

# The Board Member's Guide to Nonprofit Governance during COVID-19

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# Awards and Accolades

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# Housekeeping

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- Technical questions about the survey can be addressed to Nathan McElveen at [nmcelveen@grfcpa.com](mailto:nmcelveen@grfcpa.com).

# Housekeeping

## Additional Information

<b>Learning Objective</b> To provide attendees with best practices to ensure effective governance continues at nonprofits during Covid-19.	<b>Instructional Delivery Methods</b> Group Internet-based
<b>Recommended CPE</b> 1.0 CPE Credit	<b>Recommended Fields of Study</b> Accounting - Nonprofit
<b>Prerequisites</b> None required	<b>Advance Preparation</b> None
<b>Program Level</b> Basic	<b>Course Registration Requirements</b> None
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# Presenters

*Meet the Instructors*

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**Walt Derengowski, CPA, CFE**

*Partner, Audit*



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*Manager, Audit*

# Agenda

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## Today's discussion . . .

- Where we are in 2021 as the pandemic continues
- In contrast to the things we can't control, areas we *can* influence as board members and leadership
- Why internal controls are so important at this point in time
- How to address risk to the organization (including possible fraud) in a smart and practical way
- Streamlining the audit process
- Benefits of remote work (it's here to stay)

# Background

## *Pandemic's Impact on Nonprofit Organizations*

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**Studies published around the country on the impact of the pandemic on nonprofit organizations:**

[The COVID-19 pandemic: a challenge for US nonprofits' financial stability](#) – Journal of Public Budgeting, Accounting & Financial Management

[Data on How the Pandemic and Economic Crises Are Affecting Nonprofits](#) – National Council of Nonprofits

[Local Impacts of a Global Crisis](#) – University of Washington

[New Study Reveals Pandemics Impact on New Nonprofits and Key Challenges They Face](#) – BryteBridge

[Survey Reveals Impact of COVID-19 and 2020 Challenges on Nonprofits at Year-End](#) – Nonprofit Leadership Center

# Background (continued)

## *Pandemic's Impact on Nonprofit Organizations*

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- The COVID-19 pandemic has led to extraordinary challenges for nonprofit organizations and their leaders.
- While focusing on shrinking funding to continue their important missions, nonprofits must also grapple with the impact of remote work.
- Demand for nonprofit services is greater than ever! This adds additional strain to already lean staff resources.
- Risk to the organization is at all time high, but there are smart and practical ways to address risk in 2021.
- Board members have a fiduciary duty to support overwhelmed nonprofit staff through these challenging times.



# PPP and ERC Update?

*The Latest as of April 21*

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- Paycheck Protection Program – Update
- Employee Retention Tax Credit – does this apply?

# Polling Question #1

Did your organization receive the Paycheck Protection Program loan?

- A. *Yes*
- B. *No*
- C. *Not Sure*

# OMB COMPLIANCE SUPPLEMENT

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- When the Office of Management and Budget (OMB) released the final 2020 Compliance Supplement in August 2020, it noted that a Compliance Supplement Addendum specifically addressing federal programs under the CARES act would be issued during the fall.
- On December 22<sup>nd</sup>, the OMB issued new guidance on single audits in the form of the addendum to the 2020 OMB Compliance Supplement.
- The addendum effective date is for audits of fiscal years beginning after June 30, 2019 and it must be used in conjunction with the August 2020 Compliance Supplement.



# Good Governance in 2021

## *Best Practices for Accountability and Transparency*

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We can't control many of the factors related to the pandemic, but board members can help leadership “shore up” good governance practices:

- Help the organization assess and improve internal controls
- Identify and address risk to the organization, including possible fraud
- Work with the audit committee and leadership to streamline the audit process for efficiency
- Leverage the benefits of remote work to the organization's advantage

# Good Governance in 2021 (continued)

## *Best Practices for Accountability and Transparency*

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Many nonprofits are investing time and resources in a board governance assessment this year.

Goal: Review the Board's governance structure to identify strengths, weaknesses, risks, and opportunities, and to advise the Board regarding current best practices related to governance.

**Consider adding an annual assessment to your best practices!**

### **What is Evaluated during a Board Governance Assessment?**

The assessment looks at several key performance indicators (KPIs):

- ✓ Board composition and structure
- ✓ Roles and responsibilities
- ✓ Board member engagement
- ✓ Program understanding
- ✓ Strategic planning
- ✓ Risk
- ✓ Advocacy
- ✓ Fundraising
- ✓ Financial oversight
- ✓ Diversity, equity and inclusion

# Internal controls

## *Essential for Nonprofits in 2021*

### Internal controls defined

The mechanisms, rules, and procedures implemented by management of an organization to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud.

### Examples:

- Separation of duties
- Access controls
- Physical inventory
- Monthly reconciliation of bank accounts
- Approval authority
- Double-entry accounting



# Internal Controls

## *Types of Internal Controls*

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# Internal controls

## *Adjusting for a Virtual Environment*

### It's a new ballgame

What are the most important internal controls to maintain in a virtual environment?



# Financial Procedures and Internal Controls

## *Critical Updates*

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- Changes to the segregation of duties in the face of new challenges posed by the virtual work environment.
- Investment in new software to enable the electronic approval of disbursements, electronic payments and remote cash receipt deposits.
- Updated financial policies and procedures to incorporate the revised procedures.
- Training of staff on new software and procedures.
- Revised procedures for the remote review of bank and investment statements, and the remote approval of bank reconciliations, monthly financials and journal entries.

## Polling Question #2

Has your organization made any changes to internal controls as a result of the virtual environment?

- A. *Yes*
- B. *No*
- C. *Not Sure*

# Addressing Risk to the Organization

*Planning Ahead is Critical*

Risk to nonprofit organizations is at an all time high!

- Fundraising
- Rising costs
- Fraud/theft
- Mission creep
- Culture
- Staff retention
- Compliance
- Environmental
- Cybersecurity
- Insurance
- Reputation
- Volunteers
- Succession planning
- Diversity, equity and inclusion
- Remote workforce
- Political

## Enterprise Risk Management Case Study: Bridges to Prosperity



Bridges to Prosperity is a nonprofit organization that builds and advocates for rural infrastructure, including trailbridges, in isolated communities around the world. Almost one billion people throughout the world live in communities that lack year-round safe access to healthcare, education, and markets due to impassable rivers. Bridges to Prosperity's trailbridges enable children to attend school, farmers to sell their crops, and community health workers to provide necessary medical care.

### Risk Management for Rapid Growth

GRF CPAs & Advisors (GRF) provided the risk management expertise and best practices needed for development of an Enterprise Risk Management (ERM) playbook. More than a compliance requirement, the ERM playbook informs the organization's strategy and decision-making. The living document helped Bridges to Prosperity institutionalize ERM and become a more forward-thinking organization.

### Challenge

In 2018, after achieving the milestone of connecting one million people in previously isolated communities, Bridges to Prosperity set ambitious targets to dramatically increase the scale of its programs, including connecting an additional 1.1 million people within five years in Rwanda alone. The Bridges to Prosperity Board of Directors recognized that the rapid expansion of its operations would expose the organization to previously unconsidered risks. It encouraged the management team to develop a robust plan to ensure that the organization could identify, manage, and respond to the risks associated with its new strategy effectively and promptly.

The team was initially concerned that an increased attention to risk would create more bureaucracy and slow down strategy implementation. However, Vice President of Operations, Alex McNeill recognized that understanding, monitoring, and proactively managing risk would give staff the confidence in their plans that they needed to act bolder and faster. He began exploring how Bridges to Prosperity could apply enterprise risk management (ERM), a holistic, organization-wide approach to risk management that identifies threats to core strategic objectives. After several months, McNeill discovered that there are many alternatives within ERM and few implementation resources tailored to nonprofit organizations.

# Addressing Risk to the Organization

## *Fraud Issues*

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**What you don't know CAN hurt you . . .**

- Recent study found 184,000 fraud cases resulting in losses of over \$124M from Jan 1, 2020 – Aug. 31, 2020
- Accounting Today reports that fraud has increased across nearly every category
- Paycheck Protection Program (PPP) has been attracting fraudsters

# Addressing Risk to the Organization

## *Training and Cyber Insurance*

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### **Proactive measures can help you avoid disaster**

- Training
  - Helps to protect the organization from fraudulent activity by teaching employees how to identify and report fraudulent activity
  - Reinforces the organization's no-tolerance policy toward fraud
- Cyber insurance
  - Provides minimum coverage for financial losses stemming from cyber breach
  - Customization/tailoring to organization's needs
  - Proof of employee training can help to reduce cost of insurance policies

# Streamlining the Audit Process

## *Changes in Process to Improve Audit Efficiency*

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**The annual audit now requires additional planning, but the organization benefits!**

- Planning ahead to have a clear understanding of the new remote audit process.
- Receipt of the auditor's sample selections in advance of the audit to enable sample support to be provided to auditors electronically and ahead of the audit.
- Transition to fully electronic records to enable fully remote and electronic responses to audit requests during audit fieldwork.
- Regular video conference calls between management and the external audit team, including planning calls, communication during audit fieldwork, and post-audit updates and audit exit calls.

# Remote Work Post Pandemic

## *It Can Be an Asset for the Organization*

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**The virtual environment brings many benefits – if you leverage them.**

- Less dependent on paper, leading to less requirement for physical storage and a lower likelihood of loss of important documents and records.
- Increase in environmentally-friendly practices within the organization, thereby reducing the nonprofit's carbon footprint.
- Less need for the scanning of paper documents, thus saving employee time that can be spent on other more important functions.

# Remote Work Post Pandemic

## *It Can Be an Asset for the Organization*

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**The virtual environment brings many benefits – if you leverage them.**

- More secure access to documents, including the ability to store electronic records on secure password-protected servers, with regular back-ups to prevent unexpected loss of data.
- Easier to follow an organization's document retention and destruction policy
- Less potential for fraud by building in multiple levels of review and approval through electronic software use, to ensure that a particular disbursement is made or a transaction posted in the accounting system only after the appropriate level of review and approval is given.

## **Polling Question #3**

Do you believe your organization has leveraged the benefits of the virtual environment?

- A. *Yes*
- B. *No*
- C. *Not Sure*

# Engaged Board Members are an Asset

*They Provide Key Guidance and Oversight*

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**Board members lend their time and talent to the nonprofits they serve. Here's how they can help.**

## Examples:

- Board Treasurer can step in and offer financial expertise where necessary, and assist overwhelmed nonprofit finance staff.
- Provide access to an electronic dashboard of documentation, enabling them to access and review particular documents when required.
- Assist with and leverage an organization's fundraising activities, including helping to complete grant applications, and complete and submit grant reports to grantors during the term of the grant.
- Review and approve minutes of meetings, and maintain copies of all the minutes on an internal electronic dashboard.

# Engaged Board Members are an Asset (continued)

## *They Provide Key Guidance and Oversight*

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Provide board members with direct access:

- monthly and quarterly financial reports, budgets, and actual vs budget analysis.
- vendor files to assist in decisions regarding major purchases, including analysis of documents in competitive bidding and sole source procurements.
- important documents to assess an Executive Director's performance as part of the annual performance review.
- documents to ensure that the organization has appropriate HR policies and procedures that are fully compliant with employment laws and regulations.
- agreements and contracts that the organization proposes to enter into, to ensure that the organization is fully protected and to save on legal fees.

# Key Takeaways

## *Items to Discuss with Your Board and Leadership*

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- Governance should be a critical area for focus in 2021 as we come out of the pandemic
- There are tools available to help organizations assess their governance structure
- Focus on internal controls with particular attention to critical risks such as fraud and cybersecurity
- Revisit the audit process to streamline it for the virtual environment
- Remote work provides many benefits – don't waste this opportunity
- Board members are more critical than ever to organizations. They also have a fiduciary responsibility!

# Questions?

*Contact Us*

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