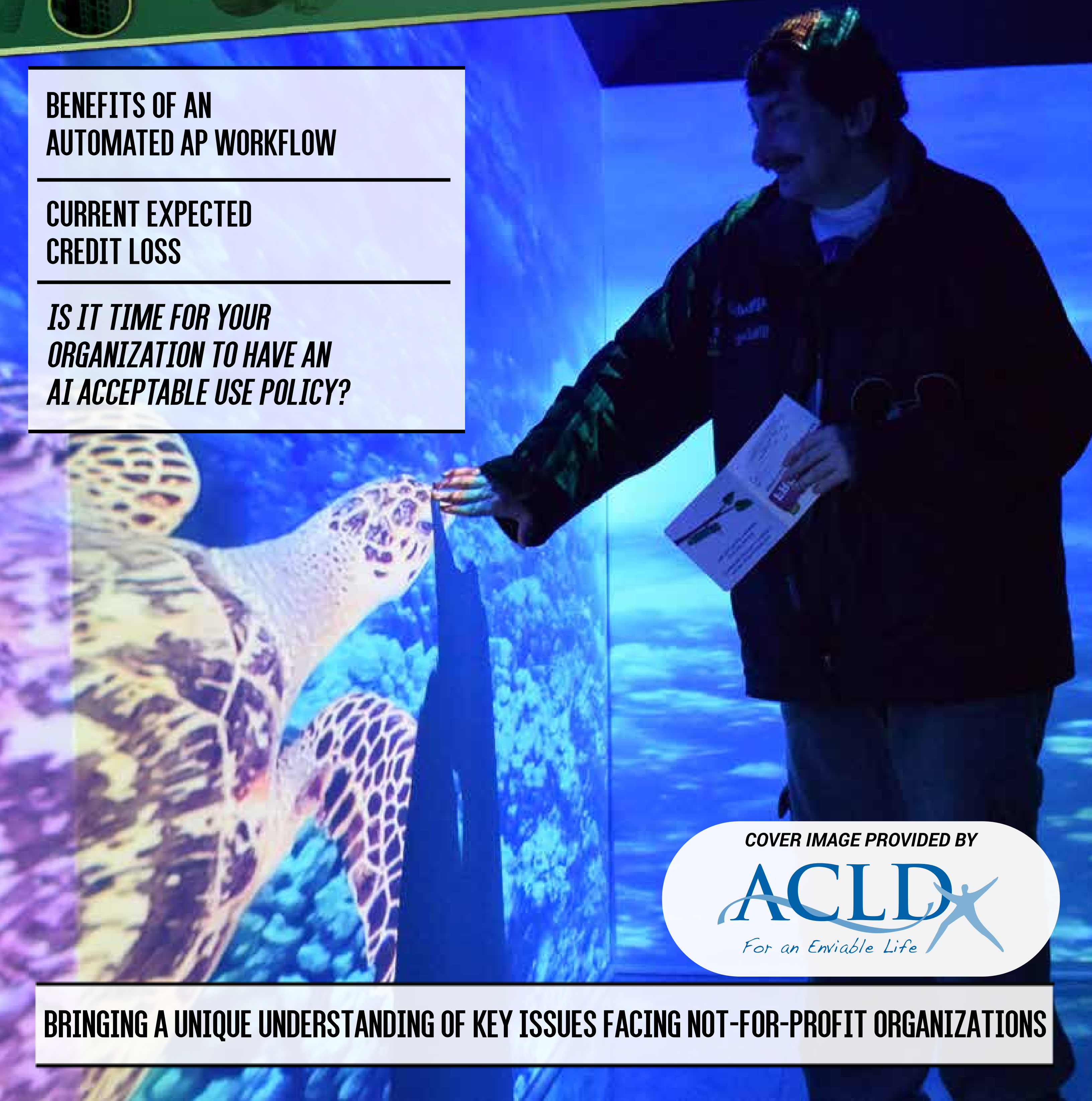
CERINI & ASSOCIATES, LLP | CERTIFIED PUBLIC ACCOUNTANTS
*PRESENTS*

# NFP ADVISOR

VOL. 28
*SUMMER 2023*





*COVER IMAGE PROVIDED BY*
ACLD
For an Enviable Life

BRINGING A UNIQUE UNDERSTANDING OF KEY ISSUES FACING NOT-FOR-PROFIT ORGANIZATIONS

# FROM THE EDITOR - MATTHEW BURKE, CPA, CFE

CERINI & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS



In this latest issue of the *NFP Advisor*, we're glad to finally **NOT** have content specifically related to COVID. We're all glad that we can put those ugly years behind and focus on more uplifting and forward-thinking trends. The economy continues to forge ahead, while interest rate increases have stabilized. Nonprofit operations are stabilizing, and the *"new normal"* has taken root. With help from various government programs, most nonprofits are entering this period in stronger financial condition than when the world turned upside-down in early 2020. This issue of the NFP Advisor focuses its gaze on some emerging trends that are impacting all companies, and how they may apply specifically to nonprofits.

Extending our reach a little further into technology, we provide a piece designed to spark thought and introduce you to ways that you may streamline accounts payable processing and bill payment. So many platforms now exist that can help standardize your internal approval processes, automate bookkeeping, strengthen internal controls, reduce opportunities for human error, and enhance efficiencies throughout your organization. In a more digitized world, this is a powerful trend that deserves your attention and energy.

As much as we strive to provide nonprofits with useful information that impacts their operations, governance, finances, etc., unfortunately for us, at our core, we're accountants. From time to time, we're forced to bore you just a little bit with some accounting standards updates. There's another accounting acronym to be aware of now, **CECL (Current Expected Credit Losses)**. CECL will take effect soon and may change how your organization has been accounting for bad debts on its receivables. Take the time to understand this now to properly plan for implementation and to ensure compliance soon.

Something that has exploded in popularity and dominates headlines these days is **artificial intelligence (AI)**. ChatGPT and its ilk seemed to usher in a new way of thinking, searching, and problem-solving. The world's biggest companies are now investing billions upon billions of dollars to claim a first-mover advantage in the fast-changing world of AI. Technology quickly moves these days, and use cases are just beginning to take shape. Nonprofits, like all companies, should be considering ways to properly understand and then harness AI to improve operations. A guest writer for us, Joshua Peskay of RoundTable Technology, discuss AI and the need for acceptable use policies.

Stay connected with us in the second half of 2023 as we continue to give back to the nonprofit community that we're proud to be so involved with. Every month Ken Cerini hosts the Cerini Connection, a webinar interview series that shines a light on topics near and dear to nonprofits. And plan on attending the 3rd Annual New York City Imagine Awards on Tuesday, October 17, where we bring the sector and its partners together to celebrate the greatness and impacts of New York City-based nonprofits and leaders. Remember, we're here to serve you. If there's anything we can ever help your organization with, please don't hesitate to reach out.

# BENEFITS OF AN AUTOMATED AP WORKFLOW

As the government has officially announced the end of the COVID pandemic, the return to *"normal,"* or whatever the post-COVID era will look like, has shifted the focus of nonprofit organizations from the crisis of the Pandemic to beginning to analyze what policies, systems, and procedures are here to stay and where organizations can improve the efficiency of their workflow. During the Pandemic, new software seemed to be developed or adapted by organizations overnight to help solve the everyday problems of working in a remote environment, such as Microsoft Teams, Slack, Bill.com, and Certify.com, to name a few. Some of these software and SaaS products were already around before the Pandemic, but they were rarely implemented or fully utilized by small to mid-sized organizations… then Covid came around and thrust the whole world into a new era of technology, forcing the implementation of these types of solutions as part of the everyday business function. One area where we continue to hear is a major pain point for organizations is the AP process workflow, where employees continue to have to dedicate a lot of time to managing, entering, getting the proper approvals, and ultimately paying vendors.

Any size nonprofit can benefit from adopting and implementing an efficient workflow through AP automation utilizing a number of SaaS providers such as Bill.com, Certify, Stampli, or Tipalti. Plus, the benefits of utilizing a centralized system can also help reduce stress on the employees managing the AP process by creating quicker AP turnaround times for vendor payment, a more systematic approval chain, data insights, and improved cash flow management. Furthermore, one major area of concern in organizations has always been the detection and prevention of fraud-related issues, which the powerful AI built into many of these software solutions can help identify.

Most software solutions provide you with a dedicated AP email address where vendors can submit invoices ensuring all invoices are captured and allowing for a more centralized process. When vendors send their invoices to the dedicated email address, the powerful AI data recognition will begin the process of identifying the information on the invoice such as date, invoice number, line items, amounts, and most importantly vendor name. Typically, these invoices will ping an employee that an invoice has been imported into the system and is ready to review. The AP clerk can go into the software, perform a review and properly assign a general ledger code to the invoice. Once the invoice is reviewed, it can be submitted to the next reviewer or approver within the organization's control process. With each step, an audit log of the workflow is logged in the background so that if it is ever needed for review purposes, it can be easily retrieved. Many of these applications will begin to learn how you are coding invoices and will begin to automatically predict where to code the various expense line items, in turn, this begins to make the process more efficient and reduces clerical errors. Lastly, for many of these applications, once the invoice makes its way through the approval process, you can pay the invoice directly through the application. This is a major benefit because you no longer need to separately log into the bank, write checks, or log into a vendor's portal, it can all be done through a single system. Once again this helps to reduce the time it takes to move through the process.

Now with the increased efficiency and transparency of the AP process in a single electronic system, *what additional benefits are there?* Since AP is being entered in near real-time, the data analytics of the total amount of AP due, payment terms, etc. can be visually displayed in an easy-to-digest way. No longer is an organization limited by the time their AP clerk takes to enter an invoice into the system, generate the AP aging, and provide it to management. The powerful AI takes care of that and typically at any given point in time, an organization can have a real picture of their AP, this in turn helps plan cash flow and gives management a heads up if terms need to be renegotiated or, when cash is plentiful, take advantage of early pay discounts.

Lastly, there are the benefits of data integrity and an effective audit trail. Most organizations that have gone through either their annual financial statement audit or a government audit, understand the painstaking task of pulling documentation when the auditors make their selections. Well now at least from an AP perspective, your entire AP process is in a single, easy-to-access place where documentation supporting the entire AP chain can be pulled and provided with a time-stamped audit trail. This will help to reduce the time and effort needed by staff to accomplish this task. Further, many of these AP automation providers will include with their subscription, a digital file vault where vendor W-9s and other pertinent information can be securely stored. One thing to consider with any automated solution you may be looking to implement is to always ask if they undergo any sort of independent compliance audit which will result in a SOC-1 report… similar to what you can obtain from your payroll company regarding internal controls surrounding their processes and procedures.

Automating any major business function can seem daunting, however, it doesn't need to be. Contacting a professional that specializes in implementing these systems can make the process as painless as possible and help guide you to make those apprehensive feelings go away, making it a positive experience. In the end, it is important to find the right solution for your organization as not all solutions are created equally, so a proper vetting process to find the *"Goldilocks"* solution for your organization is imperative. If the Pandemic has taught us anything, it is that the need to implement automated solutions as part of your business model is imperative.

**ALBERT BORGHESE, CPA**
*MANAGER*

# CURRENT EXPECTED CREDIT LOSS

**I***s anyone else tired of the accounting regulations constantly changing?* In the past few years, nonprofits have had to deal with an overhaul of revenue recognition rules, *"clarifying"* (*confusing*) contributions pronouncements, enhanced disclosure requirements for donations in-kind, and significant new ways to account for operating leases. Of course there were some minor updates as well that had less far-reaching impacts. And now here comes CECL. CECL stands for Current Expected Credit Loss, which is an accounting standard introduced by the **Financial Accounting Standards Board (FASB)** in the United States. CECL was implemented to provide guidance on how companies should estimate and report credit losses on financial assets. CECL is effective for most entities for years beginning after December 15, 2022, which, for most of you, means calendar 2023 or fiscal 2024.

The main objective of CECL is to require earlier recognition of credit losses, especially impactful for (*but not limited to*) loans and other financial instruments held by companies. It moves away from the previous standard, known as the incurred loss model, which recognized losses only when they were probable or had already occurred. CECL, on the other hand, requires entities to recognize expected credit losses over the entire life of a financial asset, even if the losses have not yet materialized.

Under the CECL model, companies are expected to consider historical information, current market conditions, and reasonable and supportable forecasts when estimating credit losses. They must also take into account relevant qualitative factors, such as creditworthiness, financial health, and macroeconomic factors that could affect the collectability of the assets.

CECL primarily applies to financial institutions and is not specifically designed for non-profit organizations. However, non-profit organizations that hold financial assets, such as trade receivables, investments, or loans, may be indirectly affected by CECL in a few ways:

## INVESTMENTS:

Non-profit organizations often have investment portfolios that may include debt securities, equities, or other financial instruments. If these investments are subject to CECL reporting requirements, the organizations may see changes in the valuation, impairment assessment, and reporting practices for those assets.

## LOAN PROGRAMS:

Non-profit organizations that provide loans or engage in lending activities may need to consider the principles of CECL when estimating credit losses on their loan portfolios. Many low-and-moderate income housing organizations will feel some pain in this area. They will be required to adopt a forward-looking approach and consider relevant information to estimate expected credit losses on their loans, similar to financial institutions.

## GRANT AND TRADE RECEIVABLES:

Non-profit organizations receiving grants, program fees, dues, or other forms of funding may need to evaluate the potential credit risk associated with those receivables. While CECL's provisions may appear to not directly apply to these receivables, organizations should still incorporate forward-looking assessment techniques and credit risk management practices, similar to the principles outlined in CECL, to estimate any potential future losses.

## DISCLOSURE REQUIREMENTS:

While non-profit organizations may not be subject to the same reporting requirements as financial institutions under CECL, they may need to provide additional disclosures about credit risk management, expected credit losses, and other relevant information if they hold financial assets that fall within the scope of CECL.

Practically speaking, CECL will require non-profit organizations to spend more time analyzing and considering the potential for future uncollectable values in its various categories of receivables. Virtually all organizations are owed at least something at different points in time, be it from donors, grantors, government agencies, members, program participants, parents, or others. Whereas in the past bad debts could be recognized when they became apparent, now non-profit organizations will have to invest time in reviewing past write-offs, past bad debts, credit worthiness, etc. to calculate a reasonable and fair estimate for future bad debts. A common approach is to review aging categories, or how *"old"* receivables may be. These aging categories can be ascribed certain reserve percentages based on delinquency and past experience, knowledge of who owes the organization money, etc. Those values would aggregate into the organization's allowance or reserve for bad debts.

Auditors will be reviewing this closely as CECL is implemented, as accounting estimates by their very nature are considered *"risky"* from an audit perspective. Organizations have motivations to keep reserves understated, as doing so keeps asset values higher and expenses lower, both of which improve overall financial conditions and operations.

Non-profit organizations should consult with accounting professionals or seek guidance from industry experts to understand how the principles and concepts introduced by CECL may affect their financial reporting practices and ensure compliance with applicable accounting standards. CECL may be daunting, but with proper attention and effort, you can be prepared for this new standard and its impacts on your organization's financial statements. As always, we're here to help in any way necessary.

**MATTHEW BURKE**, CPA, CFE
*PARTNER*

IS IT TIME FOR YOUR ORGANIZATION TO HAVE AN
# AI ACCEPTABLE USE POLICY?

YES! AND READ ON FOR A DRAFT POLICY YOU CAN USE RIGHT NOW.

As **Artificial Intelligence (AI)** continues to dominate the tech news, many individuals and organizations are utilizing AI systems to create content, automate processes, and increase their productivity. However, few (*if any!*) organizations have bothered to establish guidelines to ensure the responsible and ethical use of AI technology. I will argue that nonprofits are making a double mistake here:

- *Missing out on opportunities for successful AI adoption*
- *Inadvertently courting significant risks by not having an AI policy in place.*

AI has the potential to bring unimaginable benefits, but also comes with inherent risks. AI-generated outputs may be subject to bias, inaccuracies, and misuse, both intentional and unintentional. Therefore, it is crucial for organizations to establish clear policies for AI usage to address these concerns and ensure alignment with their mission, values, and objectives.

By providing guidelines for ethical and mission-aligned use, data protection and privacy, as well as promoting transparency and accountability, an AI Acceptable Use Policy helps to build trust among staff, volunteers, contractors, and external stakeholders. Furthermore, it encourages the development of training and awareness programs to ensure that all individuals who use AI systems on behalf of the organization are well-equipped to do so responsibly and ethically.

## RISKS OF NOT IMPLEMENTING AN AI ACCEPTABLE USE POLICY

In the absence of a clear AI Acceptable Use Policy, organizations may face significant risks, including legal, financial, and reputational consequences. For instance, unintentional misuse of AI tools could result in the exposure of sensitive information or the dissemination of misleading or even offensive content.



Here are some potential risks associated with not having an AI Acceptable Use Policy:

### 1. DATA MISHANDLING AND PRIVACY CONCERNS

Nonprofits often deal with sensitive data concerning their donors, beneficiaries, and stakeholders. AI systems rely on vast datasets to learn and improve, making them more susceptible to potential data breaches or misuse. Without a clear AI Acceptable Use Policy, employees may inadvertently mishandle data or use AI algorithms without proper understanding, leading to data leaks and privacy violations.

One recent example of this happened at Samsung. Such incidents can not only damage the reputation of the nonprofit but also result in legal consequences and loss of trust from donors and stakeholders.

### 2. BIAS AND DISCRIMINATION

AI algorithms are only as unbiased as the data they are trained on. If the training data contains inherent biases, the AI system will perpetuate them, potentially leading to discriminatory practices. For example, an AI-driven recruitment tool could unknowingly favor certain demographic groups, leading to an unfair and non-inclusive hiring process. An AI Acceptable Use Policy helps nonprofits ensure that the AI systems are designed and used in a way that mitigates bias and promotes diversity and inclusion.

### 3. UNINTENDED CONSEQUENCES

AI is a powerful tool, but it is not without limitations. Relying blindly on AI-generated insights without human oversight can lead to unintended consequences. Nonprofits must carefully consider the context of AI recommendations and decisions before implementing them. An AI Acceptable Use Policy can mandate human review and intervention before making critical decisions, ensuring that the technology remains a supportive tool rather than a substitute for human judgment.

### 4. FINANCIAL AND RESOURCE MISMANAGEMENT

Implementing AI systems can be a significant investment for nonprofit organizations. Without an AI Acceptable Use Policy in place, there is a risk of misallocation of resources or overspending on AI initiatives that may not align with the organization's mission. A clear policy ensures that AI projects are evaluated against strategic objectives, maximizing the impact of the organization's budget and efforts.

### 5. LACK OF TRANSPARENCY AND ACCOUNTABILITY

AI algorithms can be complex, and their inner workings are often difficult to understand, even for experts. Nonprofit organizations must ensure transparency in their AI systems to maintain trust with their stakeholders. An AI Acceptable Use Policy should outline the responsibilities and accountability of employees and the organization when using AI. This includes regular audits and reporting on the performance and impact of AI systems.

***So what now?***

The adoption of AI technology is happening NOW and organizations can no longer afford to ignore the opportunities and risks associated with this rapidly advancing technology. An AI Acceptable Use Policy is a vital tool for organizations to ensure the responsible and ethical use of AI systems while minimizing potential harm.

I feel so strongly about the importance of this that I have taken the time to draft (*with the help of AI, of course*) a sample AI Acceptable Use Policy that I am making available here.

**JOSHUA PESKAY**
*3CPO*
**ROUNDTABLE TECHNOLOGY**

# CERINI & ASSOCIATES LLP

CERTIFIED PUBLIC ACCOUNTANTS



## LEARN MORE ABOUT TWO AMAZING EVENTS HONORING AND AWARDING THE BEST NONPROFIT ORGANIZATIONS IN THE AREA



Diamond Sponsor | Platinum Sponsors | Diamond Sponsor | Platinum Sponsors

*FOR MORE INFORMATION ON APPLYING, TICKETS, OR SPONSORSHIPS, CONTACT: HILLARY@HILLARYNEEDLEEVENTS.COM*

WWW.CERINICPA.COM | 3340 VETERANS MEMORIAL HWY., BOHEMIA, NY 11716 | (631) 582-1600