

**NESSERALLA & COMPANY, LLC**

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May 7, 2014

Board of Directors  
Lowcountry Autism Foundation, Inc.  
Medical University of South Carolina – LAF, MSC 567  
Developmental-Behavioral Pediatrics  
135 Rutledge Ave  
Charleston, SC 29403

Dear Board members,

We have been engaged to review the internal control system of Lowcountry Autism Foundation, Inc. (the 'Organization'). The purpose of the engagement is to help the Organization strengthen its internal control systems and make them aware of best practices for small nonprofit organizations. Our engagement did not include any procedures designed to discover defalcations or other irregularities, should any exist. Furthermore, we do not express an opinion or provide any other form of assurance about whether the internal control system will prevent or detect any fraud.

This letter contains our recommendations to improve the internal control system and increase the timeliness and reliability of financial reporting. In addition to the specific recommendations listed below, we have also attached a document labeled *Entity Level Controls* that provides a more exhaustive list of internal controls that you may want to consider implementing to meet any current or future control objectives of the Organization.

We want to stress that a quality internal control system starts with the tone and conduct of the Board of Directors and is communicated through their oversight of senior management.

Based on our discussions with Tripp Ritchie, Nessco recommends the following to improve the internal control system of the Organization based on its current size:

**Independent Contractors**

Determination of employee or independent contractor is an important process as it involves many facets of the relationship and has important tax implications. We recommend the Board of Directors develop a written policy on how the Organization determines the employment status of workers providing services. Specifically, we recommend that each worker's file contain a document which details the determination process. We have provided for your convenience IRS Publications 15-A and 1779 which provide a more detailed discussion of how to determine a workers employment status.

### **In-Kind Donations**

Generally Accepted Accounting Principles (GAAP) requires that contributions be measured at fair market value on the date received and recognized as revenue. Donated office space should be recorded on the books as 'In-Kind Revenue' and 'In-Kind Expense' at the fair market value of the office space. Donated services should be recorded on the financial statements if the services provided are specialized, performed by individuals possessing those skills, and would need to be purchased by the Organization if they were not donated. Based on this understanding, volunteers providing general supportive services with no specific skill set required would not be recognized as donated services. Conversely, donated services should be recorded for clinicians or other specialized professionals performing work at no cost or at less than fair market value. Revenue and expense would be recorded at an amount equal to fair market value less actual amount paid for their services. Implementing these accounting policies will bring the Organization into accordance with GAAP and allow the Organization as well as third parties to obtain a more accurate picture of revenues and expenses.

### **Credit/Debit Cards**

The use of credit and debit cards introduces the opportunity for purchase of items for personal use and other fraudulent activity. We recommend that the Board of Directors review the statements and supporting invoices on a monthly basis and investigate any unusual transactions.

### **Board Overview**

Due to the small size of the Organization there is little to no segregation of duties so it is important that the Board of Directors have more active involvement in operations. We recommend that the Board designate a member to either (i) takeover sole signatory authority for the checking account or (ii) reconcile monthly bank statements and review supporting invoices. Additionally, Quickbooks provides a report called the 'Audit Trail' which tracks any changes to transactions after their original entry. We recommend that the Board of Directors or designated member review this report on a quarterly basis for any alterations that need explanation from management.

### **Organizational Policies**

Although not required, the IRS recommends policies and practices that they believe help a charity have sound operations and compliance with tax law. These include a clearly articulated mission, articles of incorporation, and governance and management policies. Specific policies recommended include Board review of the 990, conflict of interest, whistleblower, document retention and destruction, and procedure used to determine executive compensation. We have provided example policies and procedures for your convenience. This may be important when the Organization grows and is required to report their activities on the more comprehensive IRS form 990.

As the Organization grows, Nessco recommends the following controls to minimize fraud and material misstatement of the financial statements:

**Segregation of Duties**

Assigning different people responsibility for authorizing transactions, recording transactions, reconciling information, and maintaining custody of assets reduces opportunity for any one employee to conceal errors or perpetrate fraud in the normal course of their duties. As employment grows the Organization should strive to segregate duties as much as possible.

**Job Descriptions**

As additional positions are added to the Organization, management should establish written job descriptions to provide to employees. They should be detailed enough to provide the employee with a clear understanding of their responsibilities.

In addition to the internal control recommendations provided above, we reviewed the current Quickbooks file of the Organization and have the following notes to improve the current method of using the accounting system:

- Per Tripp Ritchie, the 'Other Liabilities' account is not a valid debt. The balance can be removed through retained earnings with a journal entry.
- Consider using account numbers as it will make recording transactions more simple and accurate. Account numbers can be added through the Chart of Accounts.
- Payroll expenses should be broken out into the following accounts: salaries/wages, federal payroll taxes, state payroll taxes, and payroll processing fees. This will allow the Organization to easily track salary expense as well as double check the payroll reports prepared by ADP.
- There should not be an account titled 'Reconciliation Discrepancies'. If the cash account per the books does not reconcile to the bank statement, the Organization should investigate why there is a discrepancy and correct it accordingly.
- The person writing and signing checks should not be involved in recording the transactions on Quickbooks.

We believe the implementation of our internal control and accounting system recommendations will allow the Organization to prepare more accurate, timely, and reliable financial reports for use by management and the Board of Directors as well as external third parties to obtain potential financing, grants, and contributions. We appreciate this opportunity to serve you. If you have any questions, please contact us.

Very truly yours,

*Nesseralla & Company, LLC*