

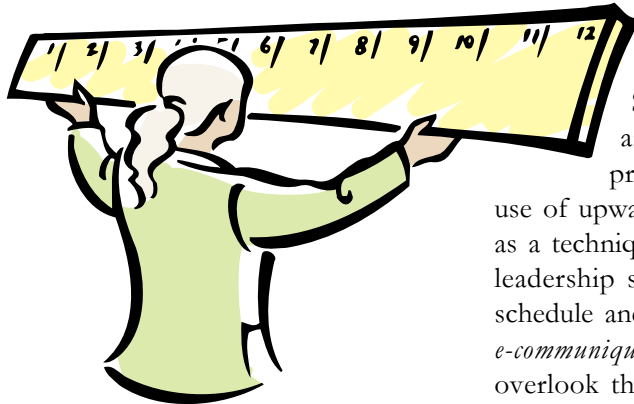
Administration & Finance Section **e-communicqué**

Spring 2002

From the Chair

By: Donna Fouste

Having just returned from a walk on the beach on this beautiful spring day (eat your hearts out!) I can't help but reflect on how quickly the year is flying by and how wacky it is that I am measuring it by bar events. We



started this year at the mid-year meeting in Philadelphia, it quickly blended into the BLI in Chicago and we are now home celebrating Law Day while making our plans for the annual meeting in Washington, D.C. The year will be over before we know it!

Are you planning to attend the annual meeting? If so, it's time to register. In case you missed the training class on how to fill out the new registration form, take it from me, it's really pretty easy. Take a few minutes and you'll see what I mean.

With "leadership" as the theme, the annual meeting has been carefully planned to provide us with the information and skills we need every

day. We NABE members are a lucky bunch of people to have our very own energetic, thoughtful and creative Program Committee and DBS staff to plan and organize a meeting that is packed with information to help us do our jobs better.

And our Section is even luckier to have our very own Charlie Lorenzetti planning the A&F Section program for the annual meeting. The program will explore the use of upward or 360 degree feedback as a technique for the development of leadership skills. Check your NABE schedule and our summer issue of *e-communicqué* so that you won't overlook this cutting edge program.

Speaking of overlooking things, don't overlook paying your NABE dues statement that should be in your mail soon. Rather than recite the top ten reasons to join NABE, I will give you my number one reason: Professional Development. The opportunity to meet colleagues, share ideas, make friends and enhance skills makes the NABE experience priceless. And, of course, being a member of the A&F Section merely enhances a fine-tuned and focused experience.

There's also a very important reason to be sure to re-join the A&F Section: The 2003 Tech Show. Under the fearless leadership of Craig Combs, the Tech Show Committee is planning a broad range of program- ing to keep the technologically-

challenged, as well as techies, interested. If you have subject matter ideas for Craig, or would just like another e-mail pal, be sure to contact Craig at craig@okbar.org. With Julie Armstrong, Rick Bannister, Sandra Cousins, Greg Derwart, Pat Dieken, Kari Hartman, Charlie Lorenzetti, and Linda Oligschlager, as the core committee members planning this event for us, it is sure to be a "must see in 2003." And, as an A&F Section member, you will receive a discount for the Tech Show. Need I say more?

There you have it, a year measured in bar events. Before you know it, 2002 will be over and we will be making travel plans for the Seattle mid-year meeting. But until then, back to the present: Happy Law Day!

Section Leadership 2001-2002

Donna Fouste, *Chair*
Craig Combs, *Vice-Chair*
Fred Parker, *Secretary*
Helen Druce, *Treasurer*

Council Members

Rick Bannister
Greg Derwart
Pat Dieken
Kari Hartman
Charles Lorenzetti

Sam Clinch, *Immediate Past Chair*

Intellectual Property, Privacy, Security & Electronic Documents

Are your electronic assets protected?

By: Stephen Poe

As more of our documents become electronic – whether on the Internet, emailed or just existing in electronic format – it raises an entire new set of problems for those of us who in the past primarily dealt with hardcopy only. Among them are intellectual property (IP), privacy, and security.

So, in addition to our jobs of keeping the “documents rolling,” we have another set of issues to contend with – issues that suddenly become very relevant in terms of lawsuits and bad press.

I suggest you take a few minutes and consider how well your current operations (or your client’s operations) handle the issues of IP, privacy, and security in the electronic document era.

Intellectual Property

In the past, IP was the domain of the Executive IP Committee, lawyers and the legal department. Now the tide of electronic documents is forcing IP concerns onto all of us. Remember that funny cartoon strip that got cut out and posted to the employee bulletin board? Well now, it gets attached to emails and maybe pasted into the employees’ newsletter on your website. What was a legitimate thumbtacking act has now potentially crossed over the line to copyright infringement.

And how many documents with the “For Internal Use Only,” that you used to keep in locked filing cabinets or in desk drawers, now end up out on the server with unlimited access? In fact, when you or your clients save a confidential or propri-

etary document, do you know where it is actually saved? And who might have access to it?

Online management of IP portfolios is becoming increasingly common as corporations strive to generate the most return out of their IP portfolio. This enables convenient, efficient online access to and analysis of IP portfolios. How secure is that information? Who can access the raw data of what you’re protecting, who you’re discussing licensing it to, and how much it’s estimated to be worth?

Privacy

The public is becoming increasingly concerned about their privacy online. Although much of the same information already exists, they are pushing for limitations on how it can be used and exchanged. Within the United States we are just seeing this with legislation such as Health Insurance Portability and Accountability Act (HIPAA) and the pending Financial Modernization Act. In Europe, both EU regulation and individual countries strictly legislate what private information can be exchanged inter-country, even if the exchange is internal within a corporation.

What documents, reports,

transaction details, or even private information within an email do you exchange, both externally and within your company? Is it legal now? Will it still be legal in the future?

Are you putting confidential information into emails and sending them out? Most likely. Are there parallel processes to insure email containing confidential information is treated differently than emails not containing confidential information? Could you prove additional (and sufficient) protection for confidential emails that parallels the process of how you handle and protect confidential hardcopy documents differently than you handle regular hardcopy documents?

Much of the current legislation requires a customer be able to opt-out or request all the information currently held on them. If a customer opts out, do your clients have the capability to remove that customer from all of their processes – across different lines of business and across different delivery platforms from hardcopy to Web to email? Do they have the capability to extract all their customer information held in multiple databases and develop a document to provide to that customer if they request to view



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Intellectual Property

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their file?

As more and more documentation is moved into electronic document storage and retrieval systems, do you have the ability to differentiate which information is discoverable and which is not? One software product which was offered and then failed in the marketplace searched, read and indexed almost all types of information – documents, emails, spreadsheets, almost anything with text in it. Some corporations tried it and then removed it because they were unable to differentiate which information they wanted indexed and available and which they didn't. It would index and make available the CEO's emails contents as easily as everyone else's, the CFO's spreadsheet content as well as the mail room's; in short, they discovered they had no good method of differentiating information with respect to its source, confidentiality or privacy level and thus could not make this system available in their company. It is one task to hand over 10,000 paper boxes to be reviewed during discovery; handing over the equivalent in electronic storage can be trivially easy to search for relevant information.

Security

How secure are your documents? In the past, physical security was all that was required (and maybe locking up the copy machine). Today's a different story.

We had a case in Dallas a few years ago with a minor fire in a high rise office building. There was a serious chimney effect as windows

were blown out. Unfortunately, one set of those windows was a law office's document storage. People were picking up confidential client files off the street for days. Electronic access is little different. How secure are your (or your client's) file servers? When the computer dies, who verifies the hard drive is wiped before they throw it out? Or send it out to be fixed? Are your file back-ups stored in a secure location, both in-house and off-site?

Where are you placing your documents? Who has access to those servers? Who has access to the back-ups to those servers (you are backing them up, aren't you – but that's a separate column)? What's your policy on emailing or FTPing documents? Do your employees have an easy way to encrypt a document before they email it over the Internet? And how secure is that encryption?

Are you locking down sensitive or critical documents? Both MS Word and Adobe Acrobat have passwords to create read-only documents or lock someone out. But neither offer terribly strong protection. How secure do you need these documents to be? Are you making a reasonable effort to make them secure enough? And HTML files have no protection at all.

I remember one case where a large corporation was going through major lay-offs. Someone discovered that using the search engine on the corporate website you could access the URLs of the Executive Layoff Compensation plan. This URL was widely circulated to the non-execu-

tive employees (who were not getting as attractive a package) and finally made it into the press before the URLs were secured. Quite an embarrassment.

Summary

IP, privacy and security have always been with us, and although in most cases electronic documents don't create any new problems, they do create new operational issues which we must be aware of. We should insure both our staff and our clients' staffs are aware of, plan for, and implement reasonable precautions to protect electronic documents.

At a minimum, you should review what processes you have in place for hardcopy documents, and insure you have parallel processes in place that provide reasonably similar levels of protection for the electronic versions of the same types of documents and information.

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Stephen D. Poe is CEO of Nautilus Solutions, a Dallas-based strategic consulting firm. Nautilus' practice focuses on helping software management turn technology into profits. Nautilus provides assistance to ISV founders, Senior Management, Boards of Directors and Venture Capitalists in surviving (and thriving) as an ISV in today's rapidly changing e-business environment. They consult to clients in North America and West-

Bars still pay for staff's health insurance

By Greg Derwart

Last month I posed the following question on the A&F Section listserve:

“Do you require your staff to pay a portion of their health insurance premiums? If so, how much?”

I received a good response, and several of you asked if I would share the results of my inquiry. Understanding that this is not in any way a scientific sampling, here is what you said:

- Of the 23 respondents, 18 of them, or 78%, said that they pay for their staff's health insurance 100%.
- Four respondents (17%) said that they pay 75-99% of the premiums, and require the staff to cover the balance.

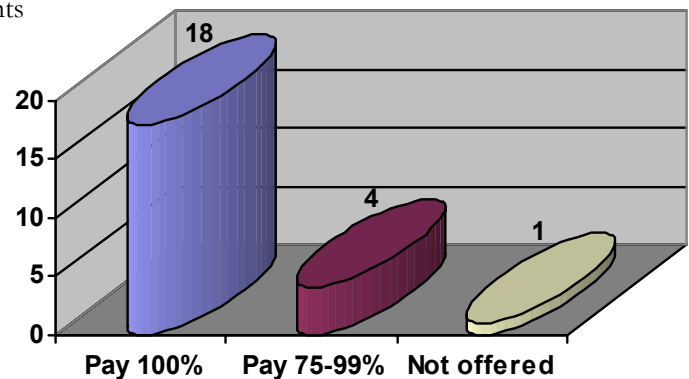
• One respondent (4%) said that they cannot find a health insurance program that is affordable, and that if they did offer health insurance in the future, the staff would pick up a portion of the cost.

Here are some other comments, although they were not prompted:

- Of the 18 respondents who pay 100% of the premiums for their staff, three of them, or 17%, said that the policy is currently under debate due to the rising costs of premiums.
- Of the 18 who pay 100%, four of them said that they

also pay a portion – anywhere from 50% to 75% – of dependents' premiums.

Thanks to everyone who participated in this unofficial survey. The listserve continues to increase in usage – keep it up!



Mastering Functional Allocations of Expenses

By Anna M. Hofmeister, CPA

In the past, nonprofit organizations could record expenses in several different ways depending on their preference and what they thought would present them most favorably. This resulted in a distorted financial picture and difficulties in comparing one organization with another, as information about expenses by function was usually not well depicted, if at all. It was for these reasons that, in 1993, the Financial Accounting Standards Board (FASB), Norwalk, Connecticut, issued the Statement of Financial Accounting Standards No. 117, “Financial Statements of Not-for-Profit Organizations.”

Requirements

Among the requirements of SFAS No. 117 is the allocation of expenses by function: “A statement of activities or notes to financial statements shall provide information about expenses reported by their functional classification such as major classes of program services and supporting activities.”

This means that a nonprofit organization is required to:

- present in the statement of activities its expenses by function (major functions such as membership, meetings, publications, fundraising, general, and administrative) or
- continue to present its statement of

activities as it has in the past, considering that these major functional expenditures are disclosed in the footnotes.

Although SFAS No. 117 does not specify how these expenses should be allocated among functions, it does encourage organizations to allocate expenses in a manner that best depicts the true cost of each function and makes it easier to compare the effectiveness of one organization against another.

In addition to this requirement, voluntary health and welfare organizations are required to present an additional statement of expenses by

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Allocations of Expenses

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their natural classification in a matrix format.

In addition to FASB, the Internal Revenue Service (IRS) has placed similar requirements on certain nonprofit organizations. Although these requirements have not changed in recent years, it's important to review them. On Form 990, all 501(c)(3), 501(c)(4), and section 4947(a)(1) organizations are required to not only report their expenses using a natural classification but also allocate these expenses among three categories: program services, management and general, and fundraising. Because potential donors use this information to decide whether to donate money to an organization as well as express how they would wish to see their donations used, this is an important area of the form.

Allocation methods

Neither FASB nor IRS requires that organizations use a specific format or allocation method. They do require, however, that the method be meaningful, reasonable, accurate, and consistently applied.

There are several methods that can be used in allocating costs. The most commonly used methods rely upon a percentage basis of one of the following:

- direct personnel costs incurred by each function,
- office space occupied by each function,
- full-time equivalents devoted to each function, or
- direct costs incurred by each function.

Allocating expenses

When evaluating the methods, be objective in your analysis of how and

where the costs are being incurred.

Use these steps to guide you.

1.) Determine the components.

There are three types.

- *Direct expenses* are those expenses that can be directly attributable to one function, such as meeting room rental for a conference or printing a monthly newsletter.
- *Costs shared by some functions* include travel and lodging expenses for board members attending an annual conference or a section of a monthly publication devoted to the annual conference.
- *Indirect expenses* are those general and administrative expenses required to run an organization that benefit all functions. These include costs related to personnel, occupancy, volunteer leadership, telephone, and so forth.

2.) Determine into which of the

components the expense fits. Go through each expense and divide it among the three categories.

3.) Determine by which function the expense or benefit was incurred.

4.) Determine the most appropriate allocation method. A direct expense is fully allocated to its respective function, shared costs are divided among functions depend-

ing upon derived benefits, and indirect expenses typically employ characteristics of both.

Picking a method

When determining the best way to allocate your organization's expenses, remember that there are several different options. It's important that you evaluate the different methods to ensure that each function is reflected appropriately and that the method is meaningful, reasonable, accurate, and consistently applied, as well as an efficient use of your time and resources.

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