in choosing a retirement plan: Can the plan make your organization attractive enough to get and keep good employees? ■

overcharging such as duplicate charges for the same period, charges assessed during a waiting period or sums in excess of the approved benefit amount.

Determine if you can save by paying claims as a reimbursing employer.

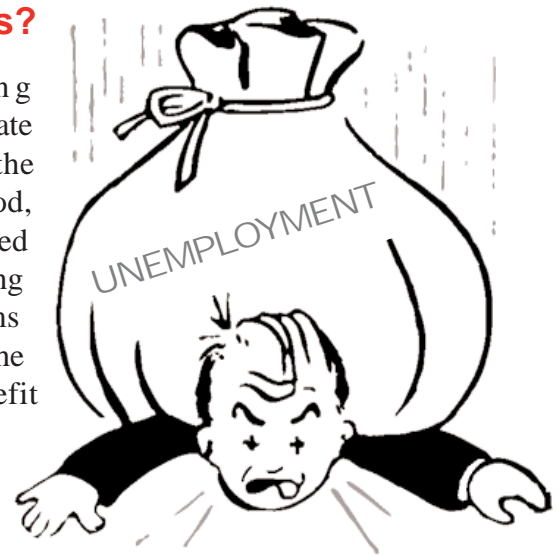
Many 501(c)(3) organizations don’t realize they have an option: They can pay state unemployment insurance or reimburse the state only for actual claims paid out to former employees. Not-for-profits can handle the reimbursement process themselves or use a third-party reimbursing association.

Reimbursing may be more advantageous for not-for-profits because the actual benefits they pay are often lower than state unemployment tax rates. There are pros and cons, however, which you must evaluate in light of your organization’s characteristics and circumstances.

Actively manage unemployment costs.

By monitoring unemployment costs as closely and regularly as you would other operational expenses, you may be able to rein in or at least better estimate payouts. Start by participating in your state agency’s decision about whether to award or deny benefits, and appeal decisions as appropriate. Track claims on a monthly basis and dispute any questionable charges. Over time, you should be able to improve your ability to forecast and budget for unemployment coverage.

Unfortunately, your organization must pay unemployment benefits. But by evaluating payment options and scrutinizing claims, you may be able to save money. ■



Charities develop antiterrorism guidelines

A working group of more than 40 U.S. charitable organizations joined with the Council on Foundations to develop *Principles of International Charity*, a set of guidelines proposed as an alternative to the U.S. Treasury Department's *Anti-terrorist Financing Guidelines: Voluntary Best Practices for U.S.-Based Charities*, issued in 2002.

The government guidelines were developed to reduce the possibility that charitable funds would be diverted to terrorist purposes. The Council and other organizations criticized the initial guidelines as unrealistic, inappropriate, costly to administer and likely to discourage international charitable activities.

The Treasury Department encouraged charities to develop alternative language, saying it would revise its guidelines to incorporate the working group's suggestions. Get a copy of *Principles of International Charity* from the Council on Foundation's website at www.cof.org.

Untapped volunteers: Aging Americans

Not-for-profits aren't prepared to use older Americans as volunteers, despite the fact that millions will be nearing retirement over the next five to 10 years. That's the conclusion of a Web-based survey by the National Council on the Aging's RespectAbility program in 2004.

About half of those surveyed — more than 800 officials at 20 leading national not-for-profits — said their organizations lacked systems to screen, assess and place older volunteers.

The survey, available at www.respectability.org, offers tips on how organizations can better understand the changing characteristics of future retirees and find ways to capture their time and talents.

GuideStar launches enhanced site

GuideStar, the national database of not-for-profit organizations, has enhanced its website in response to users' feedback. Visit www.guidestar.org to see the new features, including:

GuideStar eDocs. This new service allows organizations to upload new documents as they become available. In addition to Form 990s, GuideStar now makes available documents such as letters of determination and applications for exemption.

Increased access. Three levels of access — basic, select and premium — are now available to meet varying needs for searching, sorting and saving information. The basic service remains free, but you'll need a subscription for the select and premium levels, which offer expanded access and functionality.

Expanded research. Now you can research all tax-exempt not-for-profits, not just 501(c)(3) organizations, including:

- Membership organizations,
- Civic leagues, and
- Political groups.

All not-for-profits listed in the IRS Business Master File now appear on the site, bringing the total number of organizations in the database to more than 1.5 million.

GuideStar offers information about the programs and finances of IRS-recognized charitable organizations. The service distributes not-for-profit data to grantmakers, not-for-profits, donors, government charity regulators and professionals serving the sector.

Not-For-Profit Services at Holtz Rubenstein Reminick

As pioneers in this rapidly-growing financial service area, our comprehensive approach to the Not-For-Profit sector is virtually unmatched. In addition to the traditional CPA services of accounting, auditing and taxation, we provide data processing consulting, rate reimbursement consulting, management consulting, and strategic planning.

Contact Us

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