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**Article**

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## ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

# Nonprofit financial assessment and research service learning: Evaluating the performance of an animal welfare nonprofit organization

Karen A. Maguire<sup>1\*</sup>

**Abstract:** The objective of this project is to evaluate the current financial and compliance status of an animal welfare nonprofit organization (NPO) by: analysis of trends over time using information reported on tax filings (Form 990); vertical and horizontal analyses of financial statements; analysis of trends over time using information from financial statements; reconciliation of financial statements to Form 990; ratio analysis of Form 990 Information; and comparison of reported information to local analogs and national standards. This project is conducted in collaboration with The Chapin Foundation. This research serves as a research service learning project with the participation of Master of Accountancy graduate students at Coastal Carolina University. Once the results are presented, recommendations are given for improving operational efficiency and achieving best practices. These recommendations are presented in the form of both short-term items to be addressed immediately—defined in this study as within 60 days—and long-term items to be undertaken in the future. Resources for applicable standards and requirements are also provided.

**Subjects:** Accounting; Accounting Education; Government & Non-Profit Accounting

**Keywords:** accounting; auditing; governance; nonprofit organizations; animal welfare organizations; research service learning

### ABOUT THE AUTHOR

Karen A. Maguire, PhD, MSF, CFE, CFS, CPA, is a professor of Accounting and the William J. Baxley Jr. Endowed Professor at Coastal Carolina University. This multi-phase, graduate research service learning process—conducted in Dr. Maguire's Master of Accountancy classes—is intended to assist nonprofit organizations (NPOs) achieve compliance with best practices for financial accountability, fundraising, and board governance. Essentially, by strengthening the financial knowledge and practices of NPOs: donors will have more confidence; NPOs will have the ability to obtain the funding needed to reach their goals; achieving efficiency in “back-room operations” will increase effectiveness in “front-room operations;” NPOs can build capacity; and NPOs can continue providing charitable services to our communities. This research provides a mutual benefit to both Coastal Carolina University and the NPO community.

### PUBLIC INTEREST STATEMENT

The recommendations presented are intended to enable the NPO to:

- Obtain affordable audits and reviews
- Develop and utilize cost-effective techniques
- Improve the internal control process
- Adhere to the grant compliance requirements
- Promote leadership and governance
- Enhance community engagement

Research with the participation of Master of Accountancy graduate students at Coastal Carolina University provides the opportunity to assist the NPOs in several areas. Through the research, assistance can be provided to help NPOs achieve best practices for corporate governance, accounting, and auditing, and reduce the costs of attaining these goals.

## 1. Introduction

Mahatma Gandhi once said that “The greatness of a nation and its moral progress can be judged by the way its animals are treated.” With this in mind, it is imperative that those organizations concerned with the well-being of animals have the abilities and resources necessary to fulfill their function in society. Toward this end, the objective of this project is to evaluate the current financial and compliance status of an animal welfare nonprofit organization (NPO) by:

- Analysis of trends over time using information reported on tax filings (Form 990)
- Vertical and Horizontal analyses of financial statements
- Analysis of trends over time using information from financial statements
- Reconciliation of financial statements to Form 990
- Ratio analysis of Form 990 Information
- Comparison of reported information to local analogs and national standards

Once the evaluation is complete, recommendations are made that are intended to enable the NPO to:

- Obtain affordable audits and reviews
- Develop and utilize cost-effective techniques
- Improve the internal control process
- Adhere to the grant compliance requirements
- Promote leadership and governance
- Enhance community engagement

## 2. Facilities walkthrough

An important first step in assessing the current status of an animal welfare NPO is an initial facilities walkthrough. By physically inspecting the facility, it is possible to get a sense of the day-to-day operations of the facility that may not be apparent through inspection of financial data alone. For this project, an official scheduled visit was conducted by the entire Advanced Auditing class. In addition, two visits were conducted in secret with no advanced notice given.

The scheduled site visit was conducted on 24 September 2015 after the close of normal business hours. The Advanced Auditing class was guided around the facility by the Director of Operations as well as two members of the Board of Directors. During this visit, the condition of the facility was observed, as was the condition of the animals housed within the facility. In general, it was agreed that during the walkthrough, the facilities and animals appeared clean and relatively happy.

The additional, informal visits were undertaken by Candelyn Bond and Dr. Karen Maguire some days before the official visit occurred. The conditions observed during these visits were reported to be at odds with the conditions observed during the official walkthrough. Of greatest concern was the observance of dirty animal housing with dogs being observed standing in their own feces. Additionally, it was noted that many of the staff appeared to only undertake any duties while being directly observed by the Director of Operations. Of further concern was that in several instances, it appeared that employees indicated that an animal was in the process of being adopted simply to avoid the work required to adopt the animal to the inquiring person.

The information gathered during both the formal and informal visits has proven invaluable for the project, providing a basis that was used to identify areas of concern. The areas of concern are addressed in the individual sections that follow, along with recommendations for addressing these concerns.

### 3. Mission statement

In addition to physical and financial analyses, it is important to determine what the organization itself views as the most important functions it undertakes. One of the best ways to ascertain this information is to obtain and review any mission statement produced by the organization.

A mission statement is an important item for any organization. The statement should reflect the core values of the organization and reflect what the organization strives to be. A mission statement is more important to employees of an organization than customers, as it presents the ideals toward which employees should be working. This is an important fact to keep in mind when creating a mission statement for your organization. The stated mission of the Grand Strand Humane Society as taken from their website is:

The Grand Strand Humane Society (GSHS) takes in animals brought in by the City of Myrtle Beach Animal Control. We are committed to the care and humane treatment of all homeless and abandoned animals in the Myrtle Beach Metropolitan Area. When we made the decision to step out of the cookie-cutter style of shelters and stop euthanizing healthy, adoptable animals for space, it was the right decision and we felt the only option for the GSHS. The decision did increase our financial struggle, but we will continue finding every healthy, adoptable animal a forever family as long as it is financially feasible. We are further committed to providing excellent guest service to people visiting our facilities in the hope that all our animals can find caring and loving homes. We also work at educating our community about responsible pet ownership and finally, to investigate and attempt to prevent cruelty to all animals. We strive to provide all communities within our area with cost-effective adoption rates as well as spay/neutering and preventative healthcare services. (Grand Strand Humane Society, 2015).

In addition, the Grand Strand Humane Society has included the following mission statement on the Form 990 tax forms filed with the IRS:

To care for and place animals and to provide for adoption, spay/neuter operations, preventive care, rabies and other vaccinations, and boarding of animals. (Foundation Center, 2015).

### 4. Five freedoms of animal welfare

Related to the mission statement of an animal welfare NPO are the Five Freedoms of Animal Welfare. While they may not be explicitly stated in the mission statement, these freedoms are key issues to keep in mind when drafting a mission statement.

Animal welfare, according to the World Organization for Animal Health (OIE), refers to the ability of an animal to cope with its current living conditions. An animal is in a good state of welfare if it is comfortable, safe, healthy, and well nourished. Such an animal is free from distress, pain, and fear, and can express innate behavior. Consequently, good animal welfare requires humane handling of animals, provision of shelter, proper nutrition, and prevention of diseases (OIE, 2015).

There are five recognized factors that influence an animal's welfare. These factors are referred to as the Five Freedoms (Bousfield & Brown, 2010). The concept of Five Freedoms originated in the United Kingdom in 1965 after the government commissioned an investigation into the welfare of animals kept in intensive farming conditions (Bousfield & Brown, 2010). These Five Freedoms are defined as:

(1) Freedom From Hunger and Thirst

- By ready access to fresh water and diet to maintain health and vigor

(2) Freedom From Discomfort

- By providing an appropriate environment including shelter and a comfortable resting area

(3) Freedom From Pain, Injury, or Disease

- By prevention or rapid diagnosis and treatment

(4) Freedom to Express Normal Behavior

- By providing sufficient space, proper facilities, and company of the animal's own kind

(5) Freedom From Fear and Distress

- By ensuring conditions and treatment which avoid mental suffering (Bousfield & Brown, 2010)

### 5. Compliance and responsibility

While the Five Freedoms provide a framework assessing the welfare of animals cared for by an animal welfare NPO, they do not carry the full force and weight of legal regulations. There are a number of areas where an animal welfare NPO is legally required to comply with published standards. We have grouped compliance for animal welfare NPOs into five categories based on the entity governing the compliance standards. Detailed appendices were provided to the GSHS. The areas of compliance determined by this project are as follows:

- Accounting Standards
  - Financial Accounting Standards Board (FASB)
- Business Regulations
  - Internal Revenue Service (IRS)
- Fundraising and Solicitation
  - Secretary of State
- OSHA Compliance
  - Occupational Safety and Health Act (OSHA)
- DHEC Compliance
  - Drug Enforcement Administration (DEA)

With respect to FASB standards, all nonprofit organizations have to report information about their financial performance, liquidity, and cash flow. Special procedures have been established for the handling of contributions, where FASB Statement No. 116 regulates Contributions Received and Contributions Made. FASB Statements No. 124 and 135 are specifically related to nonprofit organizations (Financial Accounting Standards Board, 2015).

FASB Statement No. 117 requires that all nonprofit entities provide:

- Statement of financial position
- Statement of activity
- Statement for functional expenses
- Statement of cash flows

Full disclosure of the donor-imposed restrictions on net assets should be made in these financial statements (Financial Accounting Standards Board, 2015).

Following IRS guidelines, nonprofit organizations may apply to the IRS in order to be exempt from federal income taxes. The IRS requires reporting on organization's exempt status, finances, governance, compliance with federal tax filings (including the IRS Form 990), and other activities. IRS also regulates charitable contributions and unrelated business expense (IRS, 2015b).

Charitable fundraising in South Carolina is administered by the Division of Public Charities of the office of the South Carolina Secretary of State. All charities that intend to solicit contributions or have someone solicit contributions for them must register with the Division of Public Charities before solicitations are made and thereafter on an annual basis. For annual financial reports, a charity can submit its IRS Form 990, 990-EZ, or 990-PF to the Division of Public Charities in lieu of filing a report on the Division of Public Charities' annual report form. Failure to timely submit registration statements and reports can result in administrative fines of up to \$2,000 per violation (South Carolina Secretary of State, 2015).

Under OSHA, employers are responsible for providing a safe and healthful workplace. Employers must comply with all applicable OSHA standards. Employers must also comply with the General Duty Clause of OSHA, which requires employers to keep their workplace free of serious recognized hazards. Under OSHA, organizations must comply with:

- Record-keeping
- Reporting
- Inspection Rules
- Hazard Prevention and Infection Control
- Physical Safety
- Chemical Safety
- Biological Safety
- Other Hazards (Occupational Safety & Health Administration, 2015)

According to the US Drug Enforcement Administration, all nonprofit organizations have to maintain minimum standards with respect to:

- Controlled Substances Registration
- Inventory
- Storage
- Administration (Drug Enforcement Administration, 2015)

The South Carolina Department of Health and Environmental Control's (DHEC's) Bureau of Drug Control enforces the S.C. Controlled Substances Act, which closely parallels the federal Controlled Substances Act of 1970. The S.C. Controlled Substances Act:

- Requires that every person or entity who engages in controlled substances activity in South Carolina:
  - Obtain an annual registration from DHEC
  - Register with the US Drug Enforcement Administration (DEA) prior to engaging in such activity. (Section 44-53-290)
- Empowers DHEC to decrease the diversion of controlled substances from legal sources to illegal ones by maintaining a closed system of distribution

- Authorizes DHEC to use South Carolina-licensed pharmacists who are also commissioned as state law enforcement officers (Section 44-53-480). These pharmacists have received certification training at the S.C. Criminal Justice Academy (South Carolina Department of Health & Environmental Control, 2015).

## 6. Overall operations

The overall operations of the Grand Strand Humane Society—and other animal welfare NPOs conducting an assessment—can first be analyzed by observing the trends over time of data reported on tax Form 990 and financial statements. This analysis will begin with graphical representations of the data contained on filed and publicly available Tax Form 990s. The information from the GSHS has been plotted against publicly available Form 990 data from other local animal welfare organizations (Foundation Center, 2015).

The GSHS is a larger operation than the animal welfare NPOs closest geographically. In 2011, the GSHS took in roughly twice the total revenue of the Humane Society of North Myrtle Beach (HSNMB), and roughly six times the total revenues of Coastal Animal Rescue (CAR) and Waccamaw Animal Rescue Mission (WARM). By 2013, reported revenues on the Form 990 for the GSHS are almost three times that of the HSNMB. CAR and HSNMB experienced an upward trend in revenues from 2012 to 2013 along with the GSHS. WARM, already the smallest NPO of the group with respect to total revenue, experienced a drop in revenue (Figure 1).

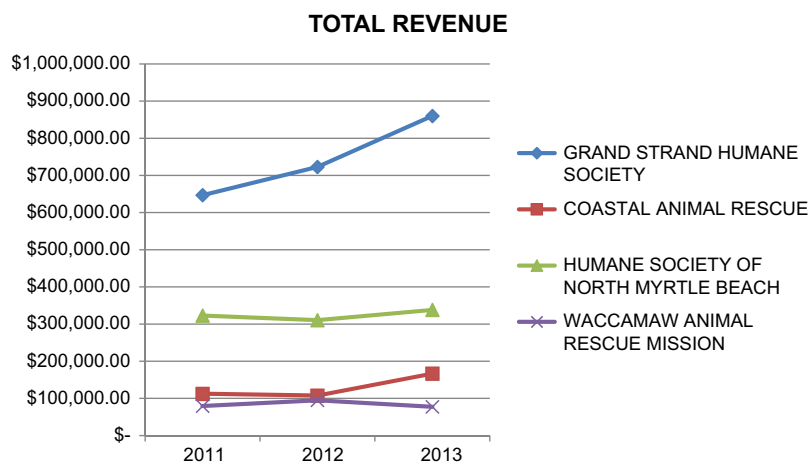
Similar to revenue, GSHS's total expenses have increased from year to year. The same is true for CAR. HSNMB decreased its total expenditures in 2013, even though its total revenues increased for the year. WARM's decrease in total revenues from 2012 to 2013 is evident in the corresponding decrease in total expenses over the same period (Figure 2).

Taken all together, the information on the preceding charts indicates that from an overall perspective the financial status of the GSHS is on an upward trend. Revenues have increased for every year analyzed at a rate that outpaces the increase in expenses and contributes to an upward trend in net income. Of concern, however, is the fact that the GSHS has operated at a net loss for all years analyzed (Figure 3).

Of the animal welfare NPOs, only HSNMB reported positive net income, and this was only for one of the three years studied, in 2013. CAR moved toward the breakeven point from 2012 to 2013. WARM's net loss increased over the same period.

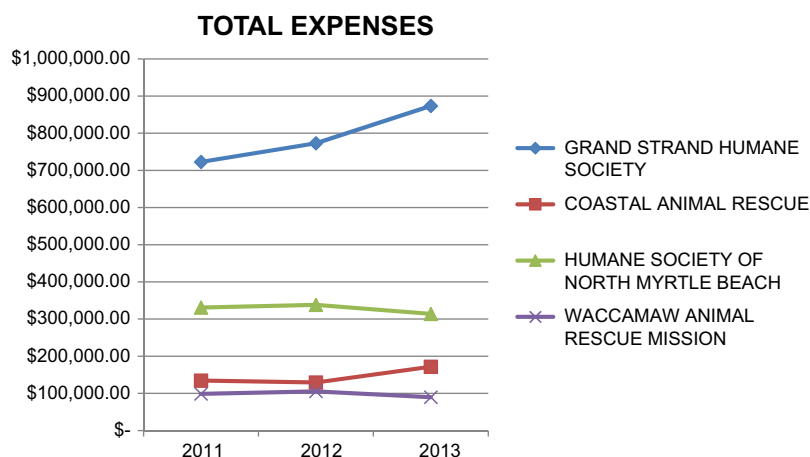
The GSHS kindly provided and approved the use of the financial statements used by management and the board of directors for internal reporting services. This allowed us to segregate data by

**Figure 1. Total revenue, local animal welfare organizations.**





**Figure 2. Total expenses, local animal welfare organizations.**

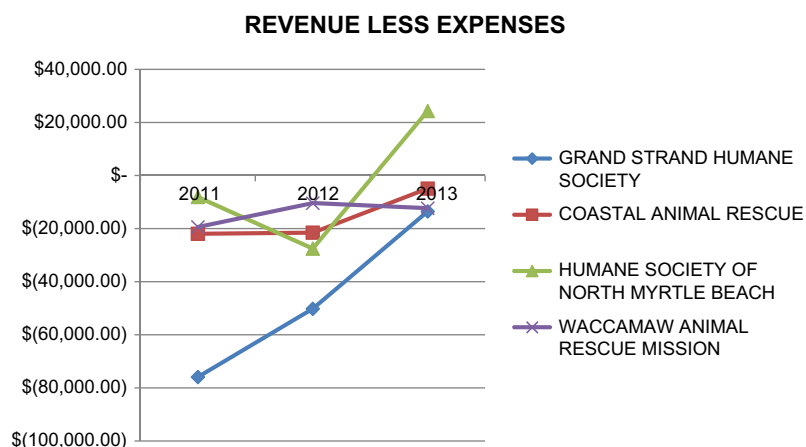


function, and to analyze fiscal year data from 2012 to 2015. The Form 990s for fiscal years 2014 and 2015 for any of the aforementioned animal welfare NPOs are not yet publicly available. Therefore, in analyzing the financial statement data, the overall results for the GSHS were plotted against the results for the separate operational units within the GSHS—Shelter, Clinic, and Fundraising/Administration. These individual operations are included in the charts below, and will also be analyzed in more detail in subsequent sections (Figure 4).

Similar to the data provided on the tax Form 990, financial statement analysis reveals that income for the GSHS is on an upward trend that appears to be accelerating. Of concern is the fact that while income from the shelter and clinic operations has increased, the income from fundraising exhibits a downward trend. In an NPO, the majority of funds are expected to be generated by fundraising activities; therefore, this trend indicates an area that must be addressed. The National Center for Charitable Statistics provides benchmarks created by multiple philanthropic organizations. These organizations estimate that between 20 and 40% of expenses are typically spent on fundraising (National Center for Charitable Statistics, 2015).

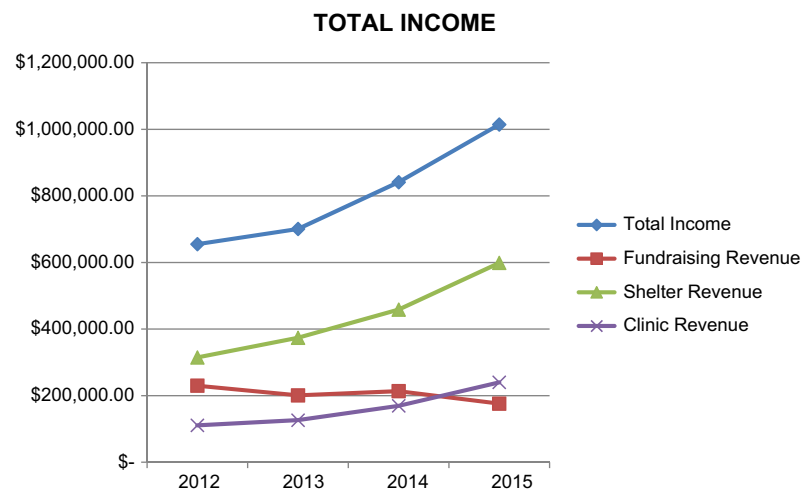
As with revenue, Cost of Goods Sold has increased every year for the time period under review. Total Cost of Goods Sold mirrors the trend in Shelter Cost of Goods Sold (Figure 5). Of particular note in this graph are the completely different behaviors of the three operating units. While shelter is consistently increasing, clinic is decreasing, and fundraising has remained steady as it declines to almost no fundraising expenses at all.

**Figure 3. Revenue less expenses, local animal welfare organizations.**

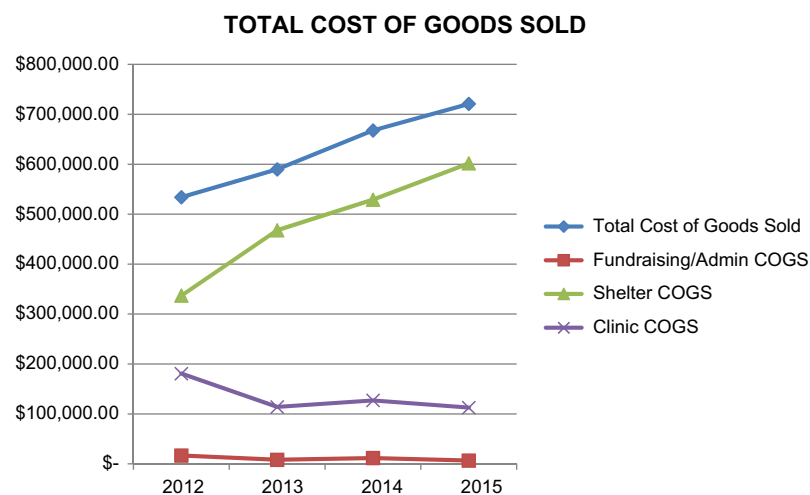




**Figure 4. GSHS total income and by operational unit.**



**Figure 5. GSHS total CGS and by operational unit.**

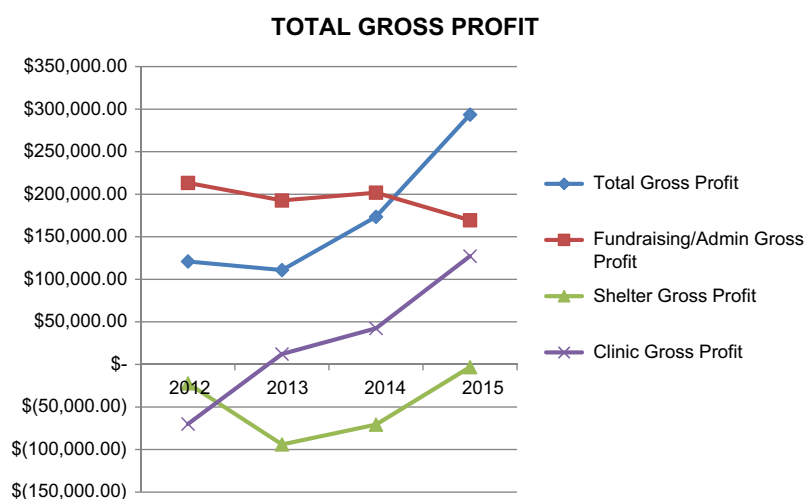


When the gross profit, revenue less cost of goods sold, is plotted, the results are dramatic (Figure 6). Where once fundraising was solely responsible for the GSHS generating a positive gross profit, results from recent years indicate that the shelter and clinic have become the driving force. If trends continue, shelter and clinic gross profit will eclipse the gross profit generated by fundraising activities in the near future.

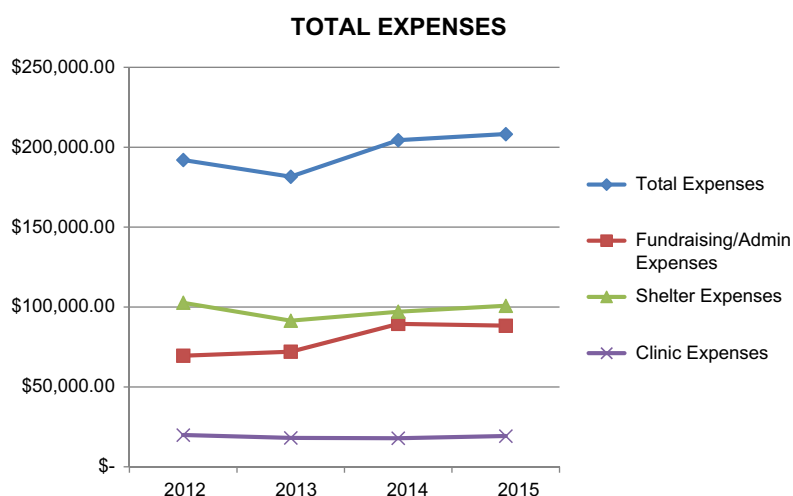
When compared to other analyses, the amount of total expenses seems completely disconnected (Figure 7). While revenues, cost of goods sold, and gross profit have undergone large changes during the time period in question, expenses have remained abnormally flat with almost no change from year to year. When the other analyses are taken into account, this flat behavior represents an area of concern that should be examined. Further charts and tables representing the analysis were provided to the GSHS. In addition, Appendices for every section of this paper were provided to GSHS. These deliver a more detailed view that can be used by the board of directors and management during their decision-making processes.

In addition to the trend over time analysis represented above, ratio analysis was undertaken using the information contained on filed tax Form 990s. Two sets of ratios were computed. The first set compared the Form 990 ratio results of the GSHS to other animal welfare NPOs within the state, specifically the Charleston Animal Society and the Greenville Humane Society. The second set of

**Figure 6. GSHS total gross profit and by operational unit.**



**Figure 7. GSHS total expenses and by operational unit.**



**Table 1. Form 990 ratio analysis, state animal welfare organizations**

2013 Form 990 data	Grand Strand Humane Society	Charleston Animal Society	Greenville Humane Society
Current ratio	2.31	11.43	3.91
Fundraising efficiency ratio	0.18	0.10	0.64
Program efficiency ratio	0.89	0.85	0.96
Working capital	\$31,057	\$1,279,737	\$465,074

ratios compared the financial statement results of the GSHS to the Humane Society of the United States (HSUS, 2015). Form 990 analysis for 2013 (Table 1) includes the following:

The current ratio measures an NPO's ability to meet short-term financial obligations (Guidestar, 2004). For the GSHS, the NPO has \$2.31 in current assets for every dollar of current liabilities. A current ratio of 1.00 is the breakeven point, and a higher number is better. The GSHS has a lower current ratio than the Charleston Animal Society and the Greenville Humane Society. However, their ratio does indicate that in 2013 the GSHS can meet its financial obligations. This result is contrary to GSHS's current ratio for 2011 and 2012, which was 0.9 and 0.8, respectively. Working capital

measures in dollars the excess of current assets over current liabilities (Guidestar, 2004). The GSHS had \$31,057 to devote toward building capacity. This number is on a smaller scale than the other animal welfare NPOs presented.

## 7. Shelter operations

When analyzing the overall financial health of an organization, it is helpful to look at its financial data over a period of time. This displays the organization's strengths and weaknesses. This same analysis can be applied to the financial data of the individual components of the overall organization. This section builds on the analysis of the overall status of the organization completed in the previous section. The following charts present an analysis of the Shelter Operations of the Grand Strand Humane Society (Figure 8).

When looking at the revenue generated by the shelter, it is clearly on an upward trend.

The upward trend noticed in shelter revenue is also apparent when reviewing the cost of goods sold for the shelter (Figure 9). In both instances, these items are moving at approximately the same rate as the overall humane society measures of revenue and cost of goods sold.

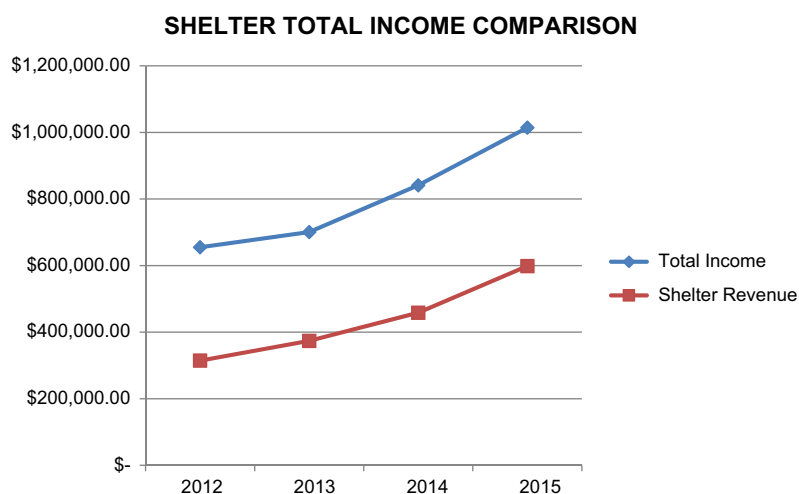
The GSHS shows a dramatic increase in net income over the past few years (Figure 10). The shelter's net income has improved in the sense that every year its net loss decreases. While the GSHS has been increasing with regard to net income, the shelter has been somewhat erratic. The year 2013 provides a unique result. The total GSHS net income remained at almost the same level as the year before. For the shelter, the net income in 2013 saw a sharp decline from the previous year. The shelter then struggled to make a positive contribution to overall net income as it recovered. The main culprit contributing to the negative net income from the shelter is the rapidly increasing Cost of Goods Sold Other Than Personnel as indicated in the chart below (Figure 11).

The Cost of Goods Sold Personnel account is unclear with respect to both definition and allocation. When calculating cost of goods sold, the IRS delineates organizations that make, buy, or sell goods, organizations that sell or charge for supplies used in a service business, and purchases less cost of items withdrawn for personal use (IRS, 2015a). It appears that this account includes elements of all three types.

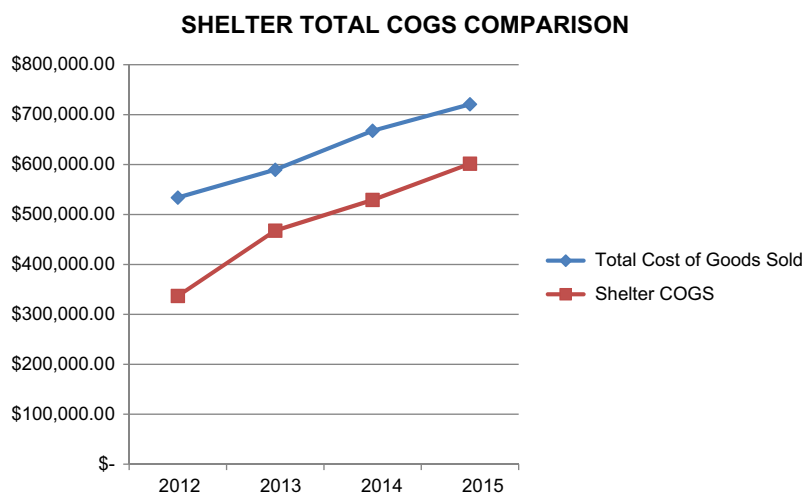
Otherwise, there appears to be two main drivers for these increased shelter costs:

- Shelter supplies
- Shelter preventative medications.

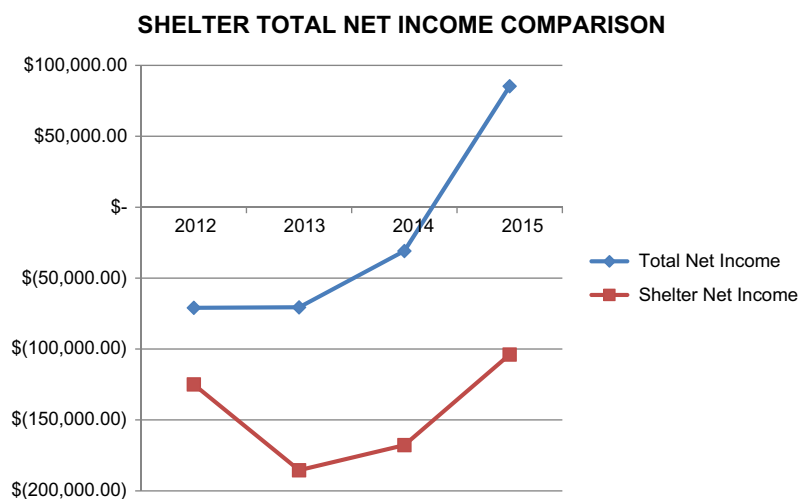
**Figure 8. GSHS comparison of total and shelter unit income.**



**Figure 9. GSHS comparison of total and shelter unit CGS.**



**Figure 10. GSHS comparison of total and shelter unit net income.**

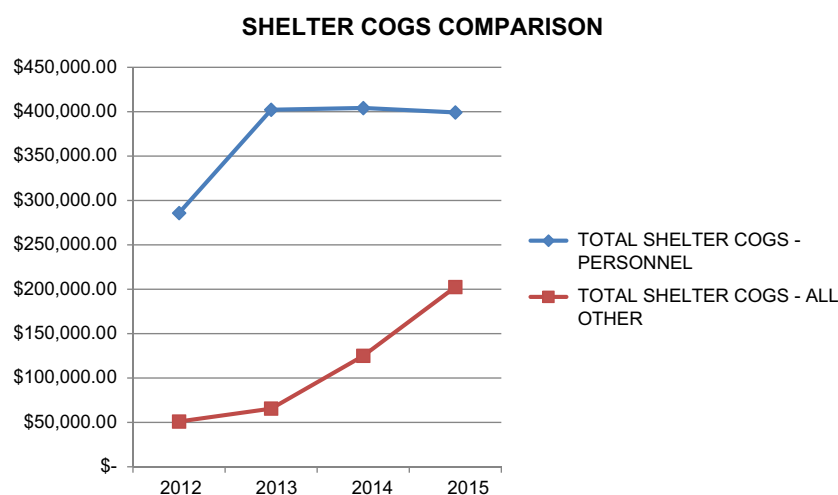


From 2012 to 2015, the costs recorded in the general ledger account labeled Shelter Supplies increased by 262%. During the same time period, the costs recorded in the general ledger account labeled Shelter Preventative Medications increased by just over 300%. During this time period, the variance between budgeted amounts and actual amounts was also quite large. This indicates either operational inefficiencies or unrealistic budgeting parameters. These two accounts make up over 98% of the costs that are recorded under Cost of Goods Sold Other Than Personnel.

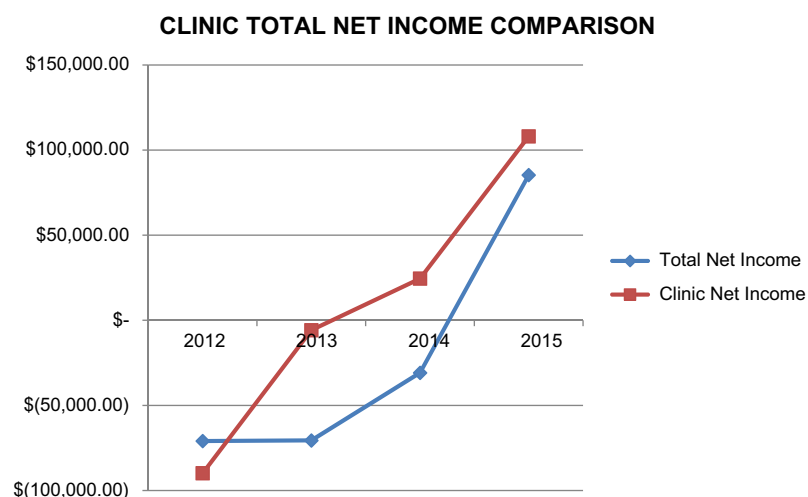
There are also several items that are currently not tracked by the GSHS that would create greater accuracy in financial reporting and lead to better decision-making. First, it is important to know the maximum and current capacity with regard to effectively serving animals. This will allow for effective budgeting and allow the organization to determine an accurate cost of treating an individual animal (ASPCA, 2015a).

Additionally, one of the most comprehensive figures that can be used to evaluate the performance of an animal welfare NPO is live release rate (ASPCA, 2015b). To effectively implement this measure, the organization will have to identify animals under one of four segments: Healthy, Treatable, Unhealthy, and Untreatable. This will allow accurate record-keeping and can be used by the organization to identify areas to improve. Simply put, the live release rate is the percentage of

**Figure 11. GSHS shelter unit CGS.**



**Figure 12. GSHS comparison of total and clinic unit net income.**



animals that left the facility with a live outcome. To measure this effectively, the organization needs to record the following things in detail:

- Animal intakes
- Live outcomes
- Euthanasia outcomes
- Owner requested euthanasia
  - Whether the animal was treatable/untreatable
- All outcomes (Asilomar Accords, 2004)

A template for calculating the live release rate can be found at: [http://www.asilomaraccords.org/statistics\\_and\\_formulas/annual\\_animal\\_statistics\\_table\\_template\\_2-07.pdf](http://www.asilomaraccords.org/statistics_and_formulas/annual_animal_statistics_table_template_2-07.pdf).

In the short term—defined in this study as within 60 days—the recommendation for shelter operations is to begin using the features of the Pet Point application already purchased by and

available to the GSHS. The GSHS needs to begin using Pet Point immediately for animals currently residing in the shelter. Performance measurements available via Pet Point include:

- Intake/Outcome Tracking
- Receipt
- Behavior
- Inventory/Order Management
- Enhance Animal Profile
- Lost/Found Tracking
- Pet Request (Pet Point, 2015).

Not only does Pet Point provide tracking for the items needed to calculate the live release rate, it also provides inventory tracking which would help identify the causes of the rapid increase in supply usage and help with the development of a more effective budgeting procedure. Additionally, Pet Point also provides monthly reports of total national intakes of cats and dogs, total national cats and dogs that left animal welfare organizations, and average adoption fees for cats and dogs under and over one year of age (Pet Point, 2015).

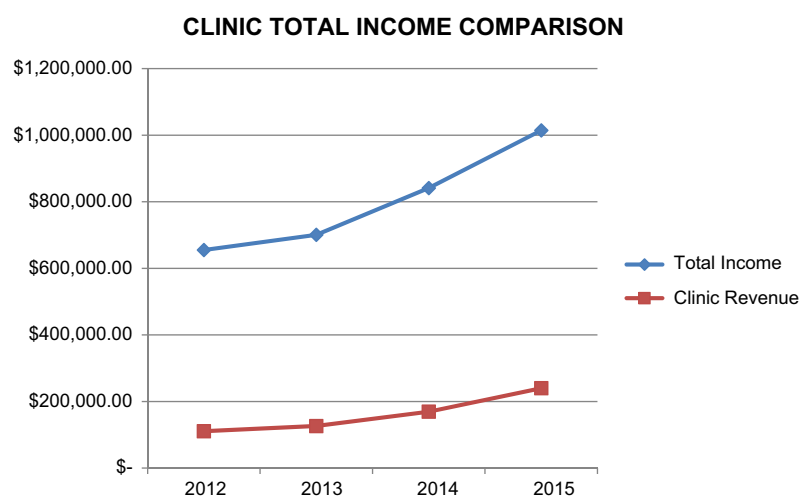
## 8. Clinic operations

Building upon the analysis done in the overall operations and shelter operations sections, this section analyzes the financial data related to the clinic operations of the GSHS. During the 2013 fiscal year, the clinic transitioned from operating at a net loss to operating with a substantial net income. Net Income for both the GSHS overall and the clinic are presented in the following chart (Figure 12):

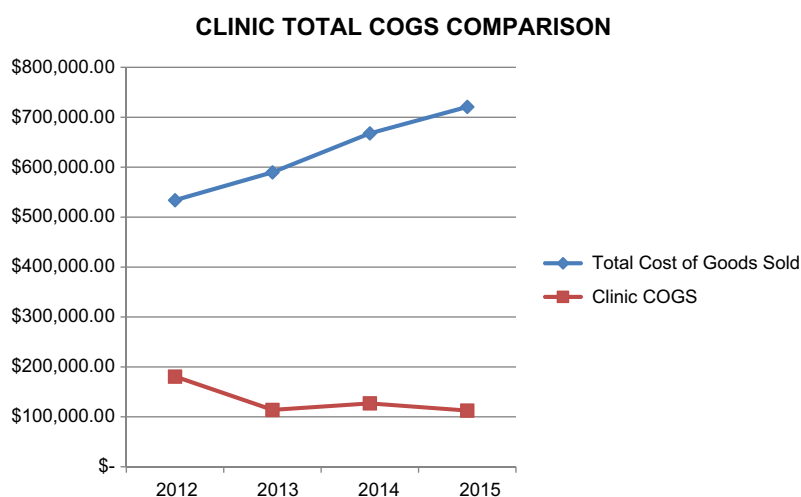
The above chart plots the GSHS's total revenue with that of the clinic (Figure 13). When the net income measures and revenue measures in the two previous charts are examined in tandem, results indicate that while clinic revenue is increasing at a slower rate than total revenue, clinic net income has in fact outpaced the net income of GSHS as a whole.

Whereas total cost of goods sold has increased, the clinic cost of goods sold from 2012 to 2015 shows a significant decrease (Figure 14). This is particularly evident from 2012 to 2013. Recall that the shelter cost of goods sold in the previous section showed an increase in shelter supplies of 262% and an increase in shelter preventative supplies of over 300% over the 2012 to 2015 period. At a minimum, these results suggest that record-keeping and allocation of the budgeted and actual cost of goods sold are inconsistent.

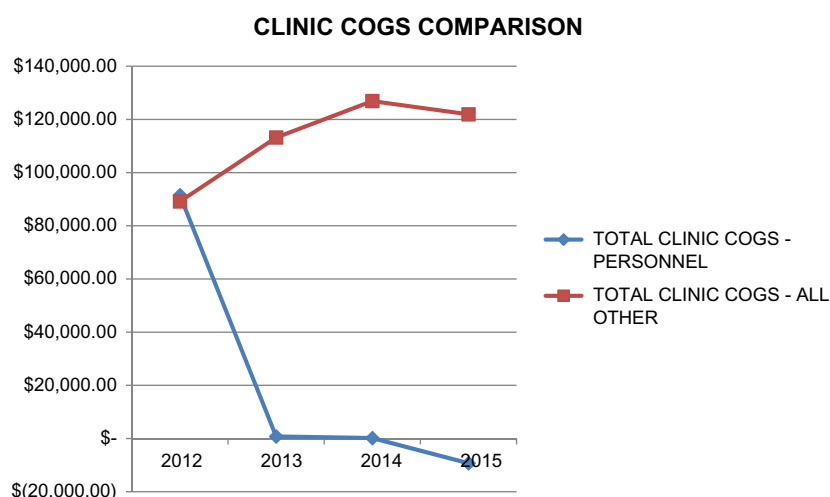
**Figure 13. GSHS comparison of total and clinic unit income.**



**Figure 14. GSHS comparison of total and clinic unit CGS.**



**Figure 15. GSHS clinic unit CGS.**



Looking further into the decrease in clinic cost of goods sold, it can be observed on the chart above that the decrease can be almost wholly attributed to the rapid decrease in clinic personnel costs that occurred following the 2012 fiscal year (Figure 15).

This decrease in cost of goods sold can be attributed to the fact that for all four years, the Services to Shelter—Clinic account is allocated over to the Shelter COGS from the Veterinarian Services—Shelter account. Each year, but 2014, the dollar amounts in both accounts balance, offsetting each other. In 2014, the amount of \$141,091.90 in the Service to Shelter—Clinic account does not match the amount of \$141,288.00 in the Veterinarian Services—Shelter. This improper allocation causes a huge decrease in the overall total of the Clinic COGS—Personnel account. This is evident in the 2015 Total Clinic COGS—Personnel account with a balance of negative \$9,299.93. Additional charts and tables reflecting this data were provided to GSHS. Ratios relating directly to clinic operations were also performed and these results were provided to GSHS.

In addition to the issues related to financial information, a number of issues related to day-to-day operations were noted. These issues relate to the areas of:

- Sufficient Record-Keeping
- Proper Cost Allocation



- Timely Inventory Tracking
  - Storage, Handling, and Preparation of Vaccinations
- Compliance With Established Standards
  - OSHA
  - DHEC
  - DEA
  - IRS

The recommended actions to be taken related to each of these areas are detailed in the Long-Term Recommendations section later in this paper. In the short term, the recommendation is that the GSHS immediately begin using the Pet Point application for animals currently being treated in the clinic. Performance measures available via Pet Point include:

- Medical
- Receipt
- Inventory and Order Management
- Enhanced Animal Profile
- Flexible Reports

In addition, Pet Point will allow the clinic to immediately begin tracking inventory and can provide tailored reports on the results of operations (Pet Point, 2015).

## 9. Fundraising operations

In addition to the shelter and clinic functions, the GSHS engages in fundraising activities. Fundraising is an essential part of nonprofit operations. Many NPOs rely mainly upon donations from individuals and corporations in order to sustain operations. As with the other segments of GSHS operations, this section begins with an analysis of the financial data related to fundraising activities. In this section, the analysis begins with a comparison of GSHS Form 990 reported tax data to that of other local animal welfare organizations. Of note, in this section is that fundraising and administration are considered a single cost center for the GSHS.

The chart above appears to represent that the GSHS is outperforming other local animal welfare organizations in terms of fundraising revenue (Figure 16). The next test will be this revenue as a percentage of total revenue.

When looked at as a percentage of total revenue, it becomes apparent that the fundraising revenues of the GSHS not only lag behind most other local organizations, they have also been contributing a smaller percentage of total revenue every year (Figure 17).

In addition to fundraising revenue (Figure 18), fundraising expenses are tracked in the Form 990. The GSHS exhibits some peculiar behavior in regard to fundraising expenses. While the fundraising revenue slightly increased in dollar value from year to year, the associated fundraising expenses have fluctuated wildly from a high of above \$16,000 to a low of less than \$8,000.

The fluctuation of fundraising expenses is again evident when the fundraising expenses are expressed as a percentage of total expenses (Figure 19).

Before transitioning from Form 990 data to analyzing financial statement data, it is important to point out that the amounts attributed to fundraising/administration on the financial statements do not directly correlate to the fundraising amounts reports on the GSHS Form 990. This project was unable to determine the basis for the conversion that resulted in the Form 990 numbers.

An example of the lack of reconciliation between the Form 990 and financial statement numbers is indicated above in Total Income. While the reported Form 990 income has been increasing, the amount of income attributed to fundraising/administration on the financial statements has been on a downward trend (Figure 20).

The source of the downward trend referenced above becomes apparent when the individual sources of fundraising revenue are examined. Donations, which is the largest component of fundraising revenue, had been holding steady but suffered a decrease in excess of 20% during the 2015 fiscal year (Figure 21). Additional charts and tables reflecting this data were provided to GSHS.

As seen above, GSHS fundraising revenue does not comprise a high percentage of total income. Clear delineation of these revenues and expenses is vital for accurate financial reporting (IRS, 2015c). In order to begin increasing the level of donations, donor trust must be re-established and the GSHS must become more compliant in terms of its fundraising practices, both operationally and in terms of financial reporting.

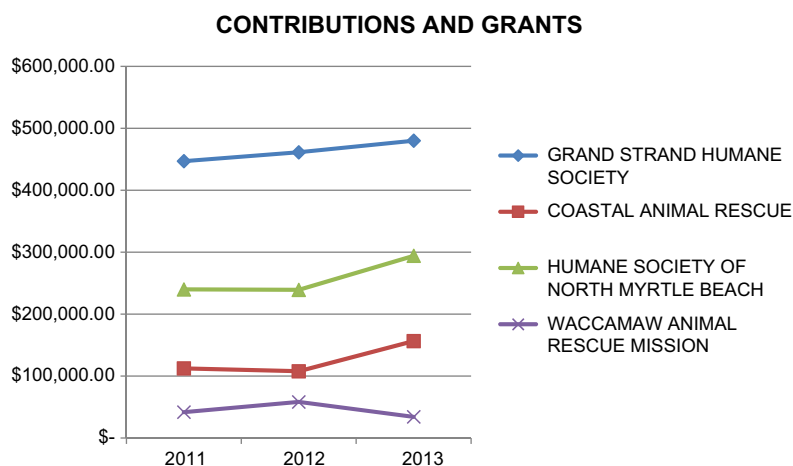
Before any donations can be solicited, any NPO must file with the state of incorporation. In the state of South Carolina, all 501(c)(3) NPOs must register with the South Carolina Secretary of State Division of Public Charities. This registration allows NPOs to solicit contributions from the residents of the State of South Carolina as stated in the South Carolina Code of Laws Section 33-56-30. After the original filing, an annual renewal registration must be submitted every year thereafter within four-and-half months after the close of the fiscal year. There is a \$50 registration fee that is required with the original filing only. A financial report, a copy of the preceding years Form 990, must accompany the registration every year as well. There is \$2,000.00 fine for filing the registrations forms late (South Carolina Code of Laws - Title 33 - Chapter 56 - Solicitation Of Charitable Funds, 2015b).

In addition to the legal requirements for solicitation, there are several standards of accountability that an NPO must adopt or continue to use in order to ensure accountability to donors.

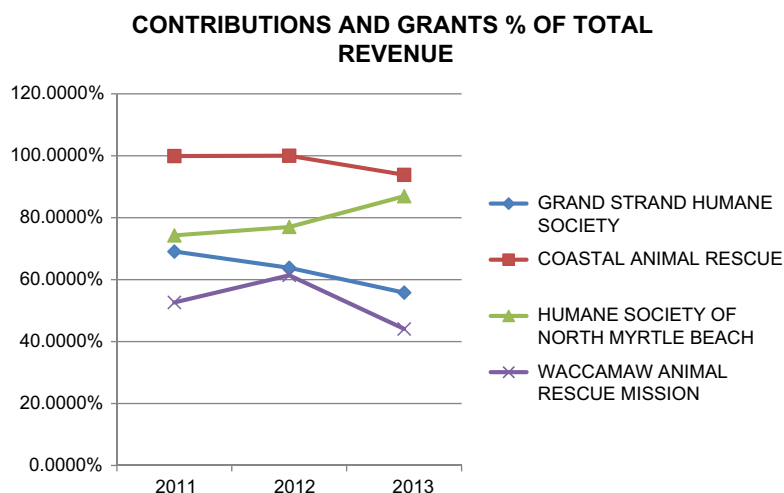
At the time a gift is received from a donor, a receipt should be given. The receipt should contain a statement acknowledging GSHS is a charity recognized as tax-exempt by the IRS under Section 501(c)(3). It should also include the amount donated, or a description of the property if the donation is not monetary. If goods or services were provided in exchange for a gift of \$75 or more, the statement must include a "good faith estimate of the value of the goods/services provided" (National Council of Nonprofits, 2015b).

At the time of the gift, the GSHS must record those donations in their records. In order to accurately report revenues on the financial statements and IRS documents, strong record-keeping of

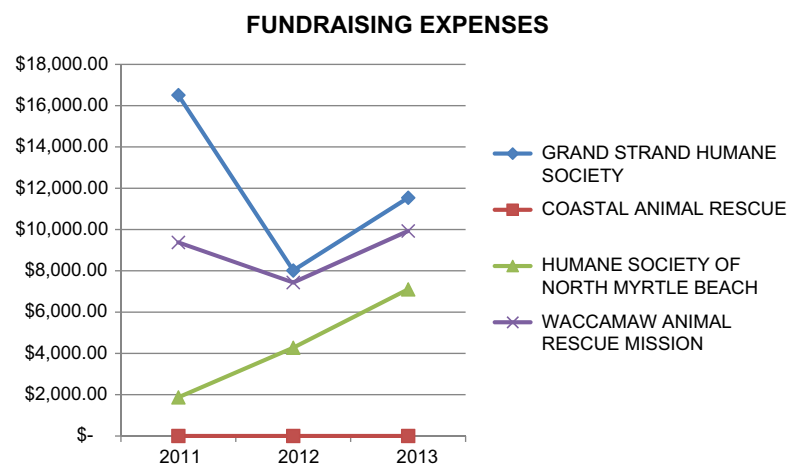
**Figure 16. Contributions and grants, local animal welfare organizations.**



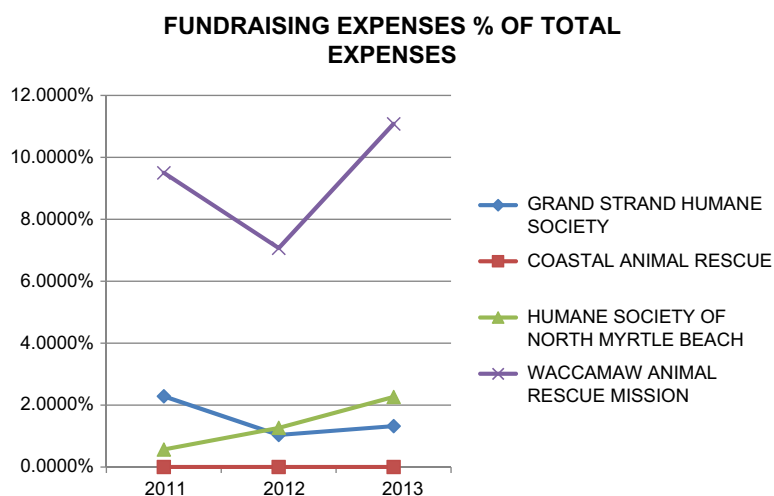
**Figure 17. Contributions and grants as a percentage of total revenue, local animal welfare organizations.**



**Figure 18. Fundraising expenses, local animal welfare organizations.**

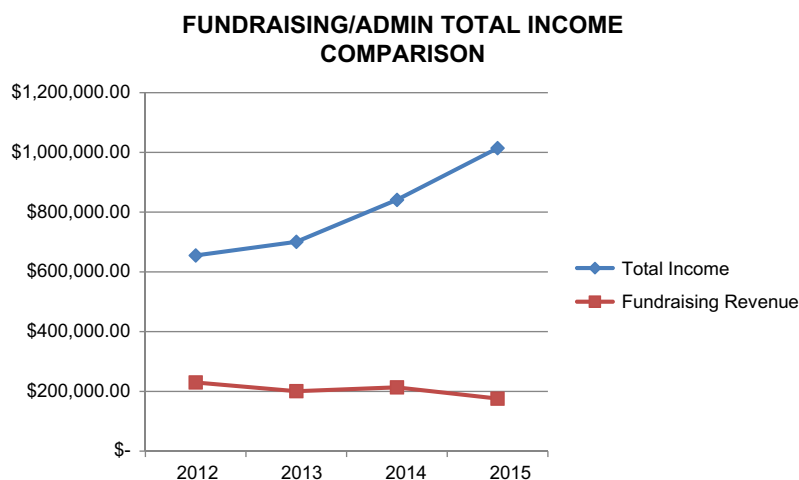


**Figure 19. Fundraising expenses as a percentage of total expenses, local animal welfare organizations.**

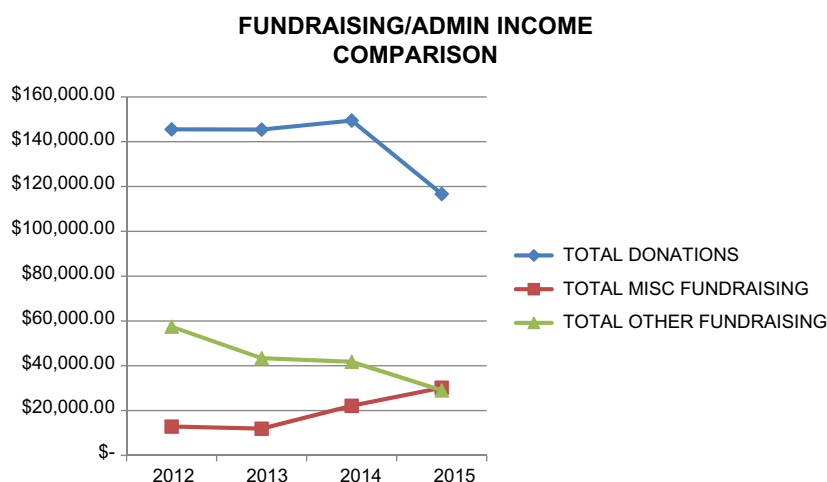


revenue generation must be maintained. Form 990 provides several columns to report fundraising events. Revenues generated through fundraising should follow this model. The revenues and expenses of all events held by the GSHS should be recorded in the GSHS system separately (IRS, 2015b).

**Figure 20. GSHS comparison of total and fundraising unit income.**



**Figure 21. GSHS fundraising unit income.**



Equally as important as record-keeping and donation tracking are the issues of donor anonymity and donor intent. If a donor wishes to remain anonymous or provide a contribution that is restricted to a specific use, this is a request that an NPO must respect. In order to curtail concerns related to donor anonymity and use of restricted gifts, the Association of Financial Professionals (2015a) has established a Donor's Bill of Rights which delineates the rights of anyone making a contribution (National Council of Nonprofits, 2015a).

Modern technology has provided an invaluable resource for fundraising in the form of solicitation over the Internet and through social media. However, these forms of fundraising come with their own set of rules and regulations. In South Carolina, charitable fundraising is administered by the Division of Public Charities in the office of the South Carolina Secretary of State (2015). The required documentation for Internet solicitation in the State of South Carolina is covered by the original and renewal registration requirements mentioned previously.

The Charleston Principles are nonbinding Internet fundraising guidelines for soliciting donations in states where an NPO is not registered (National Council of Nonprofits, 2015a). In order to actively solicit donations from multiple states, an NPO must be registered in the state from which they are soliciting donations. However, in terms of social media and NPO websites, simply having the ability to receive donations from out of state sources does not qualify as soliciting donations. A donor can be out of state and make a donation without the NPO having to be registered in that state. The laws

in place regarding multi-state solicitation simply deter organizations from actively targeting out of state donor contributions (Law For Change, 2015).

Currently, South Carolina NPOs are not eligible for the Unified Registration Statement, which seeks to provide standardized reporting and data requirements for NPOs registered in multiple, eligible states (The Multi-State Filer Project, 2015). IRS Publication 1771 explains the federal tax law for NPOs that received contributions that are tax deductible for the donor (IRS, 2015c).

An NPO must be diligent in recording expenses related to fundraising. In order to achieve the transparency required to instill donor confidence and qualify for federal grants, segregation of expenses must be sustained. Transparency of expense reporting achieves two goals. First, it allows the financial statements to provide useful financial information to its users. Second, transparency helps make donors expectations more realistic. Expenses related to fundraising can include postage and printing, Internet charges, the special costs related to certain events held to generate donations, and all the indirect costs related to fundraising. The indirect costs related to fundraising are comprised mainly of the salaries and wages of the associates performing the fundraising functions (Association of Financial Professionals, 2015b).

The short-term recommendation for the fundraising segment of GSHS again involves the immediate utilization of Pet Point for fundraising. Performance Measurements available via Pet Point for fundraising include:

- Donations and Mailing Lists
- Flexible Reports
- Pet Requests
- Receipts (Pet Point, 2015).

The first short-term recommendation for the administrative segment of the GSHS is the utilization of the Pet Point system. The second short-term recommendation is to obtain Pet Point training for the new Director of Operations. All available Pet Point packages provide:

- Free setup/training
- Free user support
- Data conversions available
- Fully customizable Pet Point Data Management System
- Integration with 24PetWatch, Petango, and Happy Tails (Pet Point, 2015).

In addition, given that the Director of Operations recently earned a promotion based on merit, leadership training is also recommended. The unscheduled facilities walkthroughs suggest that employees behave differently when management is present versus absent. While the employee issues observed during the informal issue were not the result of actions by the new Director, it is our opinion that they are issues that the new Director must deal with on an ongoing basis. Leadership training would provide the Director with knowledge on how to motivate, oversee, and at times discipline employees.

The third short-term recommendation is to utilize the existing cameras at the GSHS to remotely monitor facilities operations. Cameras can identify employees in the case of theft, reduce employees' perception of their ability to steal or shirk their duties, and most importantly can identify employees that excel in their duties (Fox, 2015). South Carolina allows visible cameras, such as those in the GSHS facilities, to be used for video surveillance. It is not recommended, and an attorney should be consulted, if the GSHS wants to extend its camera coverage to include places where employees may have an expectation of privacy, such as in the restroom. South Carolina is a "one party consent"

state with respect to audio recording (South Carolina Code of Laws – Title 16 – Chapter 17 – Offenses Against Public Policy, 2015a).

## 10. Summary of recommendations

The objective of this project is to evaluate the current financial and compliance status of an animal welfare NPO and present recommendations for improving operational efficiency and achieving best practices. The following recommendations are given based on the findings detailed above for the Grand Strand Humane Society. In addition, the long-term recommendations provide a framework for compliance that can be adopted by any animal welfare organization.

The recommendations presented in this project are divided into two categories. Short-term recommendations are those intended to be implemented within the next 60 days. Long-term recommendations are those that are intended to be implemented over time in order to work toward achieving best practices and building capacity. With both categories of recommendations, the objective is to enable the GSHS and other animal welfare NPOs to:

- Obtain affordable audits and reviews
- Develop and utilize cost-effective techniques
- Improve the internal control process
- Adhere to the grant compliance requirements
- Promote leadership and governance
- Enhance community engagement

### 10.1. Short-term recommendations

In terms of recommendations to be implemented within the next 60 days, this project has determined three items that can be immediately addressed.

- Full utilization of Pet Point Software
- Obtain Pet Point and leadership training for the new Director of Operations
- Utilize the existing webcam system

The GSHS should begin using Pet Point immediately for pets currently residing and being treated at the facility. Pet Point is an application designed specifically for animal welfare organizations. It contains features intended to track and streamline all aspects of animal welfare. The GSHS already has purchased and has access to the Pet Point application. It is our opinion that immediate utilization of the software would address several issues. Specifically, Pet Point provides record-keeping and reporting services that will enable the GSHS to track operations within the clinic and shelter. In addition, Pet Point provides donation and mailing list services that would enable the GSHS to actively track donations and maintain contact with previous donors.

The different services that the Pet Point application can provide are available on the Pet Point website ([www.petpoint.com](http://www.petpoint.com)). In addition, Pet Point offers monthly statistics based on the results obtained from users of the Pet Point application. These statistics provide a basis for comparing an organization's results and are provided regarding the intake, outcomes, and adoptions of both cats and dogs. Adoptions are further broken down by the age of the animal (Pet Point, 2015).

The training recommended for the new Director of Operations directly coincides with the utilization of the Pet Point application. Pet Point offers free training and user support to all users. This training would give the Director the ability to fully utilize the data provided by the Pet Point system. In addition, it is recommended that the Director be provided with some level of organizational leadership training. While the employee issues observed during the informal issue were not the result of actions by the new Director, it is our opinion that they are issues that the new Director must deal

with on an ongoing basis. Leadership training would provide the Director with knowledge on how to motivate, oversee, and at times discipline employees.

Directly related to the training for the new Director of Operations is the utilization of the existing webcam system. During the walkthrough, a number of webcams were observed throughout the facility and it was indicated that the webcams were fully operational. This provides an opportunity for the Director of Operations to observe the situation and conduct of employees within the facility without being physically present. If it is not currently available, the webcam system should be set up for remote access. Also, a periodic review of the cameras and footage should be conducted at unannounced and random intervals.

### **10.2. Long-term recommendations**

For long-term recommendations, those intended to be implemented over time in order to work toward achieving best practices and building capacity, this project has identified six categories of recommendations:

- Utilize Pet Point
- Adequate Record-Keeping
- Inventory Tracking
- Adherence to established standards
- Proper Cost Allocation
- Fundraising

The utilization of Pet Point is a duplication of the short-term goal with the added recommendation that the full capacity of the software be explored and utilized. This would require the completion of the training indicated in the short-term goals. Following the training, a review of the capabilities of the software and an assessment of the best uses of the provided services should be conducted.

Adequate record-keeping is in part related to the utilization of Pet Point. The Pet Point software provides a system of electronic record-keeping that should be utilized. The primary goal of record-keeping is to satisfy the requirements of the Internal Revenue Service. The IRS requires that an organization keep books and records that are relevant to its tax exemption and filings (IRS, 2015b). This is just a minimum requirement, however, and the IRS further encourages an organization to adopt a written policy establishing standards for document integrity, retention, and destruction that should cover:

- Electronic records
- Backup procedures
- Archiving of documents
- Regular check-ups of the reliability of the system (IRS, 2015b).

It is therefore recommended that the GSHS develop a written policy that includes the utilization of Pet Point which adheres to the recommendations set forth by the IRS.

Inventory tracking is once again related to the utilization of Pet Point. The Pet Point system contains the ability to manage and track inventory and orders. In addition, it is recommended that the GSHS create an inventory policy that contains:

- A min/max inventory threshold for each item
- Discontinuation procedure for rarely used medications
- Increased security on high risk items such as controlled medications
- Procedures for the storage, handling, and preparation of vaccines



Adhering to established standards involves compliance in both governance and day-to-day operations. We recommend that the GSHS begin the process of complying with the following:

- Internal Control Policy requirements of the Sarbanes–Oxley Act of 2002 (Independent Sector, 2003)
- Occupational Safety Directives of OSHA (Occupational Safety & Health Administration, 2015)
- Outbreak Containment Protocol of the University of Florida College of Veterinary Medicine (The University of Florida, 2015).

It is recommended that the GSHS undertake a project to examine and modify the current system of cost allocations. Analysis of financial statements and tax filings indicated that the current system of cost allocation does not provide the level of transparency required for the reporting of fundraising proceeds and expenses, charitable contributions, medical expenses, and administrative expenses. Further basis for the allocation of income and expenses between the Clinic and the Shelter needs to be examined and a proper driver for the allocation should be determined. Note that in a previous graduate research service learning project conducted by Dr. Maguire's class with GSHS, the NPO's current chart of accounts was mapped to the Unified Chart of Accounts (UCOA), which is compatible with multiple nonprofit requirements, including those mandated by the IRS, FASB, and the Office of Management and Budget for federal grant reporting (National Center for Charitable Statistics: Unified Chart of Accounts, 2015). Pet Point is fully customizable and is compatible with accounting software that includes the Unified Chart of Accounts (Pet Point, 2015).

In order to increase the amount of fundraising and donation income, it is recommended that the GSHS examine the current state of their fundraising efforts. Once current efforts have been examined, a plan should be created to both increase the effectiveness of current fundraising activities and to provide additional fundraising opportunities. Specifically, it is recommended that the GSHS utilize social media to expand their presence and name recognition. Evidence that the new Director of Operations has begun this process is apparent on the GSHS's website and Facebook page.

As previously mentioned, the tracking of fundraising specific income and expenses along with proper documentation of donations is recommended. While the system for tracking fundraising income and expenses will have to be adopted, the system for tracking donations is already available within the Pet Point application.

Pet Point is already in place at GSHS, and further education on how to operate that system can immediately improve GSHS's fundraising compliance. The service provides the ability to record cash donations, noncash donations, and allows an organization to send receipts and thank you letters to donors. The system allows you to record noncash donations in inventory as a donation, instead of a purchase. The program allows you to separate events, and enter the revenues and expenses related to those events accordingly. Once these values are properly recorded, the transition to UCOA-based financial statements and required IRS forms will be facilitated. Those correct, consistent financial statements and IRS documents will provide the transparency necessary in increasing donor confidence in GSHS, likely increasing donations. In the long term, that transparency and accurate reporting will make obtaining federal grants feasible and federal grant reporting possible. This leads to achieving best practices and building capacity.

### 11. Charity navigator

Adoption of the recommendations presented in the previous section will have benefits extending beyond the stated goals of the project. An example of one such benefit is the ability to be profiled by the Charity Navigator Organization and obtain a rating that will attract more donations. Charity Navigator is a trusted resource that works to provide an easily accessible profile of charity organizations to possible donors.

Currently, the Grand Strand Humane Society does not qualify for a Charity Navigator profile, but this project undertook the creation of a profile based on the guidelines set forth by Charity Navigator. These guidelines, along with the information for those organizations being compared to the Grand Strand Humane Society, are the property of Charity Navigator and are located on the web at [www.charitynavigator.org](http://www.charitynavigator.org) (Charity Navigator, 2015).

Charity Navigator was created as a resource for potential donors to evaluate charities that are grouped in the same category and participate in similar causes in order to facilitate more informed philanthropic decisions based on a standardized set of qualities and calculations (Charity Navigator, 2015).

To be eligible for Charity Navigator to rate the organization, it must be:

- (1) A 501(c)(3) organization.
- (2) Revenue generated from public donations must be more than \$500,000 and the total revenue produced must be more than \$1,000,000.
- (3) The charity must be in existence for seven years and be able to produce an IRS Form 990 for each of those years.
- (4) The charity must be based in the U.S but can have international causes.
- (5) The charity must be registered with the IRS.
- (6) The charity must incur fundraising expenses and be actively soliciting public donations (Charity Navigator, 2015).

Charities are evaluated in two categories—their Financial Health and their Accountability & Transparency—which are then used to calculate an overall score and assign a one- to four-star rating, with four stars being the best rating. These charities can then be compared to the results of other charities and an overall average for the industry (Charity Navigator, 2015).

For a demonstrative comparison, the four-rated animal welfare charities located in South Carolina and a restricted industry sector, to the southern region only, are utilized in this paper. These charities are as follows:

- Charleston Animal Society
- Pet Helpers
- Greenville Humane Society and
- Spartanburg Humane Society

To prepare the Grand Strand Humane Society, 2015 financial statements to be utilized in computing the financial health in accordance with Charity Navigator guidelines (2015), the following modifications were required:

- (1) A revenue-based driver was calculated to allocate, both indirect costs and overhead, to each of the cost centers. The results of the total \$1,014,395.17 generated in revenue were as follows:
  - Shelter produced \$598,559.77 or 59.01% of the revenue.
  - Clinic produced \$239,913.23 or 23.65% of the revenue.
  - Fundraising produced \$175,922.17 or 17.34% of the revenue.
- (2) “Gray accounts” and errors were revised in the following ways:

- 6300-01 Reception Allocation of \$30,732, originally subtracted from shelter COGS and added to clinic COGS, was moved to indirect costs/overhead and was allocated to each cost center based on the percentage of revenue produced by each cost center.
- 5090-00 Veterinarian Services—shelter and 4010-09 Services to Shelter—Clinic, originally subtracted \$156,684 from the Clinic COGS—Personnel and expensed it to the shelter's COGS—Personnel accounts. The expense was reassigned to the clinic.
- 6350-00 Administrative Allocation-Fundraising was reported at a negative amount of (\$65,796) and was deleted.
- Moved 5140-00 Pet Walk Expenses (\$387.50) and 5165-00 Golf Tournament Expenses (\$4,031.40) from Administrative expenses to Fundraising expenses.

Once the adjustments are made, the financial statements can be evaluated to assess GSHS's performance in seven different performance metrics which measures, both financial efficiency and financial capacity.

### 11.1. *Charity navigator GSHS's financial health score*

The first four performance metrics measure the financial efficiency of an organization and illustrate how the charity manages its daily operational finances (Charity Navigator, 2015).

#### Performance Metric 1: Program Expenses

This metric reveals how much of the total functional expenses are used on a charity's programs and services (Charity Navigator, 2015). For the GSHS calculations, the shelter expenses \$478,060.29 and \$ 396,180.42 are added together to equal \$ 874,240.71. These total expenditures were then divided by the total expenses reported by the charity in the amount of \$1,182,274.71.

The result and comparison by program is:

- Shelter 40.44% and Clinic 34%
- Charleston Animal Society—animal services—74.2%
- Pet Helpers—Spay and Neuter services—60%
- Spartanburg Humane Society

(a) Shelter and basic care—51.7%

(b) Veterinary Clinic—38%

The overall was calculated earlier as the program expenses divided by total expenses (Table 2).

Compared to:

- Charleston Animal Society 84.6%
- Pet Helpers 84.5%
- Greenville Humane Society 95.8%
- Spartanburg Humane Society 84.0%
- Industry average 82.2%

**Table 2. GSHS program efficiency ratio**

Year	Program services expenses	Total expenses	Program efficiency ratio
FY 2015	\$874,240.71	\$1,182,274.71	73.95%

### Performance Metric 2: Administrative Expenses

This metric shows the percentage of total functional expenses devoted to management and general costs. GSHS had a total of \$251,640.70 in administrative and general expenses, which when divided into its total functional expenses of \$1,182,274.704 yielded a 21.28% result.

Compared to:

- Charleston Animal Society 4.5%
- Pet Helpers 10.5%
- Greenville Humane Society 3.5%
- Spartanburg Humane Society 5.3%
- Industry average 9.1%

### Performance Metric 3: Fundraising Expenses

GSHS had a total of \$5,675.80 in fundraising expenses and when it is divided by the total functional expenses of \$1,182,274.74 shows that 0.48% of the expenses are incurred by fundraising.

Compared to:

- Charleston Animal Society 10.8%
- Pet Helpers 10.5%
- Greenville Humane Society 0.5%
- Spartanburg Humane Society 10.6%
- Industry average 8.6%

### Performance Metric 4: Fundraising Efficiency

This was calculated earlier by dividing the total fundraising expenses by the total fundraising income (Table 3).

This means for every dollar GSHS raises, it spends \$0.50.

Compared to:

- Charleston Animal Society \$0.05
- Pet Helpers \$0.07
- Greenville Humane Society \$0.00
- Spartanburg Humane Society \$0.19
- Industry average \$0.14

The next three metrics measure financial capacity to determine if the charity possesses enough resources to both increase their programs and services over time and to respond to outside economic threats without the disruption of its daily operations (Charity Navigator, 2015).

### Performance Metric 5: Primary Revenue Growth

To determine GSHS's primary revenue growth, the total income derived from revenues and other income sources was calculated for the years 2012–2015 (Table 4).

**Table 3. GSHS fundraising efficiency ratio**

Year	Total fundraising expenses	Total functional income	Fundraising efficiency ratio
FY 2015	5,675.80	175,922.17	.50

The standard formula for calculating annualized growth:

$$[(Y_n/Y_0)^{(1/n)}]-1$$

is then utilized where:  $Y_n$  = the total income for 2015,  $Y_0$  = the total income for 2012, and  $n$  = the interval length in years (3).

GSHS has been increasing its revenue by 16.26% annually.

Compared to:

- Charleston Animal Society 57.7%
- Pet Helpers 20.5%
- Greenville Humane Society 38.5%
- Spartanburg Humane Society (6.1)%
- Industry average 9.3% (Charity Navigator, 2015).

#### **Performance Metric 6: Program Expenses Growth**

To determine GSHS's program expenses growth, the total amount of expenses derived from COGS and other expenditures was calculated for the years 2012–2015 (Table 5).

The standard formula for annualized growth was applied to program expenses where:  $Y_n$  = the total expenses for 2015,  $Y_0$  = the total expenses for 2012, and  $n = 3$ .

GSHS has been increasing its expenses by 17.6% annually.

Compared to:

- Charleston Animal Society 13.5%
- Pet Helpers 12.9%
- Greenville Humane Society 22.9%
- Spartanburg Humane Society (4.9)%
- Industry average 7.7% (Charity Navigator, 2015).

#### **Performance Metric 7: Working Capital Ratio**

**Table 4. GSHS primary revenue growth**

	2012	2013	2014	2015
Revenue	\$665,115.10	\$700,673.37	\$841,298.36	\$1,014,395.17
Other income	\$8,233.24	\$22,032.84	\$18,659.34	\$2,070.98
Total	\$646,881.86	\$722,706.21	\$859,957.70	\$1,016,466.15

The working capital ratio is used to determine how long a charity can sustain its current operations without generating new revenue. The amount of working capital was calculated previously by subtracting the total current liabilities from the total current assets (Table 6).

GSHS's amount of working capital is then divided by its total functional expenses for 2015 of \$1,182,274.74 to disclose a ratio of 0.093 years or 34 days.

Compared to:

- Charleston Animal Society 3.56 years
- Pet Helpers 2.21 years
- Greenville Humane Society 1.44 years
- Spartanburg Humane Society .9 years or 328.5 days
- Industry average 2.8 years (Charity Navigator, 2015).

Once all the performance metrics are analyzed, each of their raw scores are multiplied by 10 and the resulting amount is either accumulated as is or adjusted by a score conversion table; then, the score amount is increased by 30 points to convert the total to a 100-point scale (Charity Navigator, 2015).

Final assigned financial score for GSHS equals 77.3 and receives a two-star rating (Table 7).

Compared to:

- Charleston Animal Society has a score of 95.97 and a four-star financial health rating.
- Pet Helpers has a score of 98.45 and a four-star financial health rating.
- Greenville Humane Society has a score of 99.58 and a four-star financial health rating.
- Spartanburg Humane Society has a score of 70.20 and a two-star financial health rating (Charity Navigator, 2015).

**Table 5. GSHS program expenses growth**

	2012	2013	2014	2015
Calculated previously				\$1,182,274.74
COGS	\$534,039.14	\$589,731.28	\$667,733.93	
Expenses	\$192,042.38	\$181,562.84	\$204,418.64	
Other	\$864.49	\$1,431.38	\$1,333.07	
Total	\$726,946.01	\$772,725.50	\$873,485.64	\$1,182,274.74

**Table 6. GSHS working capital**

Year	Total current assets	Total current liabilities	Working capital
FY 2015	\$138,518.09	\$28,352.35	\$110,165.74

**Table 7. GSHS charity navigator financial score calculation**

Performance metrics	Raw score	Raw score × 10 or conversion
Program expenses	.733	7.3
Administrative expenses	.2128	5 (converted)
Fundraising expenses	.0048	10 (converted)
Fundraising efficiency	.5	2.5 (converted)
Primary revenue growth	.1626	10 (converted)
Program expense growth	.176	10 (converted)
Working capital ratio	.09	2.5 (converted)
Total score	+30 points	47.3

Conversion Tables used in the assigning of financial scores and financial health scores are available from the author.

### 11.2. Charity navigator GSHS's accountability and transparency score

The second category which Charity Navigator uses to evaluate charities is on their accountability and transparency. This illustrates the organization's willingness to explain and justify its actions and the efforts it exerts to ensure that its vital information is accessible to its stakeholders (Charity Navigator, 2015).

The data for GSHS retrieved from IRS Form 990 were utilized to answer the following questions (Table 8).

The information about GSHS contained on its website (Table 9):

GSHS's accountability and transparency score is 51 and it has a rating of 0-stars.

Compared to:

- Charleston Animal Society—96 score and four-star rating.
- Pet Helpers—88 score and three-star rating.
- Greenville Humane Society—80 score and three-star rating.
- Spartanburg Humane Society—82 score and three-star rating (Charity Navigator, 2015).

Finally, Charity Navigator computes the overall score using the following formula (Charity Navigator, 2015).

$$100 - \sqrt{\frac{(100 - \text{Financial})^2 + (100 - \text{A\&T})^2}{2}}$$

GSHS has an overall all score of 61.81 and receives a one-star rating (Table 10).

Compared to:

- Charleston Animal Society—95.97 score and a four-star rating.
- Pet Helpers—91.44 score and a four-star rating.
- Greenville Humane Society—85.85 score and a three-star rating.



**Table 8. GSHS charity navigator accountability and transparency form 990 data**

Data needed	Is the answer provided on Form 990?	Deducted from score of 100
Is the Board independent, a voting majority, and consist of at least five members?	Yes	
Is there a material diversion of assets in the last two years?	None	
Audited financials prepared by an independent accountant with an audit oversight committee?	No	15 points
Loan(s) to or from related parties?	No	
Are board meeting minutes documented?	Yes	
Is the board provided a copy of Form 990 prior to filling?	Yes	
Is there a conflict of interest policy?	No	4 points
Is there a whistleblower policy?	No	4 points
Is there a records retention and destruction policy?	No	4 points
Is the CEO listed with salary information?	No	4 points
Is there a documented method for determining the salary of the CEO, as well as reviewing and updating it?	No	4 points
Are the board members and their compensation disclosed?	Yes	

**Table 9. GSHS charity navigator accountability and transparency website data**

Data needed:	Is the answer posted on website?	Deduction from score
Are the board members listed?	Yes	
Is key staff listed?	Yes	
Is the audited financials published?	No	4 points
Is the Form 990 published?	No	3 points
Is there a published donor privacy policy?	No	4 points
Is there an opt-out donor privacy policy?	No	3 points

**Table 10. Charity navigator scoring system**

Overall rating:					0 Stars	Donor advisory
Overall score:	≥ 90	80–90	70–80	55–70	< 55	N/A

- Spartanburg Humane Society—75.38 score and a two-star rating (Charity Navigator, 2015).

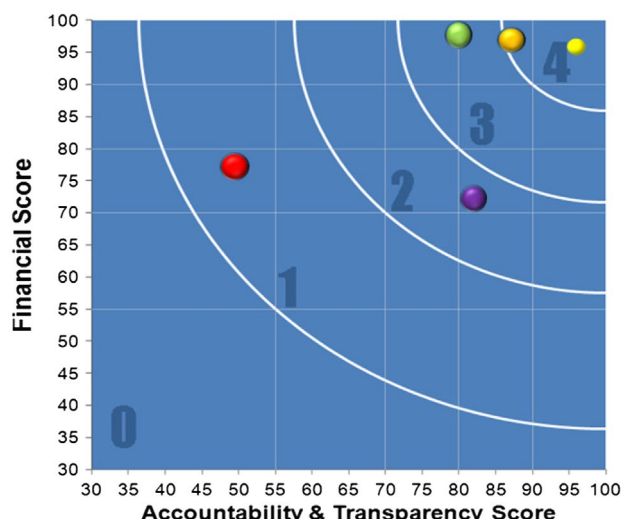
Comparing the overall scores (Figure 22):

### Recommendations

- (1) Create a Standard Operating Procedures (SOP) manual that includes:

**Figure 22. GSHS charity navigator score mapping.**

Legend: GSHS—Red; Charleston Animal Society—Yellow; Pet Helpers—Orange; Greenville Humane Society—Green; and Spartanburg Humane Society—Purple.



- A conflict of interest policy
- A whistleblowers policy
- A records retention and destruction policy, and
- A standardized process for establishing CEO salary, as well as, a review process

(2) Update the GSHS website to include:

- Form 990
- A donor privacy policy
- A Opt-out donor policy

## 12. Conclusion

Working in collaboration with The Chapin Foundation, the output of these multi-stage research projects will assist NPOs achieve best practices in their “back room operations” now and as they grow. Achieving compliance with best practices for financial accountability, transparency, and board governance, the output of these projects facilitate the link between philanthropic leadership, charitable resources, and civic influence with community needs and opportunities.

The recommendation for the future is to continue to conduct research for NPOs that will provide education on how to achieve best practices. Research with the participation of Master of Accountancy graduate students at Coastal Carolina University provides the opportunity to assist the NPOs in several areas. Through the research, assistance can be provided to help NPOs achieve best practices for corporate governance, accounting, and auditing, and reduce the costs of attaining these goals.

This research process is intended to assist South Carolina NPOs achieve compliance with best practices for financial accountability, fundraising, and board governance. Essentially, by strengthening the financial knowledge and practices of South Carolina NPOs: donors will have more confidence; NPOs will have the ability to obtain the funding needed to reach their goals; achieving efficiency in “back-room operations” will increase effectiveness in “front-room operations;” NPOs can build capacity; and NPOs can continue providing charitable services to our communities. This research provides a mutual benefit to both Coastal Carolina University and the South Carolina NPO community.

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