NOT-FOR-PROFIT INSIDER

VOLUME 10 :: ISSUE 1

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PROCUREMENT STANDARDS UNDER THE OMB'S NEW GUIDELINES FOR ADMINISTRATIVE REQUIREMENTS

The new Uniform Guidance for federal funding (sometimes known as the "Super Circular") outlines several changes to the procurement standards which are required for federally funded organizations. While most of the guidance in the new regulations became effective for years beginning after December 26, 2014, the Office of Management and Budget (OMB) has provided an additional grace period for the implementation of the revised procurement standards. For example, a college with a year-end of June 30 would need to have policies in place to conform with the new guidance no later than July 1, 2016. The new standards closely follow those that were required for state and local governments under OMB A-102 so nonprofit organizations, in particular, need to carefully review their policies and procedures for purchases. The new guidance merges eight separate OMB circulars into a single Code of Federal Regulations.

The five general standards are straightforward:

1. The organization must maintain written policies and procedures over procurement that meets the applicable laws and regulations.
2. Costs incurred must be necessary and cost-effective.

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The next level of service

PROCUREMENT STANDARDS UNDER THE OMB'S NEW GUIDELINES FOR ADMINISTRATIVE REQUIREMENTS, CONT.

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3. All procurement transactions must provide full and open competition.
4. The organization must maintain written standards of conduct covering conflicts of interest.
5. The organization must maintain documentation addressing price and cost analysis, and vendor selection, as appropriate for the selection method of procurement.

The guidance describes five methods for procurement:

1. Micro-purchases (generally less than $3,000) for which no competitive quotes are required.
2. Small purchases (between $3,000 and $150,000) for which rate quotes must be obtained from an "adequate" number of qualified sources.
3. Sealed bids (more than $150,000) must be publically advertised and solicited from at least two adequate suppliers, lowest bid for fixed price wins.
4. Competitive proposals (more than $150,000) must have a written policy for technical evaluations and award goes to the most advantageous proposal, considering all factors.
5. Sole source contracts must meet one of four requirements; only available from one source, only one source can provide within required time frame, pre-approval from the Federal awarding agency has been received, or competition is considered inadequate after solicitation attempts.

The organization must follow its own documented procurement procedures provided that they conform to applicable federal law. This would mean that if the organizations policies, or state law, are more restrictive than those required under the Super Circular, the more stringent requirement would prevail. For any expenditures funded through federal monies, the procurement policies must be in conformance with the requirements of the Circular.

The OMB Guidance regarding procurement policies specially relates to Federally Funded Programs and Awards and is not necessarily required to be utilized for non-federal expenditures. It is, however, important for organizations to document their policies and be sure that those who are authorized to make purchases understand the parameters and their authority.

The reforms are designed to provide a government-wide framework for management of grants which will reduce the administrative burden for grantees and reduce the risk of waste, fraud and abuse.

By Marilyn Pendergast, Partner (Albany, NY)

SIX IRS REQUIREMENTS FOR DONOR RECEIPTS TO ENSURE A CHARITABLE DEDUCTION

While charities are not subject to IRS penalties for failing to issue donor receipts, there is a potential loss of donor if a donor's tax deduction is disallowed due to an inadequate receipt.

For each donation of $250 or more, a donor is required to have a receipt that is both written (paper or electronic) and timely (before the earlier of the date their tax return was filed or the tax return due date, including extensions). For donations less than $250, a donor may use a cancelled check or credit card receipt. As a best practice, most charities issue receipts regardless of the size of the donation.

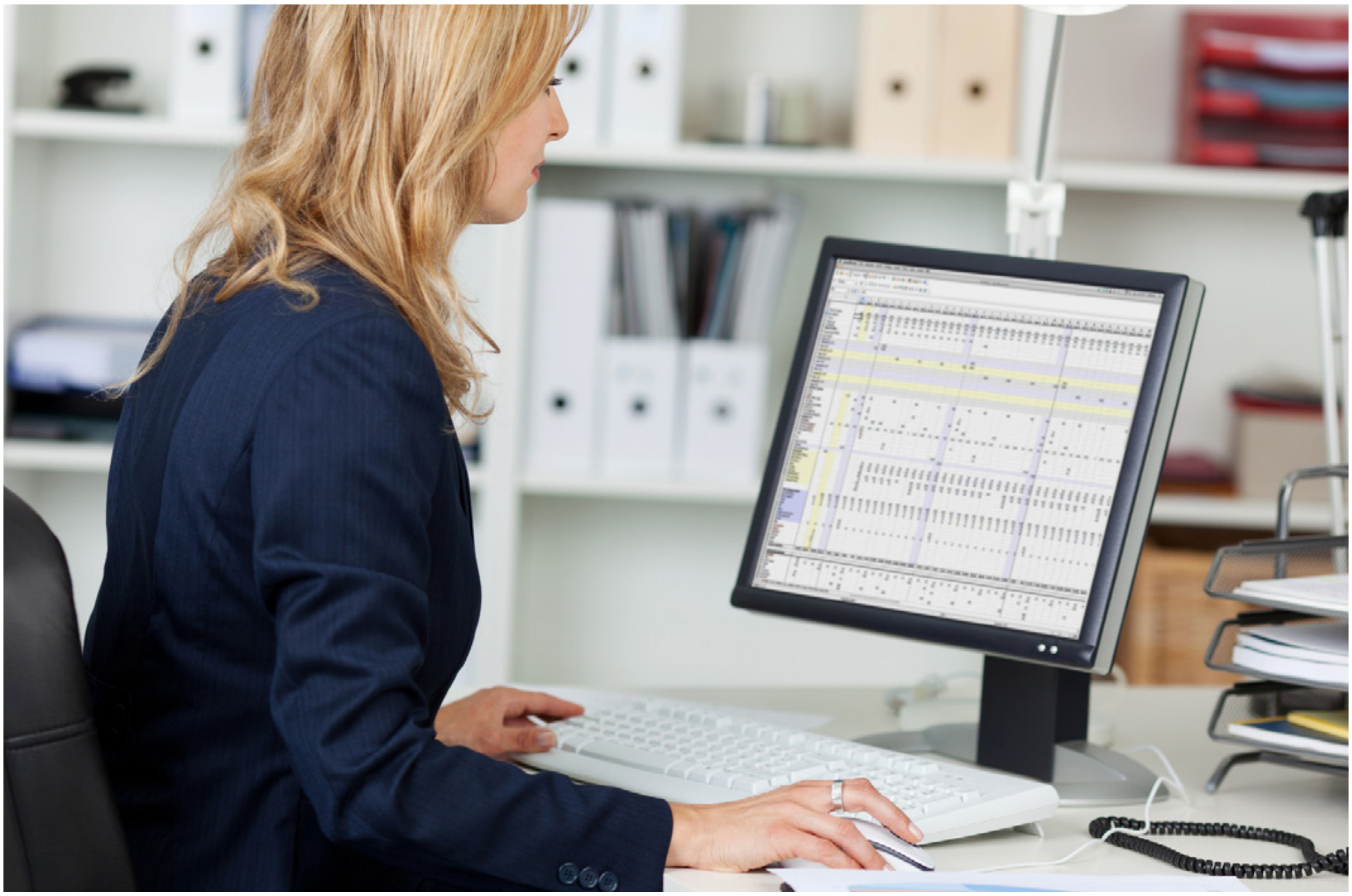
The receipt can take a variety of forms – thank you note, formal receipt, postcard, etc. However, no matter the form, every receipt must include six items to meet the standards set forth by the IRS.

1. **Name of the charity and name of the donor.** Each donor receipt should include the charity's name and name of the donor. Many donor receipts also include the charity's address and EIN, although not required. The donor, however, is required to have records of the charity's address. As a best practice, charities may want to consider including this information in their receipts so the donor has all the required information needed to support a deduction.
2. **Date of the contribution.** The contribution date technically is not required to be on the donor receipt. The requirement is that donors must keep records showing the date of their donations, either through cancelled checks, bank statements, or credit card statements. Many donors, however, do not keep this information. When these records do not exist, the IRS allows a donor receipt to serve as a record for the contribution date.
3. **Detailed description of the property donated.** For cash donations, the receipt should mention that cash was received. For noncash donations, a more detailed description of the item or items donated should be included. For a donation of real property, it is recommended to put the physical location on the receipt, this way it will be easy for the IRS to match it to the property appraisal. For stock donations, the number of stock shares as well as the company name should be reported.
4. **Amount of the contribution, but only if cash was received.** When cash is donated, the value is required to be included on the receipt. When a charity receives a noncash donation, the charity should never include a value of the item received on the receipt. The donor is responsible for obtaining a proper valuation for noncash contributions.
5. **A statement regarding whether or not any goods or services were provided in exchange for the contribution.** This is one of the most important items to include in the receipt. Unfortunately, it is one of the most commonly missed. The IRS has disallowed deductions to donors where the receipt does not contain this language.
6. **If applicable, the value of the goods or services provided by the charity to the donor and a statement indicating the tax deduction may be limited.** When a charity provides something to the donor, information regarding the value of the goods or services provided should be included on the receipt. This is often called "quid pro quo." Disclosure to the donor is required when the donor makes a donation of more than $75. However, as a best practice charities may want to do so anyway. Additionally, a statement should appear on the receipt indicating that the contribution deductible for income tax purposes is limited to the excess money contributed over the value of that received. In some cases the value of the goods or services provided are so minimal that they are excluded from reporting to the donor, such as a logoed pen or hat. In most cases, the value is required to be reported to the donor. If the charity does not provide the value when it is required to do so, the IRS has the ability to assess penalties on the charity.

"No matter the form, every receipt must include six items to meet the standards set forth by the IRS."

Article written by Joannie Zelinski, Senior Accountant (Farmington Hills, MI)

SEFA PREPARATION FOR A SINGLE AUDIT



Not-for-profits that spend $750,000 or more of federal funds are required to prepare an annual Schedule of Expenditures of Federal Awards (SEFA) for fiscal years beginning January 1, 2015 (note: previous threshold was $500,000). While most grantees are familiar with the SEFA preparation requirement, it is important to note that the responsibility for preparing the schedule falls on the grantee rather than on external auditors. Grantees spending federal funds for the first time or receiving new and more complex grants are at a greater risk of making critical mistakes on their SEFA's.

By understanding the requirements of the SEFA and implementing certain internal controls over SEFA preparation, grantees can reduce the likelihood of errors.

SEFA requirements. Grantees are required to identify all federal awards expended, with the expenditures for the period covered by their financial statements reported on the SEFA. To properly prepare its SEFA, a grantee must, for each federal award determine:

- The federal granting agency and program
- The five digit Catalog of Federal Domestic Assistance (CFDA) number
- The grant's name (as specified on the grant agreement)
- The identifying number assigned by the pass-through entity (if applicable)
- The expenditures (that is, the expenses actually incurred, regardless of whether the expenses have not yet been paid)

Common SEFA preparation mistakes. A variety of common mistakes when preparing the SEFA include the following:

- Failure to recognize accrued liabilities – A grantee might not receive an invoice for an expenditure accrued during the audit period until after the audit period. As a result, that expenditure is not recorded on the SEFA for the proper audit period.
- Incorrect expenditure amounts – Some grantees record the amount received in a grant instead of the amount of expenditures.
- Incorrect grant names – Communications between grantees and federal grantors can be vague

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SEFA PREPARATION FOR A SINGLE AUDIT, CONT.

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in their references to the technical names of grants. How a grant's name is listed on the SEFA should be identical to how its name is listed on www.cfda.gov, and the CFDA number should be verified with what's listed on the site as well.

- CFDA clustering – CFDA clusters must be identified. Grantees must know which programs are a part of a cluster so they do not list the programs separately.
- Format – Special formatting rules apply to the SEFA. For example, all CFDA clusters must be subtotaled, and all multiple CFDA numbers must be subtotaled.
- Noncash items – A grantee might omit noncash items for which no cash transaction occurred. These noncash transactions also should be recorded on the entity's general ledger. Examples of noncash items included food commodities or emergency generators.

Recommended internal controls for SEFA preparation. Grantees can reduce the risk of audit findings by taking the following measures before submitting their schedule to auditors:

- Verify the SEFA totals correspond with the trial balances of grant expenditures recorded in the financial statements.
- For reimbursement grants, the grant revenues and expenditures should always match.
- Assign SEFA preparation to a staff member with proper knowledge of grants and grant accounting.
- Subject the SEFA to a secondary review by someone with proper knowledge of grants and grant policies. The secondary review should include a check of the schedule's nonfinancial information, such as CFDA numbers, to determine if it is complete and accurate. Require the secondary reviewer to formally sign off to confirm he or she has reviewed the SEFA and it appears proper.

Grantees must prepare a clean SEFA to avoid earning audit findings. In order to ensure proper preparation, each grantee should establish clear preparation policies with strong internal controls.

> "Grantees spending federal funds for the first time or receiving new and more complex grants are at a greater risk of making critical mistakes on their SEFA's."

Article written by
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NOT-FOR-PROFIT INDUSTRY INSIGHT

With the increasing complexity of laws and regulations, it's important for associations, foundations, charities, hospitals, schools and other tax-exempt entities to seek out professionals with extensive experience in nonprofit compliance issues. We understand there are many challenges affecting the industry and provide the attention needed to help clients stay focused on their job at hand.

UHY LLP's National Not-For-Profit Practice offers comprehensive audit and assurance, tax planning and compliance and business advisory services to meet the unique, complex needs of nonprofit organizations.

These types of specialized services, which cut across the traditional service lines, demonstrate our philosophy of skilled professionals integrating industry expertise with technical services.

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