



Lessons From Sarbanes-Oxley: What Can Your Organization Learn?

Sarbanes-Oxley, the landmark financial accountability and transparency legislation for corporate boards, does not specifically target the nonprofit community. Even so, because charities count on public goodwill, many experts predict that similar laws will eventually be applied to nonprofits, too.

Sarbanes-Oxley or not, every nonprofit should function as if it were operating in a glass house. The more information your organization shares, (within reason) the easier it is for the public to get to know you and determine whether you are worthy of support.

Here are some ideas for cleaning your windows and letting the sun shine in:

Have an annual audit of your organization. Nonprofit audits currently are generally not regulated by government entities — except for those organizations that receive specified levels of government funds. But strict self-regulation and regular independent audits send a message that ethical standards and accountability are taken seriously by your organization. A properly conducted audit is a true confidence builder for constituents and supporters. Follow these steps to set the stage for your audit:

- Have the board — not the staff — hire the external auditors.
- Form a separate audit committee whose members are not compensated for their board service and who have direct access to your organization's financial information.
- Charge staff with the responsibility of providing all the needed reports, documents and information that can help the board and, particularly, the audit committee do its work.

Train your board. As the oversight body, your board is already responsible for ensuring that proper policies and processes are in place to create an environment of ethical behavior. In the wake of Sarbanes-Oxley, many potential and current board members have a newfound awareness of their liability as board members. Address their concerns by providing some basic training on federal and state laws as they relate to the duties of board members. Make sure board members also know that it is important to attend and prepare for meetings, ask questions and address potentially unsound or imprudent decisions.

Make sure “whistle-blower” policies are understood. Unfortunately, numerous nonprofits are still unaware of the clauses in the Sarbanes-Oxley Act that apply to nonprofits (as well as to public corporations). Every nonprofit should get active in creating its own whistle-blower and document destruction policies. The whistle-blower policy needs to provide a safe and confidential method for a staff member to express concerns about questionable processes or to report criminal, fraudulent or unethical acts. The policy must also guarantee that the individual — the whistle blower — is not punished in any manner for reporting. Let workers know they are protected and encouraged to speak up. Just as important, remind them that the decision to stay silent can also equal tacit consent to activities that may be illegal, unethical or simply against office rules. Document destruction policies need to set clear guidelines for the handling, storage and preservation/destruction of your organization’s records and documents.

Create an explicit conflict of interest policy. Under Sarbanes-Oxley, for-profit corporations must have outsiders on their boards, and they often turn to nonprofit leaders. These corporate boards find nonprofit leaders can bring an added perspective and objectivity. If one of your board members is tapped for such a position, you need to consider whether that person will lose his or her independence as a board member (for example, what if the corporation makes a sizable contribution to your nonprofit?). To protect your organization, draft a very straightforward conflict of interest policy.

With extensive experience working with nonprofit organizations like yours, our professionals can provide guidance as you structure proper oversight and compliance procedures.