

LINDLEY AND COMPANY LLC

CERTIFIED PUBLIC ACCOUNTANTS

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SUBMIT YOUR COMMUNITY ANNOUNCEMENT

You may submit "Not for Profit Corner" announcements by email (admin@lindleyandco.com) or fax (206-332-0957). Call 206-332-0386 for publication dates. There is no fee for this service.

The information in this newsletter is necessarily brief. No final conclusions on these topics should be drawn without further review and consultation. For additional information, **PLEASE CONTACT US.**

THE HISTORY OF CHARITABLE GIVING

By: Martha A. Lindley, CPA

The charitable contribution rules have grown substantially since their modest enactment in 1917, from one short paragraph to seven statutory pages and 108 pages of Treasury Regulations. Back before 1986, every dollar given to a charity was one dollar less paid in taxes...so the taxpayer could pay \$1 in taxes, or give \$1 to a charity. This is called a credit.

In 1986, the charitable contribution moved up the back of the tax return to become a deduction – so each \$1 reduced taxable income by \$1. Now this is not as good a credit as it is tied to your tax bracket. So if you are in the 15% tax bracket, a \$1 donation saved you 15 cents in taxes.

Then charitable deductions moved to Schedule A. My rule of thumb is people generally eligible to file Schedule A have been very sick or have a house because of the threshold to be eligible to file Schedule A. This eliminates the charitable deduction entirely for folks not filing Schedule A. For those filing a Schedule A, there are other thresholds and limits, as at best, you will receive a deduction as in the preceding paragraph – cents based on your tax bracket.

It is theorized that a charitable deduction, in its inefficiency and selective application, does little to fund organizations. During taxable year 1999, the amount of charitable deductions claimed on all returns totaled



approximately \$270 billion. The government subsidized a percentage of that figure based on the taxpayers' marginal tax rates. Assuming, for example, that all taxpayers were in the 39.6% bracket, the actual government subsidy would have been \$107 billion. Based on the rationale for the charitable contribution tax subsidy, the government's loss in tax revenue is offset by avoiding the direct expenditure the government would have made to promote the general wel-

Year	Returns Reporting Charitable Contributions (latest data)	Total Amount of Charitable Contributions Reported (in thousands of dollars)	Average Contribution per Return
1975	24,642,672	\$15,393,331	\$625
1980	26,601,428	\$25,809,608	\$974
1985	36,162,178	\$47,962,848	\$1,326
1990	29,230,265	\$57,242,757	\$1,958
1994	29,848,727	\$70,544,542	\$2,363
1995	30,540,637	\$74,991,519	\$2,455
1996	31,591,983	\$86,159,305	\$2,272
1997	32,612,634	\$99,191,962	\$3,041
1998	33,835,992	\$109,240,078	\$3,228

fare absent the tax subsidy. The legislative history indicates that the purpose of the original charitable contribution deduction was to allow a wealthy taxpayer to receive a deduction for charitable giving. While this may have been justified during 1917 because only wealthy taxpayers paid taxes, this is not the reality in today's society. In modern times, many lower- to middle-income taxpayers pay income taxes but are prevented from claiming a charitable contribution deduction. Statistics show that charitable giving by low-income individuals is "generous." There is evidence suggesting that taxpayers who claim the standard deduction are responsible for approximately one-third of all charitable contributions. In fact, statistics show that the lower-income taxpayers actually contribute a greater percentage of their income to charitable organizations than do their higher income counterparts. According to Internal Revenue Service statistics, 69% of tax returns filed during 1998 claimed the standard deduction. So if tax reforms moved the charitable contribution deduction back to a credit, then every taxpayer would benefit from every donation.

KEY EMPLOYEE TURNOVER

Is the economy speeding up NFP staff turnover? We are seeing executive directors and finance managers retire or move on as budget and personnel cuts take a financial and emotional toll. We are seeing organizations with essential missions cut to the bone due to minimal funding. A lack of money is stressful when it is your job to “fix” escalating social issues. The economy cannot be fixed, only flexible adjustments can be made, but as the economy continues to falter, even fixes do not work.

“*The 2012 Nonprofit Employment Trends Survey*”, conducted by Nonprofit HR Solutions, reveals that 43% of nonprofits increased the size of their staff in 2011 (compared to 34% in 2010). The same percentage (43%) plan to increase their staffing levels again in 2012.

Percentage wise, anticipated turnover was:

	2011	2012
Retirement	1%	13%
Voluntary resignations	7%	14%
Involuntary Terminations	2%	5%
Total	10%	32%

Direct services is anticipated to be the area with the highest turnover.

A recent study by Opportunity Knocks found that over one third of the NFP employees they surveyed felt strongly that there were no future opportunities for them at their organization and their organization does not take an interest in their career development. The same study also found when meaningful recognition for achievements is lacking within organizations, many employees use their pay to assess their value to the organization. Not giving employees proper recognition and failing to pay competitively may lead to higher levels of dissatisfaction.

Why do staff leave:

- ◆ Lack of competitive pay 34%
- ◆ Inability to promote/advance 22%
- ◆ Excessive workloads/insufficient staff 20%

The *Survey* found that as the economy begins to rebound, non-profit leaders anticipate an increase in employee turnover. Whether these employees decide to leave because of their salary levels, personal reasons or overall dissatisfaction with the organization, one thing is for sure—the focus will be on turnover as a critical way to save money and retain top-quality workers.

1. **Who are my top performers, and what is the risk of losing these employees?** You should understand what keeps these individuals at your organization. Do you know what they want in their careers? And more importantly, can you give that to them?
2. **Am I recognizing top performers, or do I treat everyone the same regardless of level of performance?** Although high-performance employees like to be recognized financially, they also enjoy non-financial recognition. Do you have an incentive program in place, or a regular newsletter that highlights great work?

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FRAUD TESTING BY AUDITORS—DOES IT WORK?

In 2002, a long set of fraud examination procedures, SAS 99, became auditing standards. Each audit performed was required to adopt these procedures. Some firms charged thousands of dollars for the extra required work. The Association of Certified Fraud Examiners prepared the following analysis of how these procedures changed frauds detection:

“Report to the Nation” Assoc of Fraud Examiners	Before or After SAS 99	Frauds Detected by External Audit	Frauds Discovered by Accident
2002	Before	11	19
2004	After	11	21
2006	After	12	21
2008	After	9	25
2010	After	4	9

The number one method of detection is a tip hotline. Of the anti-fraud measures in place at the time a fraud was committed, only 15% had a hotline. Not only that, a tip hotline is Federal law for every business in the United States (including NFP) under the Sarbanes Oxley Act.

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KEY EMPLOYEE TURNOVER

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- 3. **Are my employees' salaries and benefits competitive in the sector?**
Work with human resources professional to determine what is considered competitive in terms of non-profit salaries and benefits. Are your salaries in line with the market? Do you offer benefits that help your employees, such as comprehensive medical insurance, flexible work schedules and health and wellness programs? If your organization is behind, it's probably time to re-think this part of your HR function.
- 4. **Do I have supervisors/managers who understand how to motivate the staff?** More than 1 million working individuals in the United States participated in a Gallup poll that found the number one reason why people quit their jobs—their boss. Take a deeper look into how your supervisors and managers are leading their direct staff. Start with an employee satisfaction survey and ask employees what would motivate them. When results are in, make sure management knows what is expected of them, and provide ways they can motivate the staff better based on survey answers and what is realistic for the organization.

FRAUD TESTING BY AUDITORS—DOES IT WORK?

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Let's look at how most frauds are detected:

Initial method of detection in companies with under 100 employees	Percent %
Tips (whistle blowing)	33
Management Review	15
Internal Audit	8
By Accident	12
Account Reconciliation	9
Document Examination	8
External Audit	7

Conclusion: Some auditors, and they were required to under auditing standards, spent 5 – 10% of audit time on fraud investigation, but 1) there was no increase in fraud detection by auditors. 2) more than twice the number of frauds are detected by accident than by auditors.

STEPPING IN FOR EMPLOYEES THINKING OF QUITTING

Brian Wilkerson, Revolution Advisors, in his article for *PharmaLogics Recruiting*, pinpoints certain employee behaviors that are signs of intent to quit. Hours worked and workload are predictors, when adjusted for the organization's culture. "Working longer or working less—a change in work patterns—is indicative of desire to leave," as are "doing less collaborative work such as volunteering for special projects or asking [fewer] questions," he says. "If someone gets quieter than they normally are, that's the biggest behavioral cue of attrition risk. It could be a sign of a problem unrelated to work, but either way it's an opportunity for the manager to sit down with the employee and find out what's going on."

LINDLEY AND COMPANY MOVES TO THE LINDLEY BUILDING

Lindley and Company began in 2000 and has moved five times since as services and staff has increased. We purchased a building in lower Queen Anne (by Key Arena) which allows for future expansion without physical relocation. For our many government funded clients, I want to share that the Small Business Administration was a big player in this purchase. While we audit client's compliance with government regulations, it's my first experience in preparing complicated reimbursement requests and negotiating through an endless string of changes, modifications and rejections from the government reviewers. I have a new found appreciation for the challenges our clients face!



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We specialize in not for profit organizations and government funded entities. We are committed to those agencies that provide services to our community. Our services include, but are not limited to:

- Audit services: Not-for-profit financial statements.
- Government audits, including Single Audits under OMB Circular A-133 and Yellow Book (Governmental Auditing Standards).
- Form 990 and Form 990 EZ preparation, including electronic filing.
- Financial statement reviews.
- Consulting, including compliance with federal, state and local funding agencies.

We would like the opportunity to respond to your next Request for Proposal.

New clients are welcome.

Member AICPA and WSCPA, Washington Women's Business Enterprise. Specializing in not for profit and government funded organizations since 2000.

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