

Sarbanes-Oxley
and the
Nonprofit Sector



Take Two




Sarbanes & Nonprofit Organizations



□ Governance and Relationships

Who Governs NFPs? - Who Makes the Rules?

- Board of Directors
 - IRS
 - State Laws
 - Federal Government
- 



Sarbanes & Nonprofit Organizations



□ Governance and Relationships

Internal Governance - Who Makes the Rules?

- Board of Directors
 - Audit Committee
 - Staff
- 



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□ Governance and Relationships

External Governance - Who Makes the Rules?



- IRS
- State Governments
- Federal Governments




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□ Governance and Relationships

What's the Role of the Audit Committee?

➤ SARBOX Role

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- Approve all Services of External Auditor
 - Meet with External Auditors
 - 1 Financial Expert
 - Fields Accounting Complaints
 - Does It All Make Sense?




Sarbanes & Nonprofit Organizations



□ Governance and Relationships

Who's On the Audit Committee?

- Board of Directors
 - No Staff
 - Outside Professionals
- 



Sarbanes & Nonprofit Organizations



□ Governance and Relationships

DEFINITION OF ACCOUNTABILITY

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- ❖ TTI
 - Transparency
 - Trust
 - Integrity



Sarbanes & Nonprofit Organizations



□ Governance and Relationships

DEFINITION OF ACCOUNTABILITY (continued)



- Mission Statement
- Financial Information
- Job Descriptions



Financial Accountability is Similar to a Three Legged Stool



NFPs
Staff

Governing
Board
Oversight

Outside
Attestation



Each of the three legs must be firmly in place or accountability fails.




SARBOX

How Did We Get Here?

□ What's the Problem?

Focusing Events

- NFP Board / Staff Perks
 - Donor Tax Savings / Loopholes
 - Competition with For-Profits
 - 5% Foundation Requirement
- 



SARBOX

Why is Congress Interested in NFPs?



□ What are the Numbers?

- 1.4 million Organizations
 - 10.9 million Employees
 - \$2 trillion in Assets
- 

(From *The Nonprofit Quarterly* – Regulatory Landscape 2005 Article)




SARBOX

Why is Congress Interested in NFPs?




□ The Real Numbers

- Exclude 11,500 private colleges, universities, hospitals, nursing homes
 - Exclude houses of Worship and Religious organizations
 - Exclude 550,000 NFPs with less than \$25K Budgets
 - 300,000 Reporting NFPs
- 



SARBOX Governance

□ What Do We do?

- Strengthen Board Membership
 - Appoint Finance/Audit Committee
 - Board Communication with Staff
 - Ask the Hard Questions
 - Do the Right Thing
 - Recognize the Environment We're In
- 



Web Sites

AICPA Audit Committee Guidance

[www.aicpa.org/Audcommctr/guidance_resources/auditors
and audit committee/homepage](http://www.aicpa.org/Audcommctr/guidance_resources/auditors_and_audit_committee/homepage)

Senate Finance Committee

www.finance.senate.gov

Independent Sector

www.independentsector.org

National Council of Nonprofit Associations

www.ncna.org





National Association of State Charity Officials

www.nasconet.org



Alliance for Charitable Reform

www.acreform.com

National Committee For Responsive Philanthropy

www.ncrp.org



National Center for Charitable Statistics

www.nccsdataweb.urban.org/FAQ/index.php?category=31

Revised Yellow Book

www.goa.gov/govaud/ybk01



FASB Standards

www.fasb.org/st/index.shtml



Circular A-133 and Revisions

www.whitehouse.gov/omb/circulars

Office of Management & Budget: A-133 Compliance
Supplement

www.whitehouse.gov/omb/circulars/a133_compliance






www.irs.gov/newsroom/article

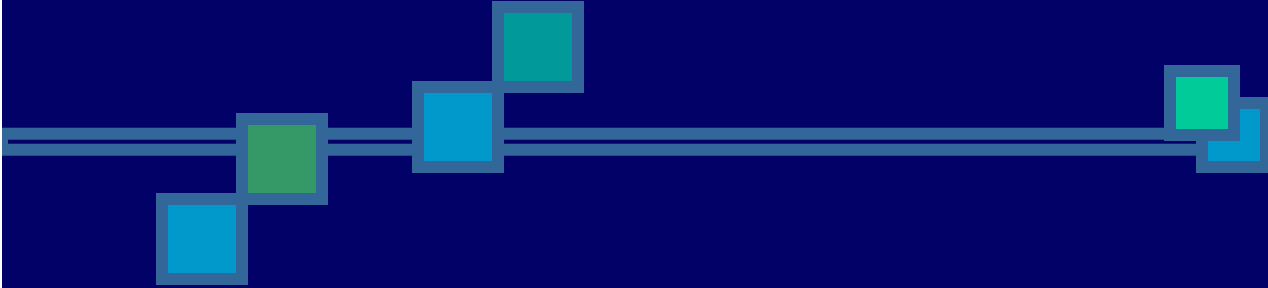


IRS Introduces e-file for Corporations, Exempt Organizations


IR-2004-43, March 30, 2004

WASHINGTON - For the first time, corporations and tax-exempt organizations have the option of filing their annual income tax and information returns electronically, the Internal Revenue Service announced today.

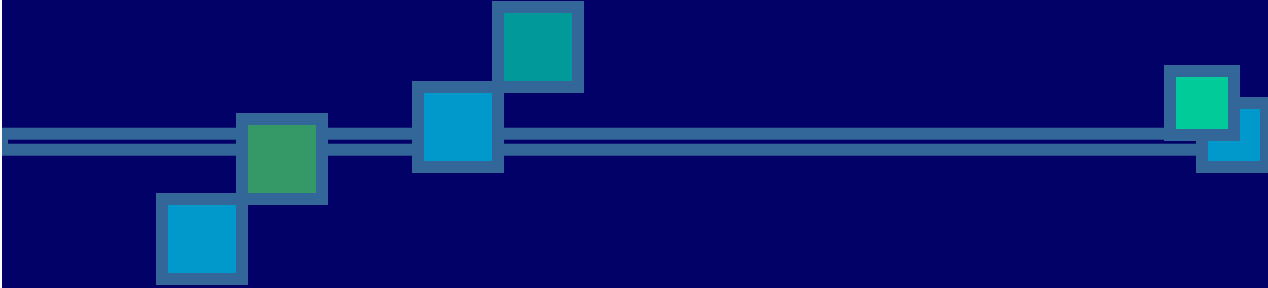




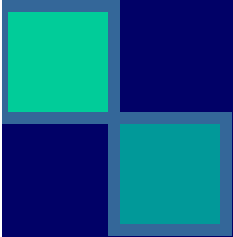
Corporations and tax-exempt entities can now significantly reduce the time it takes to file their Forms 1120 and 990 simply by filing them electronically. The new electronic filing system was developed and delivered through the IRS Business Systems Modernization program and began accepting returns last month.




The new system provides corporations and tax-exempt organizations the option to transmit tax return data using a secure Internet connection in place of a modem. Taxpayers and tax professionals can prepare the returns using IRS-approved software developed by one of several software companies. The returns are then transmitted to IRS through a secure Internet site accessible only to registered users.

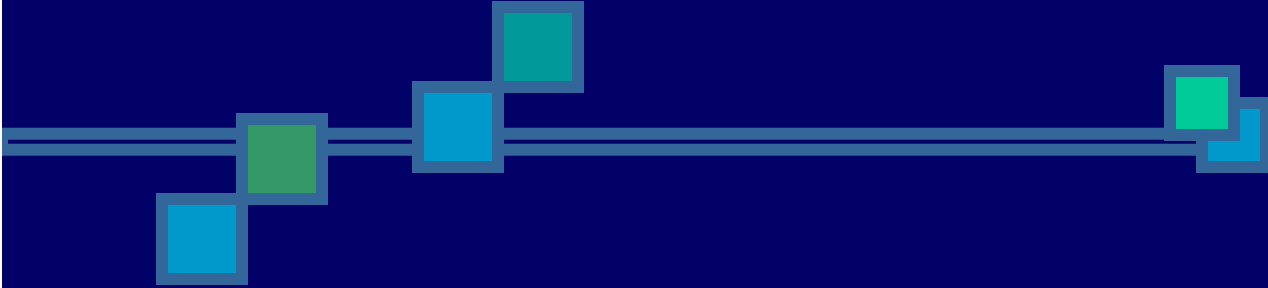


“We have worked closely with tax professionals to build a new approach based on industry needs. The successful launch of this modernized e-file process means charitable organizations and most corporations can stop filing massive paper returns,” Commissioner Mark W. Everson said.”

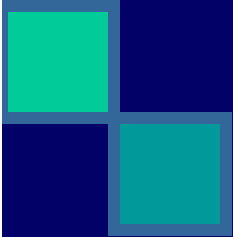


The improved process offers additional advantages:


- ✓ Tax professionals can attach documents to returns in Portable Document Format (PDF).
 - ✓ Error messages are quickly delivered and easier to understand.
 - ✓ Returns are processed upon receipt and an IRS return message lets tax professionals know the return has been filed.
- 



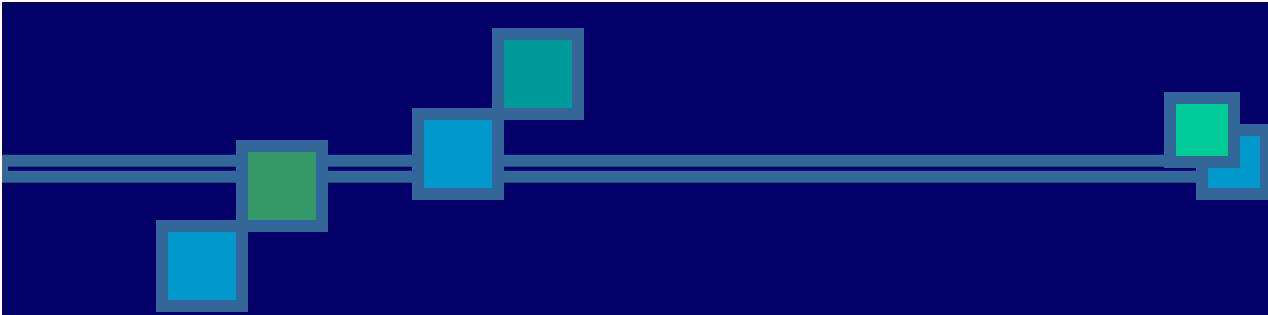
In 2003, corporations filed more than 5.7 million corporate income tax returns (Form 1120) and tax-exempt organizations filed 506,000 annual information returns (the Form 990 series) last year, plus 395,000 automatic extension forms.




This is the first release of the new electronic filing system. The project's goal is to replace outdated, proprietary IRS technology with an industry standard process that uses Extensible Markup Language or XML. This is the first XML-based system IRS has used to receive tax returns over the Internet.



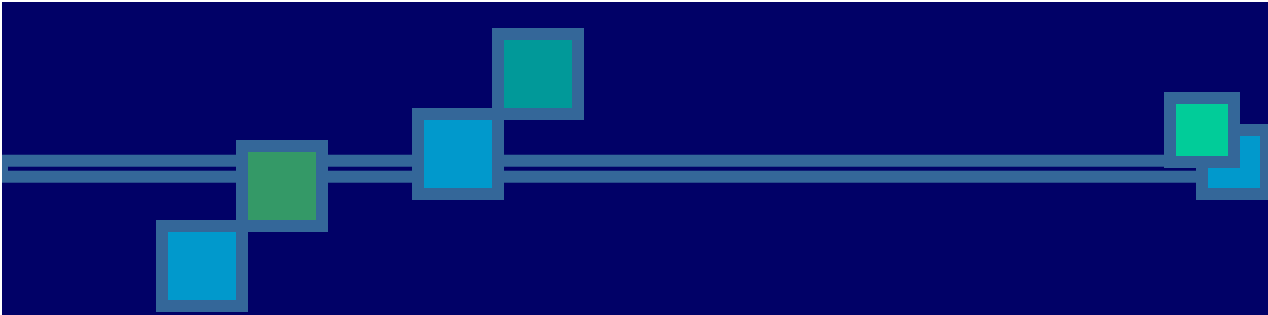
On Feb. 23, IRS began accepting 59 forms for electronic filing of corporate returns 1120 and 1120S and exempt organization returns 990, 990EZ, 1120POL and the extension Form 8868, to request



an automatic extension of time to file. More than 95 percent of corporations are able to file electronically now and all corporations will be able to when another 43 forms and schedules are released LATER IN 2004. More than two-thirds of exempt organizations can file electronically now, and an additional 244,000 will be able to file other types of returns later in 2004 and 2005.



In future releases, the new system will make it possible to file federal and multiple-state returns in a single electronic transmission. The IRS is working closely with several states on this future option.



Only electronic return originators have access to the new electronic filing system. Tax professionals can become electronic return originators by using a new, online application process. Those who are already electronic return originators can update their applications online to e-file these new forms. Tax professionals wanting to know more about the online application form and other e-services should visit the e-services page on IRS.gov. The IRS Web site also has more information about modernized e-file and the software companies that support the new program.

