

Legacy Advisor

December 2003 Issue No. 03-1

NOT-FOR-PROFIT ORGANIZATIONS

Why Sarbanes-Oxley Matters to Nonprofits

On July 30, 2002 the American Competitiveness and Corporate Accountability Act of 2002 (or the Sarbanes-Oxley Act) was signed into law. While nearly all of the provisions of the bill apply only to publicly traded corporations, certain provisions do apply to the non-profit community as well and the passage of this bill should serve as a wake-up call to the entire nonprofit community. If nonprofit leaders do not ensure effective governance of their organizations, the government may step forward and also regulate nonprofits. In fact, some state attorney generals are

already proposing that additional elements of the Sarbanes-Oxley Act be applied to nonprofit organizations. Leaders of nonprofit organizations should look carefully at the provisions of the Sarbanes-Oxley Act to determine whether or not their organizations ought to voluntarily adopt some of the provisions now.

The Act calls for regulations and closes most of the loopholes for all enterprises (for-profit and nonprofit) relating to whistle-blower protection and document destruction. It protects whistle-blowers who risk their careers by reporting suspected illegal activities within the organization. It is now considered illegal for a corporate entity, both for profit and nonprofit alike, to punish the whistle-blower in any manner. A nonprofit must develop procedures for handling employee complaints. It also must establish a confidential and anonymous mechanism to encourage employees to report any inappropriateness within the entity's financial management. A reasonable

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Legacy News

Welcome to the first issue of *Legacy Advisor*! This issue kicks off Legacy Professionals' newest publication designed to communicate important and current issues affecting not-for-profit organizations to clients and friends of our Firm. We hope you find each issue informative and interesting. Please feel free to contact us with your ideas and comments. Or, if you would like to submit an article, please let us know. You can contact Julie Tucek, our Marketing Director, or our editor, Rose Doherty, CPA. We appreciate your input and look forward to your feedback.

As you know, the new Firm of Legacy Professionals LLP came into existence in January, 2003. We are pleased to inform you, our clients and friends of the Firm, that things are going well! We have 13 partners and over 115 professionals in our three offices. We have spent most of this year retooling our programs and processes, designing and rolling out our new look and most importantly, ensuring that our clients continue to be satisfied by our service and efforts on their behalf. We sincerely thank you for your patience and support of the new Firm. Please do not hesitate to contact us at any time if you need anything or if you have any feedback or suggestions for us.

- The partners and staff of Legacy Professionals LLP

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Preventing Fraud

Evidence has shown that upward of 6% of annual revenues are lost to fraud and that small organizations are the most vulnerable. Lack of adequate internal controls and high-tech accounting software make it easier for individuals committing fraud to alter cash disbursements after the fact, enter prior period adjustments, and void extra payroll checks or fictitious vendor payments. While we regularly alert our clients of the potential for fraud and try to create an awareness of possible strategies for lowering the risk of defalcations, many organizations are still at great risk. Here are some preventative suggestions for your organization:

- Engage a CPA to examine your books and opt for an annual audit.
- Develop a written code of ethics for your organization and your employees.
- Treat employees fairly and provide access to management for reporting suspected fraud.
- Restrict access to bank accounts.
- Perform bank reconciliations on a regular basis.
- Establish physical controls over inventory and supplies and institute a perpetual inventory system.
- Prescreen prospective employees to insure that they have no criminal background.

In addition to an organization's self-regulation and attempts to identify fraud, the Financial Accounting Standards Board (FASB) has recently issued Statement on Auditing Standards No. 99, "Consideration of Fraud in a Financial Statement Audit" (SAS 99), which replaces SAS 82. Under SAS 99, audits of periods beginning on or after December 15, 2002 must implement and document the following auditing procedures required by your CPA firm that will help to prevent and detect fraud. The auditors must:

1. Hold a brain-storming session about possible fraudulent activities in the planning stages of an audit.
2. Obtain information necessary to identify risks of misstatement due to fraud.
3. Identify risks that may result in misstatement due to fraud.
4. Assess risks in light of organization's programs and controls.
5. Respond to results of assessment.
6. Evaluate audit evidence.
7. Communicate with management, audit committee, and others about concerns/findings.
8. Document their consideration of fraud.

In addition to the above eight procedures that we will perform in an audit, we can evaluate your systems and procedures, educate your employees in the area of fraud detection, provide internal control reviews, observe physical inventories, verify the existence of assets and provide a variety of other services designed to minimize exposure to, and losses from fraud. Please contact us if you have any questions or need any assistance in this area.

*Edited by Rose G. Doherty, CPA
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Holiday Showcase 2003

Legacy to Exhibit at Holiday Showcase

Legacy Professionals LLP will be exhibiting at Association Forum of Chicagoland's Annual Holiday Showcase on Tuesday, December 16 at the Hyatt Regency Chicago. Rose Doherty, Partner, Greg Wallenbecker, Senior Manager, and Julie Tucek, Marketing Director will represent the Firm's Not-For-Profit Team at Booth #544. Stop by the booth to say hello, pick up Legacy Professionals LLP's treats, and enter our drawing for a holiday favorite – Marshall Field's gift certificates!

For more information about our Not-for-Profit services or to include your colleagues on our quarterly *Legacy Advisor, Not-For-Profit Organizations* newsletter subscriber's list, please contact us at info@legacypas.com.

Ask the Accountant

Do you have questions for your accountant? As a new portion of the Legacy Advisor Newsletter, Legacy Professionals LLP is creating an "Ask the Accountant" column which will address clients' questions and needs. If you have a question, please contact us at info@legacypas.com. We look forward to hearing from you soon and printing the questions and responses in our new column.

Editor's Note

This issue was edited by Rose G. Doherty, CPA. Rose heads up Legacy's Not-For-Profit Practice Area. If you have any comments or questions, Rose can be reached at rdoherty@legacypas.com or at 312.368.0500.



Rose G. Doherty

Why Sarbanes-Oxley Matters to Nonprofits

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belief or suspicion that a fraud exists is enough to create a protected status for the employee.

With regard to document destruction, the Act makes it a crime to have any role in altering, covering up, falsifying, or destroying any document in order to prevent its use in an official proceeding. A nonprofit organization should have a written, mandatory document retention and periodic destruction policy. Such a policy also helps limit accidental or innocent destruction. The document retention policy should include guidelines for handling electronic files and

voicemail. Electronic documents and voicemail messages have the same status as paper files in litigation-related cases. The policy should also cover back-up procedures, archiving of documents, and regular check-ups of the reliability of the system.

In addition to the two provisions mentioned above, another portion of the Act which is important to nonprofits and for-profits alike concerns the assurance of the competence and independence of audit and finance committees. Nonprofit organizations need to ensure that board members of these committees have the financial

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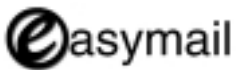
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competency to understand financial statements, evaluate professional services firms, and make sound financial decisions as part of their fiduciary responsibilities.

The Sarbanes-Oxley Act should be an impetus for the nonprofit sector to analyze its board practices and methods of operation. The Act has caused a renewed realization that nonprofit organizations rely on and have the responsibility to protect the indispensable and unequivocal confidence and trust

of their members and donors. Self-regulation and proactive behavior are always more powerful than changing procedures and policies to comply with a new law. Additionally, organizations that begin implementing some of the Act's practices and guidelines will be ahead of the curve if and when additional areas in the Act begin to apply to nonprofits. Please let us know if you have any questions or comments.

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