



# Right Sizing Financial Operations



CERTIFIED PUBLIC ACCOUNTANTS

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# Agenda

- What is CAAS?
- Why CAAS?
- Considerations
  - Temporary or Permanent
  - Roles and Responsibilities
  - Independence Considerations
  - Transition
- Nonprofit
- Government

# What is CAAS?



- Client Accounting Advisory Services
- Represents a contemporary method in which companies delegate their accounting requirements to specialized firms. This approach covers a broad spectrum of services
  - Not a "one size fits all" service

# Poll

- How many of you use CAAS?
  - What types of services do you CAAS for?
  - What is the reason use CAAS vs internal?

# Why CAAS?

- Working age shift
  - U.S. working-age population only grew 3% in last decade
    - Reduced fertility rates and increased retirements
  - Rapidly growing non-working age population
    - Grew 13%
    - 10,000 Baby Boomers reach 65 years old every day
    - 3 million early retired in 2020-2022
- Shortage of accountants

# Why CAAS?

- Shortage of Accountants
  - CPA candidates are down 27% over the past decade
  - More than 90% of finance leaders can't find enough qualified accounting professionals
  - 300,000 accountants and auditors have left their jobs in just the last three years
  - The AICPA reports that 75% of current CPAs are nearing retirement age, a demographic wave that is creating an estimated 136,400 annual job openings through 2034
  - In 2022, there was a 7.4% decline in accounting bachelor's and master's degrees awarded-the steepest single-year drop in over 30 years
    - In 2023, only 1.4% of college students chose accounting as their major, down from 4% just a decade ago

# Why CAAS? (cont'd)



- Why is there a shortage of accountants?
    - CPA Requirement 150 credit-hour rule
      - Extra year of education beyond a typical bachelor's degree (significant time and financial burden)
      - CPA exam itself is notoriously rigorous, often requiring hundreds of hours of preparation
    - Salary
      - Technology, finance, and engineering offer higher starting salaries (engineering and computer science graduates earn \$10,000 – \$15,000 more on average)
    - Retention
      - Accounting has long been associated with long hours, especially during tax season and audit cycles
      - According to a recent survey, 42% of accounting firms report significant retention issues, with burnout cited as a leading cause
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# Why CAAS? (cont'd)

- Additional Challenges
  - Nonprofit
    - Limited budgets – program vs. G&A spending
    - Compliance with funder and regulatory reporting
    - Volunteer-based or small finance teams
  - Government
    - Budget constraints – state aid/federal aid/tax cap
    - Complex regulatory environments
      - State/Federal
    - Public accountability
    - Outdated systems

# Benefits of CAAS



- Cost savings
- Focus on programmatic activities
- Access to expertise
- Risk mitigation
- Adherence to laws and regulations
- Access to advanced technology
- Reduced employee turnover
- Enhanced security (data protection)

# Considerations



- How long do you need CAAS?
  - Temporary
    - Personal leave
      - NYS Paid Family Leave (PFL) or Family Medical Leave Act (FMLA)
      - Bereavement, illness, maternity/paternity leave, etc.
    - Sudden change in personnel
      - Resignation/termination
    - Training of new employee
  - Long-term
    - Cost-benefit
    - Additional expertise
    - Reorganization/restructuring

# Transition to CAAS Considerations



- Clearly defined roles and responsibilities
  - Who is responsible for each step in the transaction process?
  - Do responsibilities need to be shifted internally?
- Set expectations
  - In-person? Remote? Hybrid?
  - Reporting deadlines and requirements
  - How many hours are needed?
    - More hours = higher fee

# Independence Standards



- AICPA Independence Standards
    - **No Direct Financial Interest:** Auditors must not hold stocks or similar ownership interests in the entity they audit.
    - **No Material Indirect Financial Interest:** Examples include financial relationships through close family members or certain investment vehicles that may be perceived as diminishing objectivity.
    - **Prohibition on Management of Client Affairs:** CPAs cannot assume management responsibilities (e.g., performing managerial duties, making decisions for clients, or acting in a capacity that undermines independence).
    - **Prohibition on Contingent Fees:** Fees contingent on the outcome of the audit or performance metrics are strictly disallowed since they create incentives misaligned with unbiased audit results.
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# Independence Standards (cont'd)



- Government – *Government Auditing Standards* (Yellow Book) issued by GAO (Government Accountability Office)
- Applies to:
  - Audits of government entities at the federal, state, or local level
  - Audits or attestation engagements involving organizations that receive federal assistance
- The Yellow Book has stringent guidelines that echo AICPA rules but go further:
  - **Prohibition on management roles:** Auditors must avoid performing any management functions for audited entities
  - **Segregation of Audit and Non-Audit Services:** The GAO explicitly states that even minor consulting engagements can threaten independence if they extend into management decision-making functions

# Types of CAAS



- Bookkeeping/transactional
- Controller/Treasurer
- Chief Financial Officer
- Consulting and advisory services

# Bookkeeping



- Day-to-day transactions
  - Enter invoices and submit payment (BILL.com, checks, ACH)
  - Enter and make deposits (remote check capture or bank deposits)
  - Enter and/or process payroll
  - Complete bank reconciliations

# Controller/Treasurer



- Oversee internal accounting staff
- Complete grant reporting, grant reimbursements
- Monitor and reconcile donor restrictions
- Perform month-end and year-end close procedures
- Prepare monthly budget-to-actual
- Complete internal financial statements
- Reports to Chief Financial Officer

# Chief Financial Officer



- High level review of financial operations
- Monitors budget
- Review of month-end and year-end close
- Review of internal financial statements
- Present at board and/or committee meetings

# Accounting/Advisory – Non-Profit – Examples



- Revenue Recognition
  - Accounting for contributions with and without donor restrictions
  - Conditional vs. unconditional contributions
  - Endowment accounting
    - NYPMIFA compliance
    - Software evaluation
    - Accounting for endowments
    - Spend policy

# Accounting/Advisory – Non-Profit – Examples



- Grant Compliance
  - As required by grant agreement
  - Requested by grantor
  - Testing of transactions for proper support, proper review and approval, allowability under grant agreement
  - Due to vast amount of information reviewed, opportunity arises to provide recommendations for process improvements

# Accounting/Advisory – Non-Profit – Examples

- Review of operations
  - Discuss significant transaction cycles with appropriate personnel
    - Payroll, purchasing and procurement, revenue
    - Who performs each step of the process? Who reviews each step of the process? What systems are used to perform each step?
  - Provide recommendations for efficiencies and enhanced internal controls

# Accounting/Advisory – Non-Profit – Examples

- Audit readiness
  - Day-to-day bookkeeping done in-house or outsourced
  - Provide assistance with year-end reconciliations and year-end close
  - Prepare schedules as requested by auditors
  - “Middle-man” between auditor and auditee
    - Fulfill requests for documentation
    - Field questions from auditors

# Accounting/Advisory – Non-Profit – Examples

- Hiring process
  - Assist with job descriptions, evaluate needs of organization
  - Take part in interviews
- Accounting software
  - Evaluate current software
  - Provide recommendations for efficiencies with new software
  - Assist with implementation questions

# Accounting/Advisory – Government – Examples



- Training
  - Bookkeeping
    - Day-to-day data entry
      - Record receipts, disbursements, and payroll
    - Monthly bank reconciliations
    - Year-end closing
      - Cash/modified accrual/full accrual
      - Cleaning up accounts
    - Preparation of monthly/Quarterly financial reports
      - Treasurers Reports/Monthly Budget to Actual
    - Assist in budget preparation
    - Grant reporting
  - Maintain fixed/capital assets
    - ~~Submit additions and disposals~~
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# Accounting/Advisory – Government – Examples



- Operations (internal controls and processes)
  - Internal Audits
    - Required for School Districts with over 1,500 students
  - Review of specific processes/procedures – improvements/recommendations
  - Extraclassroom Advisors Training
- Board financial training
- State Reporting
  - AFR (Annual Financial Reporting) – Counties, Cities, Villages, Towns, Fire Districts, etc.
  - Annual Financial Report (ST3) – School Districts
    - Supplemental Schedules – Fixed Assets, Long-Term Debt

# Durhamville Fire Department



- Treasurer stole more than \$90,000 from local fire department
- Use department's debit card at casinos
- Deposited department checks into her own bank account
- What was missing?
  - Review and approval of debit card purchases
  - Separation of duties surrounding cash receipt process

# West Sparta Independent Fire Department



- Board did not review bills before or after they were paid
- Treasurer did not maintain supporting documentation for all revenues and redeposited start up cash
- Foreign fire insurance tax proceeds annual report not filed timely with the State Comptroller's office
- What was missing?
  - Review of receipt and disbursement transactions
  - Month-end and year-end closing checklists/oversight of process

# Vernon Center Fire Department



- Treasurer stole more \$300,000 from local fire department
- Deposited department checks into his own bank account and wrote himself checks from the department's checking account
- What was missing?
  - Review of checks paid
  - Separation of duties surrounding cash receipt process

# H.O.M.E. CEO Embezzlement



- President & CEO of a not-for-profit organization embezzled \$650,000 of Medicaid funding
- Sentenced to 1-3 years in jail; required to pay back the \$610,000 owed
- Additional civil suit to prevent her from holding any fiduciary position in another NYS nonprofit organization
- Missing money was explained as bank errors until the embezzlement was uncovered
- Where is the gap?
  - Reconciliation and review of Medicaid claims
  - Review of bank reconciliations

# Oneonta Elks



- Received \$480,000 of contributions restricted to help the needs of children, people with disabilities and the elderly
  - Attorney General's Office determined almost \$170,000 of the amount received was expended on capital improvements and general operating expenses
  - Required to turn over all remaining assets to larger, state-run organization
  - Where is the gap?
    - Reconciliation and review of net assets
    - Review of internal financial statements
    - Expertise associated with not-for-profit accounting for restricted contributions
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# Society for the Propagation



- Former CFO embezzled \$1.8 million from the organization
- CFO was the sole officer of the Society
- Upon death of a donor, investment fund would send check to Society for amount of contribution plus undistributed earnings
- CFO would use a computer program to add his wife's name on the check, forged her signature and deposited the checks via ATM
- Where is the gap?
  - Separation of duties/oversight of organization
  - Reconciliation of investment accounts

# QUESTIONS AND DISCUSSION



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