



# CLIENTTELL

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# PROJECT GRAY UPDATE

BY ANDY HATFIELD

Construction is well underway for Project Gray! The HVAC, electrical, sprinkler, and plumbing infrastructures have all been roughed in. Metal stud wall construction is ongoing, and sheetrock is going up. Some of the next steps will include finishing the walls, continued framing, overhead ceiling work, and installing sound insulation.

As walls continue to form, our home is coming to life! When we walk through the building, we are now able to point out break rooms, offices,

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## >> CONTINUED FROM COVER STORY

and conference rooms in what only a short time ago was a large empty space. It's exciting to see the process of plans coming to fruition, knowing that each nail puts us a step closer to moving into our

new home. Follow along as we post updates on social media and the website to get the latest details on our journey to Gray. ♦

# Internal Controls and Fraud Prevention

BY TYLER WILLIAMS



A strong system of internal controls is critical to ensuring the accuracy of financial reporting and to deterring and preventing the misappropriation of assets in any entity, regardless of size. All too often, essential elements of

internal control are overlooked in entities that operate with a smaller accounting department. According to the Association of Certified Fraud Examiners (ACFE) 2024 Report to the Nations, 21% of fraud cases occur at businesses with fewer than 100 employees. The median loss due to an individual fraud at entities of this size was \$141,000, which was the highest figure for entities with fewer than 10,000 employees. Since smaller entities tend to have lower operating budgets and smaller operating revenues, the impact of fraud is often exaggerated for those organizations. According to the report, the top 5 fraud schemes uncovered at entities with less than 100 employees were:

- Corruption
- Billing
- Check and payment tampering
- Noncash (inventory and asset theft)
- Expense reimbursements

The ACFE reported a lack of internal controls was cited as the most common contributor to fraud, with 32% of all fraud cases caused by deficient or no internal controls. Often, smaller organizations lack the resources larger entities have; however, that does

not mean it is impossible to implement a strong system of internal controls in a smaller organization. There are a few key controls to prevent and detect fraud that can be implemented in any organization, regardless of size.

## 1. Segregation of Duties

One of the most cost-effective controls to implement is to segregate the duties of individuals handling financial tasks. Too often, small organizations give too much control to just one or two individuals when it comes to authorizing and recording transactions and reconciling accounts. Segregation of duties can be achieved by separating the responsibilities of accounting employees so that no single person performs the accounting function start to finish. For example, one person could be assigned to process invoices, while another would approve the payment of those invoices. This would ensure no single individual can control the purchasing/payment process. If staffing is extremely limited, the owner, a board member, or even an external accountant could assist in reviewing or approving transactions. Requiring significant transactions, such as wire transfers or payroll, to have two levels of approval could also strengthen segregation of duties and reduce the fraud risks associated with these transactions.

## 2. Regular Account Reconciliations

Performing regular reconciliations of accounts, especially those with significant balances or a high level of activity, is another important element of internal control. Without the timely and accurate reconciliation of accounts, fraud can go undetected for longer periods of time, leading to increased losses. An individual separate from those responsible for recording and processing the transactions should



perform a reconciliation of items such as bank accounts, credit card statements, accounts payable, and accounts receivable. An additional level of control would be to have an owner or board member review these reconciliations for unexpected or unusual reconciling items.

### **3. Establishing Purchase Authorizations**

Regardless of size, organizations need to have some oversight of the purchasing process. The risk of unauthorized purchases can lead to substantial losses for organizations. This can be combatted by implementing spending limits and requiring pre-approval for purchases exceeding a set amount. Dual authorization of transactions over a set amount or over certain cash disbursements that are more susceptible to fraud (such as payroll, credit card, and online) can also be an effective method to prevent or detect fraud surrounding purchasing and cash disbursements.

### **4. Establishing a Whistleblower Policy**

Tips are the most common method of fraud detection. In fact, three times as many cases were discovered through tips as through any other method. According to the ACFE report, 43% of all fraud cases were detected through tips from employees, customers, or vendors. Tips from employees made up 52% of the total fraud cases detected via tips. Owners, managers, and board members should foster a culture where employees feel comfortable reporting

fraud when they have reason to suspect it. The establishment of a formal policy and protections for employees to report suspicious activity could encourage employees to report suspected fraud and reduce the risk of loss.

### **5. Utilizing an External Accountant**

The use of an external accountant can serve as an effective method to strengthen internal control. Certain tasks such as payroll processing, account reconciliation, and transaction review could be outsourced to an external accountant in the event staffing situations or time constraints make it difficult to implement the necessary controls. Also utilizing an external accountant to perform an audit, review, or agreed-upon procedures engagement can serve as both a form of detection and deterrence.

The establishment and implementation of internal controls for smaller entities does not have to be overwhelming or time consuming. With just a few simple steps, the risk of fraud can be greatly reduced, no matter the size of the entity. The saying goes, “An ounce of prevention is worth a pound of cure”, and that certainly holds true when it comes to safeguarding the hard-earned assets of any organization. The ACFE 2024 Report to the Nations can be found online at the link below:

<https://www.acfe.com/-/media/files/acfe/pdfs/rtrn/2024/2024-report-to-the-nations.pdf> ♦





## Understanding Cost Segregation

BY NICK HILL



What is cost segregation? Could you benefit from it? Cost segregation is a valuable tax strategy that allows real estate owners and investors to accelerate depreciation on property assets, unlocking significant upfront

tax benefits. Cost segregation studies involve a detailed analysis of a property's components to separate personal property cost, which have a shorter depreciable life, from structural components, which have a longer depreciable life. Items like furniture, fixtures, and carpeting, for example, can be depreciated over five (5) or seven (7) years, while land improvements such as parking lots and landscaping may be depreciated over fifteen (15) years. Structural components, on the other hand, use a standard life of either twenty-seven and a half (27.5) or thirty-nine (39) years. Essentially, businesses can accelerate depreciation and reduce their taxable income in the early years of property ownership. This provides immediate tax savings and improves cash flow, especially for those with significant investments in real estate, freeing up capital to fund business growth or reinvest.

Business must be aware of evolving tax laws that could impact cost segregation. Specifically, the phase-out of 100% bonus depreciation, which began

in 2023 and is scheduled to decrease by 20% annually until it sunsets completely in 2027, could reduce the tax benefits currently available. If bonus depreciation is not extended or modified by future reforms, businesses will see a reduction in the immediate tax savings from cost segregation in the years to come. However, President Trump recently outlined tax legislation that intends to restore certain provisions of the Tax Cuts and Job Act, including 100% bonus depreciation.

Given the uncertainty regarding bonus depreciation phase-out, businesses that own existing property or that are considering property acquisitions should aim to complete their cost segregation studies as soon as possible to maximize the current tax benefits. Delaying a cost segregation study or a property purchase could result in a missed opportunity to take full advantage of the current bonus depreciation rules. The reduction in bonus depreciation could have a substantial impact on the tax savings businesses would otherwise benefit from, making timely action essential. Additionally, businesses should remain vigilant about potential changes in tax laws, working closely with tax advisors to stay updated on tax reforms and developments that could affect cost segregation strategies and to ensure compliance. With careful planning and the right professional guidance, cost segregation can provide substantial financial benefits, allowing businesses to maximize the value of their property investments while navigating the changing tax landscape. Please contact your tax advisor if you think you may benefit from cost segregation. ♦

# Non-Profit Audit Requirements

BY SIENA RAMBO



Good news for certain non-profit organizations...an audit may no longer be required!

The requirements to register and renew a non-profit organization's license or ability to solicit contributions varies in each state. The charitable

solicitation rules for the State of Tennessee require a non-profit organization to have an audit based on the gross revenue, excluding grants from government agencies and 501(c)(3) private foundations, for the year. This threshold was amended to increase the gross revenue threshold from \$500,000 to \$1,000,000 and was effective upon becoming a law in March 2024 (Tenn. Code Ann. § 48-101-506(b)(2)). So for those Tennessee non-profit organizations with a December 31, 2024 year end that have less than \$1,000,000 in gross revenue, excluding grants from government agencies and 501(c)(3) private foundations, an audit is not necessary for the charitable solicitation renewal due June 30, 2025.

The State of North Carolina does not have an audit

requirement for a charitable solicitation license. However, if a non-profit organization receives a certain amount of North Carolina state grants and/or appropriations, a state single audit is required. The North Carolina Office of State Budget and Management updated the regulations in 2024 to match the threshold level set in the OMB Uniform Guidance for federal funds (09 NCAC 03M .0205). This change increased the North Carolina threshold to \$750,000 on July 1, 2024 and then increased again to \$1,000,000 to match the revised OMB Uniform Guidance that took effect on October 1, 2024 for fiscal years ending September 30, 2025 or after.

The Commonwealth of Virginia does not require an audit for a non-profit to register or renew their charitable solicitation license. The Virginia Department of Taxation may require an audit for non-profit organizations with annual gross revenue of \$1,500,000 or more (Va. Code Ann. § 58.1-609.11(C)(4)). If the entity's gross annual revenue was at least \$750,000 in the previous year, then the entity must provide a financial review performed by an independent certified public accountant.

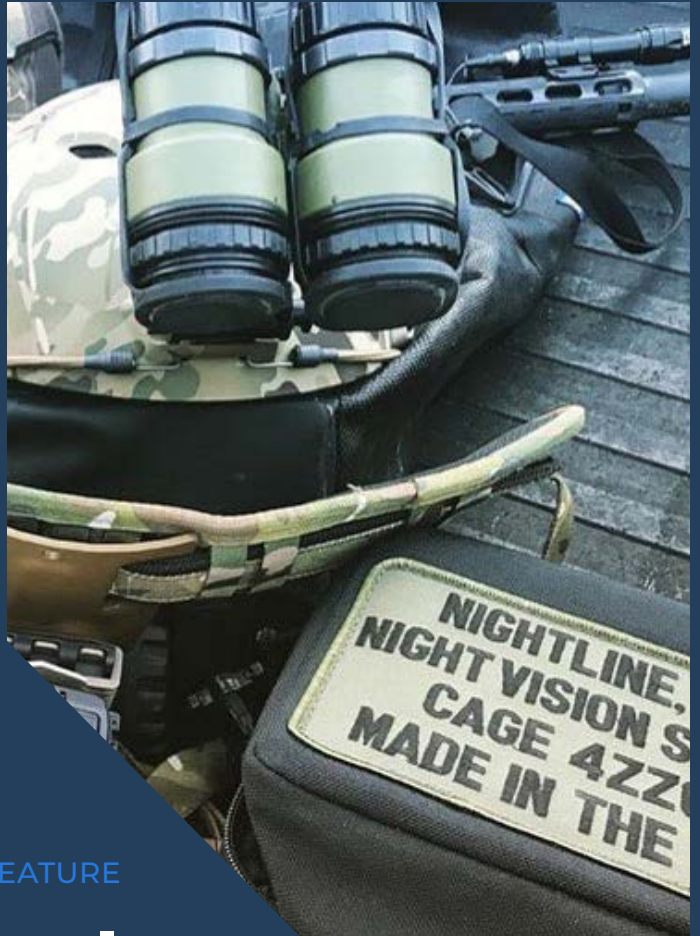
As a reminder for those non-profit organizations that register in multiple states for charitable solicitation purposes, always check the audit requirements for each state. ♦

## EARLY BIRD'S COFFEE CO.



Our crew loves a visit from Early Bird's, especially during tax season!





CLIENT FEATURE

## Nightline, Inc.

MOUNTAIN CITY, TN



# Q+A with **LEE COLLETTE**

PRESIDENT



## **Q. WHAT IS NIGHTLINE'S STORY?**

**A.** Nightline was incorporated in 1990 in Miami, but the company itself started in 1982. The original owner, Lee Grasheim, was selling night vision as a distributor mainly in South America for a number of years in the 90s. In the early 2000s, he sold the company and retired, living with his wife on the Intracoastal Waterway in North Carolina. During that time, they decided to buy a farm in the mountains of North Carolina, eventually leading them to a farm in Trade, Tennessee. The new owner of Nightline was injured in an accident and Lee bought the company back from him in the early 2000s and relocated Nightline to Mountain City Tennessee in 2005. In 2008, Nightline was one of Inc's 500 fastest growing companies. Today, Nightline is an award winning military and government contractor with focuses on night vision, firearms, and armor.

## **Q. HOW DID YOU GET YOUR START?**

**A.** I was a bartender in Blowing Rock for a number of years, meeting Lee and Pat during that time. When I finally left the restaurant business, Pat suggested I talk to Lee since I was job hunting. I showed up at the office in Mountain City unannounced and asked if he had anything I could do at Nightline. He said no, but after some light begging he gave me a job, for what I think was less than minimum wage at that time, as the lowest level employee in the building. Since that time, I have held almost every position at Nightline. I purchased the company around 2020 from Lee and we still have many of the same employees as the day I started.

## **Q. WHAT ARE YOUR GOALS FOR THE FUTURE?**

**A.** Nightline began making many of their own products years ago and we are continuing to expand that today. We make 90% of the parts we sell in the United States, many in our factory in East Tennessee. We do injection molding machining, sewing, testing, everything we need here in house. Anything else we use mainly local companies to our area. Our goal is to continue to manufacture, innovate, and move forward. We have a couple new lines coming up in the next year with different products and new paths.

## **Q. HOW HAS BCS HELPED YOU?**

**A.** Having worked with both large and small accounting firms, I knew going into this what I wanted. I wanted someone who would be attentive to details, responsive, and above all else just do what they say they are going to do. I have had countless bad experiences with firms waiting until the last minute and not keeping up with what they say they will do. Mistakes happen in those situations. We met with Sarah and immediately she understood what I was asking and agreed she and her team were up for the challenge. Since that time, Sarah and the team have done an amazing job of not only keeping their word, but usually having to run me down so I keep up with what they need. It's refreshing to not be a line on a checklist but to actually have someone working on your behalf. My VP is also the accounting manager and usually I follow her guidance on everything. She suggested BCS after we were unsatisfied with our last firm, and I think we both couldn't be happier with the service.

## **Q. ANYTHING ELSE YOU WOULD LIKE TO SHARE?**

**A.** I am extremely proud of Nightline as a business but more so in what we do and who we are. We help

**>> KEEP READING ON BACK**

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local departments, the community, individuals, and even had one of the largest hurricane relief efforts in East Tennessee. I would like to thank all of the employees of Nightline, past and present, for their efforts and heart for all of the things we do. Sharon Genaille has been the accounting manager since I started, although she is now also Vice president and typically runs everything. I cannot say thank you enough to her. Manuel Arguello has been here for over 30 years and is a VP of sales and marketing. Mike Kim has been here since I got here and handles all of our logistics. Although retired, Rick Blackburn, Cris Bartolomeo, and Debbie Felty still come in and have worked here for 30 years each. Jay Hooks, Chris Lipford, and Andy Walters all contribute tirelessly and have for about the last 5 years. I also want to thank Linda Cassese, of Mountain City Sky Diving, who headed up the relief efforts for the last 6 months and continues to do so, moving millions of dollars worth of goods and supplies to people affected by Helene. Without these people, and our reps throughout the world, none of this would be possible.



**FURRY FRIENDS ALWAYS KEEP  
US SMILING DURING TAX SEASON.**

*Thank you to The Funny Farm!*