

INSIDE THIS ISSUE:

Performance Measures	1
Cell phone Addiction	1
Internal Control Pop Quiz	2
Tech Corner	2
What is CAATS Testing?	3
Board Cannot Vote by Email	3



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Lindley & Associates LLC newsletter is written by Martha Lindley CPA, providing timely articles for nonprofits. As a national speaker on nonprofit issues and Uniform Guidance compliance, she personally writes and provides this quarterly newsletter to over 400 nonprofits as a contribution to our nonprofit community. If you would like to receive future editions, please contact us. There is no charge.

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**SUBMIT YOUR
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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.

PERFORMANCE MEASURES

By Martha Lindley CPA

This publication, *Performance Measure Guide*, State of WA OFM, provides useful guidelines regarding establishing performance measures. Additional detail is at <http://www.ofm.wa.gov/budget/instructions/other/performanceguide.pdf>

IDENTIFY THE AUDIENCE
In technical terms, a performance measure is a quantifiable expression of the amount, cost, or result of activities that indicate how much, how well, and at what level, products or services are provided to customers during a given time period.

Reducing the list of performance measures to a few vital relevant numbers requires judgment and knowledge

about the NFPs systems and customers. The audience receiving the information sets the standard for what is relevant and important. External audiences involved in budget and policy development are more interested in *efficiency* and *outcome (results)* measures.

WRITING PERFORMANCE MEASURES

Avoid common mistakes in writing performance measures:
• A performance measure should not include explanations of why the measure is important or how the data is collected.
• Avoid jargon and acronyms in performance measure titles.
• Don't word the performance measures as objectives. Ob-

jective statements include words such as "increase" or "decrease," which imply change. Objective statements are not performance measures.

LOGIC MODEL

Developing a logic model of the operating measures, for example:

- We want to increase the number of people who complete their application correctly the first time (input) **so that . . .**
- We can reduce the time it takes to process the application (process), **so that . . .**
- We can increase the number of permits issued (output), **so that . . .**
- We can reduce toxins entering the water table (immediate outcome), **so that . . .**

Continued page 2 column 1

CELL PHONE ADDICTION

By Martha Lindley CPA

Addictive behavior begins because it is rewarding - eating, drinking, gambling. Some addictions are so rewarding, so gratifying, they are almost impossible to extinguish, such as deviant behavior.

When any activity interferes with your life, it is an addiction. The use of electronic communication is addictive because it is intermittent reinforcement—the reward is sporadic. The average person checks their

phone 150 – 200 times a day looking for reinforcement. Smartphone users check Facebook 14 times a day. Americans spend 4.7 hours per day on their phone. This addiction does effect every day behavior, that is why there are driving laws to change the behavior. That is why employee handbooks have a section to limit the use of personal electronic devices at work.

Consistently reinforced behavior can be extinguished fairly readily when the reward is

extinguished. Intermittent reinforcement is a harder addiction to extinguish.

Studies have shown that some people's effectiveness on tests decreased if they could not have their phone next to them.

Modifying behavior: track daily phone checks, track interruptions, track phone related work issues and warnings. Assess phone use impact on your and other's lives. There is no upside to addiction.

PERFORMANCE MEASURES

Continued from page 1

- We can increase the number of salmon that successfully spawn in the stream (intermediate outcome), so that . . .

Salmon populations recover and are no longer endangered (ultimate outcome).

DATA COLLECTION

This publication, *Performance Measures of Not-For-Profit Organizations*, by the AICPA, is comprehensive and includes numerous examples by NFP types. <http://www.ef.uni-lj.si/docs/osebnestrani/Not-for-Profit.pdf>

Data collection considerations: define data needed, document the process, document data source(s), frequency of collection and methodology.

Methodologies to capture quantitative information:

- 1) Systematically collect data over time
- 2) Independent external program review & evaluation of proven effectiveness—statistically significant sample
- 3) Randomized controlled samples
- 4) Pre-test and post-test results
- 5) Surveys
- 6) Funders may already be capturing this data when submitted, determine what is available

INTERNAL CONTROL POP QUIZ

THE MARTHA FOUNDATION

Martha Foundation is a small organization serving the community. The executive director, Martha, is hard working and dedicated. Marty, the accounting manager, is also hard working, in fact, overworked. Martee, the receptionist, is well meaning.

Marty, in order to save Martha “extra work”, opens the mail, sorting out the bills from the cash. He enters the cash to the QuickBooks and makes the deposit. He pays the bills by printing out checks and gives them to Martha to sign and then picks the checks up from her desk and mails. Further, to “help” Martha, he prepares the bank reconciliation.

Identify the risk

Well, Marty does all the accounting with little oversight.

Martha works hard but is not providing a second set of eyes, nor is she monitoring what Marty is doing.

Control the risk

Martee should open the mail, restrictively endorse the checks and do one of several options: make a log and/or copies of the checks and give the log to Martha; prepare the deposit slip in duplicate and have Martee and/or herself make the deposit.

Martha (or a Board member) should receive the unopened bank statement directly and review for unusual items. She should also review all the returned checks. She should initial and date the bank statement as reviewed

Martha (or a Board member) should review the bank reconciliation monthly. The reviewer should initial and date the bank reconciliation. Martee should pick up the signed checks and mail.

Monitor the controls

The Board should monitor management – review original documentation and third party evidence (agreements, contracts, grants, etc) Board members should NOT sign tax documents or contracts - insurance does not cover that risk.

Management should monitor employees – review reports, reconciliations and original accounting data.

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WHAT IS CAATS TESTING?

By Ryan Kauzlarich, Audit Manager

CAATS = Computer Assisted Auditing Techniques

Traditionally auditors have been criticized because they reach conclusions based upon limited samples. It is not uncommon for an auditor to sample 1-5 transactions and declare a problem or conclude that "controls appear to be effective." The auditor is required to perform no to little sample testing for most audits.

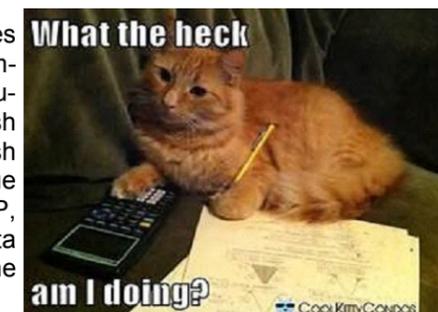
CAATs in audits analyzes large volumes of raw data looking for data anomalies. This provides the auditor to review large groups of data, rather than individual transactions. Also it provides auditors with tools that can identify unexpected or unexplained patterns in data that may indicate fraud.

CAATS testing also identifies testing for specific audit risks, such as duplicate billing, duplicate social security numbers or unusual payments. CAATS is most successful when the data has unique identifiers - check numbers, invoice numbers, customer numbers,

Using these techniques to create analytical procedures and data validity such as tracing physical documentation or electronic transactions (such as membership dues, online event or conference registrations or ticket sales) to the trial balance provides robust and thorough procedures in addition to the standard audit process.

Any data that can be exported to Excel can also be used effectively. Many organizations which use on-line data bases can perform data tests when the information is downloaded to Excel and pivot tables are used.

Lindley & Associates performs random sample testing on all audits, including cash disbursements, cash receipts, and unique receipting for the NFP, such as donor data bases, and on-line registrations.



BOARD CANNOT VOTE BY EMAIL

By Ann G Macfarlane
Professional Registered
Parliamentarian

(reprinted with permission)

Several of our clients have been startled recently to learn that they can't vote by email. Email is so ubiquitous and useful that it seems like a natural way to make decisions. For boards, it is not.

The essential nature of a board of directors is to meet, discuss and decide affairs as a body. *The Standard Code of Parliamentary Procedure* puts it this way:

All members of a governing board share in a joint and collective authority which exists and can be exercised only when the group is in session.

The trite phrase “more than the sum of its parts” applies here, and while trite, the phrase is not trivial. A board decision is not a mathematical total of individual choices. It is the collective action — hopefully the collective wisdom

- of the group as a whole, developed and perfected while meeting as a whole, and having value and authority as the decision of the whole. This means that one of the key tasks of any board is to develop its sense of itself.

I like Jan Masaoka's comment: *Perhaps the single most important attribute of an effective board is also its most intangible: an independent sense of itself. This sense of self is the board's identity as a BODY rather than, for instance, as a loose collection of individuals who each finds ways to support the organization.*

As we become ever more virtual in our business, relationships, and communications, we must remember this central truth. And this truth is reflected in our laws. In the State of Washington, by law nonprofit boards may meet in person or by teleconference. **Meeting by email is not possible, with one exception:** If ALL the members of a board agree to a decision via email,

then the decision will be the act of the board. It is a requirement, however, that the signed record of each member's approval be printed out and included in the minutes. This is called **“unanimous written consent in lieu of a meeting.”**

In the meantime, don't email a question out, get a majority of responses back, and think that you have a board decision. Email can be useful for preliminary exploration of ideas, or minor administrative matters. When it is time to discuss and decide a question, however, meet and vote in person or by teleconference, as the law provides.



Tech Corner

HIPAA COMPLIANCE

If you want to migrate to cloud-based storage, HIPAA compliance should be your first concern. Which Cloud Service Providers (CSP) offers the security you need to satisfy HIPAA requirements?

HIPAA does not “require” encryption of files. However, Congress has made encryption “addressable”. That is, encryption must be implemented if a risk assessment determines it is reasonable and appropriate.

Let's be blunt, you absolutely should encrypt HIPAA files, and use a CSP who does.

CSP who ARE HIPAA compliant:

Google Drive, Microsoft Office 365, Box, Egnyte, Symform

CSP who are NOT HIPAA compliant:

Dropbox, Amazon S3, iCloud

Ryan Kauzlarich, Audit Manager