



ALBUQUERQUE
COMMUNITY
FOUNDATION

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MEMO

To: Board of Trustees
From: Nick Williams, CFO
Date: July 31, 2024
Re: 2023 Audit Update

Staff are pleased to present to you a draft of the 2023 audited financial statements for the Albuquerque Community Foundation. The Finance Committee has reviewed these drafts with Moss Adams and voted to recommend acceptance by the Board. On the portal you will see two versions of the financial statements. Version 1 is the standard audited financials which will be shared on our website. Version 2 is the standard audited financials with the single audit report at the end of the document. This is the document which is required to be submitted to the Federal Government. As a reminder, the single audit is an additional audit over the federal grant program we administered. Both drafts of the financial statements have blank auditor opinion letters as this is a draft copy, but we received an unmodified opinion, which is great news.

Unfortunately, as you will see in the Schedule of Findings and Questioned Costs, Moss Adams identified two financial statement findings 2023-001 and 2023-002. These findings are disappointing and unacceptable. I am working with the Finance Team, Executive Team, and Finance Committee to develop plans and mechanisms to ensure that these identified issues are corrected.

2023-001 Financial Close and Reporting (Material Weakness in Internal Controls) - Moss Adams rolled a handful of issues related to the financial close and reporting up into one finding. The primary driver of this being a material weakness was a \$600k adjustment to grants payable. Unfortunately, when following our year-end procedures we failed to review the New Mexico Community Trust ("NMCT") checking account. An obvious mistake which resulted in us not identifying significant grants which should have been recorded as payables at the end of 2023. We will be updating our process to ensure that all processes are also followed for the NMCT accounts. Moss Adams also identified several issues in some of our schedules which we will be addressing. Lastly, we also had some issues with the timeliness of information, which is also part of this finding.

I and the Finance Team recognize that a finding like this is unacceptable. I believe that an audit is an opportunity to identify issues to be corrected and look forward to the opportunity to improve upon these findings. We have started discussions with the Finance Committee and Finance Committee chair and look forward to working with all of you on addressing these issues. There are several items I would like to share with you that we are actively discussing to address this:

- **Capacity** – Given the growth of the Foundation and our back-office accounting business for NMCT, we recognize the need to add additional capacity to the Finance Team. We are in the process of hiring a second staff accountant, after firing our bookkeeper this spring. This position will be a more high-level position than the bookkeeper position was. Tiffany and I will be meeting with a potential candidate on August 5th. I acknowledge my responsibility to make sure the Finance Team is properly staffed, managed, prepared and meeting our responsibilities.
- **Availability** - I will be working with our CEO and COO to better clear my schedule in February – April so more of my attention can be fully focused on the audit. We also have a better understanding of the timing of our new NMCT clients and will be including these deadlines in the schedule to avoid overlap. I have started a draft of my schedule and various responsibilities for 2025 to work with the Executive Team to better manage this work. It is clear that I was stretched too thin this year and this led to many of these issues. I take full accountability for this, and this will be addressed.
- **Year End Close** – While we have had deadlines for the audit preparation, we recognize the need to set internal deadlines earlier to ensure sufficient time for review of these documents and time to correct and address issues which arise. I have begun developing a more rigorous timeline for completion of our year-end checklist to avoid timing issues. Tiffany and I will have earlier deadlines for all of these items and will be submitting them to be reviewed by the COO to ensure accountability and an extra set of eyes on these documents.
 Additionally, some of the accrual issues and issue with the reconciliations relate to issues we had with our accounting software. Staff will be working with our software provider to better understand how these errors occurred and what we can do to correct them. We will then use this information to update our processes. These updated processes will be reviewed with relevant staff every December so that we are prepared for year end transactions.
- **Accounting for NMCT activity** – As the activities of NMCT have increased and become more complex the process we had in place for accounting for the time and expense of ACF staff and reimbursement by NMCT have proven not sufficient. The volume and complexity of the activities of the two organizations led to reconciliation errors and delays during the 2023 audit. We are in the process of developing a clearer process for accounting for this activity for 2024.

2023-002 Interfund Activity (Significant Deficiency in Internal Controls) - This finding relates to our long-time process for recording the “Liability for assets held for community organizations”, and our interfund activity. As you may remember we frequently move money from fund to another fund and these movements are referred to as interfund activity. As discussed in the financial statements, the Foundation regularly establishes charitable endowment funds with community organizations who specify their own organization as the beneficiary of the fund. In accordance with accounting standards, assets transferred to a fund in which the donor entity specifies itself or its affiliate as the beneficiary are not considered a contribution by the Foundation, but the Foundation is acting as a trustee or

agent for the donor entity. The Foundation maintains variance power and legal ownership of the assets held for community organizations and as such continues to report the funds as cash and investments of the Foundation. However, a liability has been established equivalent to the value of the assets. Both the liability and the assets are measured at fair value.

The Foundation has been accounting for these community organization funds for over eight years and this process is reviewed each year as part of our annual audit. Moss Adams identified an issue with how this activity is reported on our Statement of Activities. While the "Change in Net Assets" amount was not affected, "Contributions" and "Distributions and grants" were both underreported due to the issue Moss Adams identified. We suggested a reclassification entry to correct this issue in the 2023 financial statements which Moss Adams accepted.

We knew that going with a firm like Moss Adams would give us opportunities for improvement and I see this as a great example of these opportunities. Moving forward we know the financial statement grouping change which needs to be made to correct for this and we will include that in our year-end checklist.

The Finance Team will be working closely with the Finance Committee over the next few weeks to make sure we put the proper processes and plans in place to ensure these issues are addressed. At the next Finance Committee meeting I will report on a detailed plan to remediate these issues. The Finance Committee will then report back to the Board on the status. Once these next steps are finalized for both findings, we will also be sharing our plan with Moss Adams to get their approval of our response.

I hope that the Board remains confident in the financial standing of the Foundation, despite these issues. As noted above my main priority at this moment is working to find fixes to the issues identified. I recognize that the true work will happen at the end of this year as we begin the financial close work and preparation for the 2024 audit. I hope to regain the confidence and trust of this Board in my ability to manage our accounting systems and financial reputation.

Albuquerque Community Foundation and Subsidiaries
Schedule of Findings and Questioned Costs
Year Ended December 31, 2023

Section II – Financial Statement Finding

2023-001 Financial Close and Reporting (Material Weakness in Internal Controls)

Condition: During the audit, several items were identified that did not reconcile or agree to the schedules provided by management and additional accruals were determined necessary by management. This resulted in the need for several updated supporting schedules related to year end balances, as well as significant adjusting journal entries resulting in increase to assets of \$627,570; increase to liabilities of \$1,221,179; decrease in net assets of \$760,895 and increase of net income of \$167,286. The lack of these timely adjustments could result in possible material misstatements in the consolidated financial statements.

Criteria: Year-end internal controls should be operating as intended to ensure accounting records are complete and accurate and reported in a timely manner.

Effect: Possible misstatements of the financial statements.

Cause: The Foundation did not identify misstatements of year-end amounts in a timely manner, as controls were not operating as intended.

Recommendation: The Foundation should perform internal procedures to ensure that all accounts are reconciled and reviewed in a timely manner to ensure that accounting records are complete and accurate. By performing these internal procedures and policies, the Foundation can ensure that its consolidated financial statements are accurate and reliable, and that any discrepancies are identified and addressed in a timely manner. This will help to maintain the integrity of the financial reporting process and ensure compliance with accounting standards.

Management Response: Management is updating the year-end accrual process to ensure that the activities of the New Mexico Community Trust are included in all year-end reconciliation processes. Additionally, management will be reviewing all year-end procedures to ensure more timely and accurate reconciliations.

Responsible Person: Chief Financial Officer

2023-002 Interfund Activity (Significant Deficiency in Internal Controls)

Condition: Contribution revenue was understated by approximately \$858,000, due to the recording of interfund activity within the contribution revenue account, versus netting this with the other interfund activity on the consolidated financial statements. The interfund account, which is relates to the agency fund contributions and the grant distributions, when Albuquerque Community Foundation set up grants for the agency funds.

Criteria: Interfund activity should be recorded in the proper accounts for external reporting to ensure grant expenses and related revenues are recognized in the correct financial statement account.

Effect: Possible misstatement of revenues in the financial statements due to reporting of interfund activity.

Cause: Interfund activity was reported in an incorrect account within the consolidated financial statements.

Recommendation: The Foundation should record these balances grouped together and establish procedures and controls to ensure they do not understate financial statement balances.

Management Response: Management will begin making a year-end adjustment to correct this issue.

Responsible Person: Chief Financial Officer