



Ms. Nicole Pietrantonio, Board President  
SGC International

June 12, 2017

Dear Nicole,

I have completed a preliminary review of the SGCI conference financial reports you provided and have some observations and recommendations for your consideration. Please note that my review of these unaudited internal reports did not constitute testing or validation of underlying data points, nor did it include review of other organizational financial data sets.

### **Observations**

The internal conference financial reports reviewed endeavor to perform a number of analytical functions: demonstrate the professional fee calculation, report on the profitability of the conference, and conscientiously account for petty cash management and other inflows/outflows. However, in the absence of some elements of financial infrastructure, both in report design and in operational processes, the reports do not fully succeed in meeting those aims in accordance with Generally Accepted Accounting Principles or with the transparency intended. An audit of these processes (if limited only to the documents/processes I have reviewed) would likely identify deficiencies in effective internal controls. Unless these deficiencies are being successfully addressed outside of the documents and processes shared with 501 Commons, it is possible that these gaps could be generating material misreporting in other organizational financial reports, including the 990.

Specifically, the reports shared with 501 Commons include unreconciled Customer Relationship Management data (from event software)- the monies that flow through the CRM software into appropriate "buckets" such as Registration or Membership. CRM reconciliation with the financial books is a critical step in event management as most of the revenues flow through the CRM. Without CRM reconciliation, it is also not possible to properly report credit card or CRM processing fees, rendering those expenses less visible and therefore very difficult to plan or manage. Without detailed reconciliation, it is also not possible to have accurate visibility to the distribution of revenues between Registrations and Memberships, key data points needed for longer-range strategic/financial planning.

As an example, for the Atlanta conference, the failure to reconcile CRM data to the "Actuals" column generates a \$31,907.74 discrepancy within the report itself in conference expenses not yet satisfactorily detailed. N.B. Some portion of that 32k will be the aforementioned processing fees, and it is likely that another portion of that variance may be the difference between forecast and actual (how many registrations you thought you'd sell prior to the conference vs. the number of ones you

actually did, and therefore may not reflect actual real-world cash activities). Only successful CRM reconciliation can identify those data points or any other drivers of this unexplained variance.

An additional challenge is that the unreconciled CRM data point (“Actual Deposits”) is being used as one of the factors for calculating the conference coordinator fee, significantly complicating the organization’s efforts to arrive at an agreed methodology for calculation of the conference coordinator fee.

With respect the methodologies for calculating a fee as a percentage of net proceeds, it is my understanding from the data shared with me via these reports and in phone conversation with organizational representatives that there may exist differences of understanding within the organization about whether “Start up \$” is intended to be replenished to unrestricted operations or not, and therefore, whether those and other transfers (i.e. Awards, Grants) should be included as factors in the calculation of fee.

In the absence of documented clarity with respect to inclusion/exclusion of “Start up \$” I have defaulted to a best practice interpretation, which would treat those activities as transfers from and then to unrestricted operations, excluding them from calculation of conference coordinator fee.

If the organization determines that the Start up \$ should flow into the event, but not out as a strategic investment in retaining control/mitigating risks of the conference or to increase the conference’s capacity to generate net income in support of operating infrastructure needs, there are clearer ways to reflect that activity (i.e. as a transfer from operations, with an associated line-item in the organization’s annual budget, or by budgeting and then executing the conference to perform at a net loss no greater than the amount the organization is willing to subsidize, presumably 40k) which might mitigate internal confusion about fee calculations. Further discussion of management intent with respect to replenishment of Start up \$ would be required before a specific recommendation of bookkeeping methodology can be offered.

But given that the \$32k of unexplained variance in the Atlanta numbers is of a similar magnitude to the Start up \$, a report presentation which would allow the organization to make informed decisions about the use of Start up \$ is not possible until reconciliation of CRM has been completed.

The resolution of these two matters – CRM reconciliation and the treatment of transfers to/from operations – are vitally necessary if the organization chooses to continue to compensate a conference coordinator on a certain percentage of net proceeds, rather than a more straight-forward time/effort approach.

As a demonstration of the materiality of these matters in the fee calculation: for the Atlanta conference, an accurate calculation of 10% of net proceeds could be as problematically low as \$1432.03, compared to the \$6732.03 which seems to have been actually paid. The proper calculation is likely somewhere in between but cannot be established without CRM reconciliation and clarification of organizational intent with respect to transfers to/from operations.

## **Recommendations**

### **Governance**

- Educate board members on their fiduciary duties when they are recruited to the board and annually thereafter.
- Promptly adopt a Conflict of Interest policy and have all members of the board complete a disclosure form.
- Review other bookkeeping policies and procedures to ensure that conference financial information is flowing properly through to other financial reports for internal use or for external reporting, e.g. 990, 1099, B&O taxes, as applicable.
- Adopt as policy and successfully execute thereafter sufficient internal controls and checks/balances.

### **Conference Finance and Accounting**

- In your bookkeeping systems, create a “class” (classification, or a column on your Statement of Activities a.k.a. P&L) for the conference so that conference-specific activities can be recorded and viewed independent of other operating activities within the year. Ideally, the conference would be a sub-class within Programs.
- Apply the same concept, of a column for the conference and a column for all other activities, in the existing reports to provide transparency to monies which pass through the event (i.e. seed money, memberships, etc.).
- At the conclusion of each conference, reconcile accounts between the conference coordinator and someone with responsibility for the organization’s books.
- Compensate the conference coordinator via one disbursement rather than through a combination of petty cash consumption and a check.

### **Human Resource Management**

- Create a written job description identifying key responsibilities. Review the federal checklist for classification of contractor v. employee as needed.
- Set compensation for the scope in keeping with the key responsibilities and the desired outcomes. Is the conference coordinator primarily responsible for executing a superb event/program, in which case a fee based on time and effort would be a logical approach? Or are there responsibilities for revenue generation? If so, are there conflicts of interest in compensating the coordinator on that basis? Consider a compensation strategy that will serve the success of the program over time, recognizing that some factors, like the conference’s location, could create unhelpful fluctuations in conference coordination fees, as conference revenues appear generally stable over the last 4 years but expenses vary considerably based on local market conditions.
- Document key responsibilities, expected outcomes and the methodology for calculation of fees in a contract for professional services. At the completion of the work, upon financial reconciliation, have the individual or entity duly authorized to have offered the contract approve the contractor payment in writing.

Special event accounting needs can often seem as complex as the events themselves. In fact, event accounting is just like the event itself, an accumulation of so many minute details. It is my hope that these recommendations will equip you with tools and strategies to ensure that the conference and its accounting are accomplished with equal excellence!

Best regards,

Mary Ann Ehlschlager