



Best Practices Under Sarbanes-Oxley: Lessons Nonprofits Can Learn

While the Sarbanes-Oxley Act of 2002 applies only to publicly traded companies, it does set a standard of internal controls that *all* companies — including non-profits — could do well to follow, including:

- “up-the-ladder” reporting requirements for accounting and other financial irregularities, and
- establishment of internal audit and governance committees.

Who Cares About Nonprofit Accountability?

Certainly the Internal Revenue Service, the U.S. Treasury Department and various state attorneys general do. In fact, some states have already proposed and, in some cases, enacted legislation or administrative rules designed to identify and enforce best practices in governance for nonprofits.

What You Can Do

1) Form (and use!) an independent audit committee. As an operating arm of the governing board, an audit committee’s principal roles include:

- Overseeing accounting and financial-reporting activities (including an understanding of the organization’s internal controls).
- Managing the auditing process from the organization’s point of view (through engaging the independent auditors and meeting with them frequently).

- Being aware of the potential for fraud within the organization.
- Helping to define and monitor the ethical standards that the board has established for the organization to follow.

2) Utilize independent, outside auditors. The audit committee should have sole responsibility for hiring the outside auditor (separate from the one who keeps the organization's books) and meeting with the auditor without staff present to review the audit's findings.

3) Release timely and accurate financial statements. In order for Form 990 and financial statements to be filed in a timely manner, your board and managers must first determine precisely what accounting and financial information (and what format) is the most valuable for stewardship purposes. This may mean jettisoning old reports, and the ways of preparing them, and crafting new ones. Here, a workable records-retention policy might be in order. After that comes an evaluation of your systems and their ability to generate the required data.

4) Watch insider transactions. If your organization engages in a transaction with a "disqualified person," (e.g., a loan to a director or officer) you should have a clear conflict of interest policy governing such activities. And, to be certain that internal controls are adequate and operating efficiently, your governing board must first *understand* the controls. A regular and thorough review can go a long way toward fostering such an understanding.

In the end, nonprofits can certainly learn a thing or two from Sarbanes-Oxley legislation. After all, who would argue the value in taking steps to ensure that your organization is managed efficiently and effectively, and that your assets are properly protected?

You can count on our experienced professionals for help with all the elements that support solid and transparent corporate governance.