Nonprofit Business Advisor
Business Strategies and Best Practices for Nonprofits

Finances

Relationships are essential to finding the best auditors

Wayne R. Pinnell, CPA, and managing partner at the California-based accounting and business consulting firm Haskell & White, said it in a recent interview with *Nonprofit Business Advisor* that if a nonprofit wants to be certain it has the best auditor for its organization, the key is to look to the relationship.

"Auditors need to be independent, but it's still very much a relationship business, and they must understand the mission of the organization," said Pinnell. "It's also beneficial for auditors to have an interest in the organization's mission, which helps them see things from a benevolent viewpoint—not just to provide a discount—but to understand and be aware of other services and relationships that they can bring through referrals, sponsoring events, etc.," he said.

Pinnell said that an auditor working for a nonprofit organization must be able to differentiate between the types of services he provides to a for-profit—say a manufacturing company—versus the services he provides to a nonprofit, as well as understand the different modes of operations that nonprofits employ.

"Some nonprofits are religious or community-based; some chase a cure for a disease; some are federally funded; and some rely on donations, and all have different modes of operating," Pinnell said. "The auditor needs to understand from a cash-in, cash-out standpoint where the funding is coming from and what types of major expenses there are, as well as where he or she can potentially help the organization beyond being a service provider."

Pinnell said that finding the right auditor can be an arduous process for nonprofits because auditors, in essence, are competing against each other, making it difficult for one CPA or firm to stand out during the request for proposal process. He recommended narrowing the search to three CPAs or firms and then assessing each of the potential candidates' personalities. Pinnell suggested nonprofits ask themselves these sorts of questions:

- How well do the candidates interact with the executive director, key board members, and high-level staff?
- What else can the auditor or firm do to help the organization? If an organization is just thinking about the audit report, it'll often make a decision based on the lowest fee. Many nonprofits choose that route and miss seeing the possibilities—or the other benefits an auditor might bring.

Pinnell recommended that nonprofits wanting to change auditors start the process as soon as they receive their last report. He said that in many instances, it may be 90 or 120 or 180 days before the audit report is received, so an organization could be well into its next year before it gets the report.

That time frame should "not be underestimated," Pinnell said. He said he's been involved in cases where an auditor passed away or a firm closed shop, and a nonprofit was forced to move quickly, but in general, he recommended leaving enough time to make an educated decision. The board and audit committee—with baseline input from the executive director—should have the time needed to source out, interview candidates, request proposals, and weigh those proposals.

Pinnell also said organizations should consider these characteristics to determine how good of a fit they have with their current auditor:

- **Timeliness.** If the auditor is not meeting deadlines, it's a definite red flag.
- **Responsiveness.** If there is no effort on the part of the auditor or firm to establish rapport with the executive director or the board chair, then the auditor may just be working toward his annual fee.
- **Technical ability.** If the organization's board and audit committee always seem to be one step ahead of the auditor in knowledge, the organization may have an auditor that is not up to speed technically.
- **"Yellow Book" experience.** The term, which is coined from the old binders the federal government used to distribute funding regs and compliance requirements, means it is essential for any candidate interviewed for the auditor position to have experience with Generally Accepted Government Auditing Standards (GAGAS). "If a nonprofit receives federal funding, this brings in a whole extra level of compliance and reporting," Pinnell said, "and a lot of firms just don't do it."

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• **Periodic review of the auditor or firm providing services.** Nonprofits should have a policy in place to review their auditor on a regular basis—as well as their benefits providers, attorneys, and other service providers.

• **Added benefits.** Nonprofits should ask themselves what else the auditor can do for the organization. Pinnell said if you may have the opportunity to bring in new donors, volunteers, or sponsorships, it may be worth paying a little more rather than going with the lowest bid.

"The challenge nonprofits have is that the public wants to see its dollars going toward the programs," Pinnell said. "They can work against themselves by making sure the administrative costs stay in line, which cascades into lower salaries and potentially, attracting a lower quality service provider. Consider what else the auditor's relationship might bring to the organization."

For more information

Wayne Pinnell is a CPA and managing partner for Haskell & White, a California-based accounting and business consulting firm. He has served on a number of nonprofit boards in a variety of capacities, including chair of the audit committee and chair or president of the board. You can contact Wayne Pinnell at (949) 450-6314 or email *wpinnell@hwcpa.com*. ■

Conferences/Events

DMA Nonprofit Federation conference convenes in D.C.

The Direct Marketing Association's Nonprofit Federation will host the 2012 Washington Nonprofit Conference on March 1–2, 2012, at the Renaissance Washington DC Downtown Hotel in Washington, D.C.

According to event organizers, participants will "learn innovative strategies and creative approaches to fundraising that will help conference goers identify and develop new initiatives for their programs, as well as increase donations."

This year's conference keynote speaker will be Emily Sperling, president of ShelterBox USA, Inc., an organization that responds to natural or other disasters and provides shelter and dignity to victims of such emergencies. Attendees also will hear from leading experts about how best to use: social media, relationship-building and donor engagement, and integrated marketing, among other topics.

To learn more, visit *www.the-dma.org/conferences/dmanonprofitdc/index.shtml*. To learn more about ShelterBox USA, Inc., visit *www.shelterboxusa.org/*.

Trustees, foundation staff and grantmakers make for the Hill

There's still time to plan to get to Foundations on the Hill (FOTH), to be held March 21–22, 2012, in Washington, D.C., at the Mayflower Renaissance Hotel.

The Council on Foundations and the Forum of Regional Associations of Grantmakers—who have cosponsored Foundations on the Hill since 2003—work to provide an annual opportunity for grantmakers to meet with their federal lawmakers and encourage attendance from trustees, executives, and staff of grantmaking foundations, and regional associations of grantmakers.

To learn more about the conference, check your eligibility or to register, visit *www.foundationsonthehill.org/default.asp*.

UK's Social Enterprise Exchange combines North and South events

For those executives seeking a worldview of social enterprise, the "world's largest" Social Enterprise event, the "Social Enterprise Exchange," will take place March 27, 2012, at the Scottish Exhibition and Conference Center in Glasgow, combining two annual events—Voice and S2S. The initiative, said organizers, is sponsored by Social Enterprise UK and the Scottish Social Enterprise Coalition, in partnership with CEiS Events.

Themes will include: social enterprise policy, starting a new business, growth and replication, winning business, subcontracting, social investment, and impact measurement, according to the event's webpage. The conference will also offer—among other activities—a chance to hear high-profile UK and international speakers; executive classes on social investment and engaging with the private sector; networking and trading opportunities; and practical workshops on sales, start-ups, spin-outs, impact measurement, and more.

To learn more or register, go to *www.socialenterpriseexchange.com*. ■

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