

Legacy Advisor

Spring 2005 Issue No. 05-1

NOT-FOR-PROFIT ORGANIZATIONS

Does your Organization Have an Audit Committee?



Bob Grogan, CPA

We have previously discussed in a prior issue of this newsletter, the limited direct impact that the Sarbanes-Oxley Act (SOX) has had on nonprofits (see issue 04-2 posted on our website). However, many forward thinking nonprofits are asking themselves what other parts of the SOX they should consider enacting as a part of best-practices. In fact, the Attorneys General of several states have already implemented some Sarbanes-like reforms. Others are still in the studying stage. One recent trend is to adopt an audit committee structure. Some of the duties of an audit committee follow:

- Engage the auditing firm
- Review the audit with the auditor
- Present the audit to the Board with its recommendation as to whether or not to accept it
- Provide an outlet for confidential reporting of any impropriety suspected by an employee without fear of management's retribution (whistleblowers)
- Review the appropriateness of major accounting and internal control policies

Some major characteristics of an audit committee:

- Should have at least one member of the Board (preferably more than one)
- Should have at least one "expert" in the field on non-profit accounting/auditing (you may consider engaging such an individual if none are available from your volunteer base)
- Should meet several times a year
- Staff members normally do not serve on the committee
- Boards with high turnover may consider longer terms to retain institutional memory

There are some pros and cons to adopting this structure. If implemented correctly, an audit committee should provide the Board with a clear independent voice to address financial matters. It establishes that the auditors are neither engaged by nor report to management, but rather, the Board, through its audit committee. The committee members will need to devote the time and develop the expertise to monitor effectively increasingly complex financial practices. Many nonprofits will find it difficult to populate such a committee with qualified individuals. If you create an

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Legacy News

Legacy celebrated its two-year anniversary on January 20, 2005! Thanks to all of our clients and friends for your ongoing support. We are looking forward to many more great years!

We are very pleased to announce a number of Legacy Professionals LLP promotions as of January 1, 2005. Robert (Bob) Cann, CPA, was admitted to the partnership. Bob serves as the Firm's Director of Compliance Services and works out of the Firm's Chicago office. Legacy now has sixteen partners in our three offices.

Tim Cibulka, Jim Kemperas, Tim Lakis (Chicago), and Lori Seljan (Indiana) were promoted to Senior Manager. Mark Batliner, Colin Thompson (Chicago), and Chad Fennell (Minnesota) were promoted to Manager. Additionally, eight members of the staff were promoted to Senior Accountant, including: Marcie Clark, Akelo Colbert, Jeremy Cremean, Maureen Dunigan, Paul Hedinger, Jerry Myers, Tessa Palomo, and Jorge Villegas.

This issue was edited by Rose Doherty. Rose can be reached at rdoherty@legacycpas.com or 312.384.4223 if you have any questions or comments.

- The partners and staff of Legacy Professionals LLP

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Senate Hearing Focuses on Tax Abuse by Charity Groups

Now more than ever, it is critical that nonprofits show a strong commitment to compliance issues and excellence in self-regulation. By the end of September 2005, the IRS will have increased the number of personnel who audit tax-exempt organizations by over 30 percent from September 2003.

IRS Commissioner, Mark Everson, along with Minnesota attorney general, Mike Hatch, spoke to the Senate Finance Committee on Tuesday, April 5, about concerns of growing tax abuse by charities and nonprofits. Although there is no precise gauge of the revenue impact of such issues, it is a growing concern and topic of discussion. The IRS faces increased problems overseeing the continuously growing nonprofit sector, which is now made up of about three million organizations controlling about \$8 trillion in assets.

The Senate Finance Committee is developing legislation to tighten regulations of nonprofits which should be voted on before the Memorial Day recess. The Finance Committee began looking into abuses in the nonprofits last summer and included several provisions in last fall's tax bill that were directed at curbing the abuses. As members of the committee suspected, Everson's letter demonstrates that there is much more to be done.

The nonprofit sector is paying attention and taking action. Last month the industry-convened Panel on the Nonprofit Sector offered a preliminary report on how laws could be tightened and practices improved to curb abuse. A representative of a citizen's advisory group to the Panel on the Nonprofit Sector, Leon Panetta, cited abuse examples such as nonprofits siphoning away funds, misusing contributions, self-dealing, and tax-avoidance scams. He also said that nonprofits with more than \$2 million in annual revenue favor the clarification of rules on "donor advised funds," penalties for self-dealing, and mandatory electronic filing of charities' tax returns. Panetta made the suggestion that the nonprofit industry create a self-governing body to accredit charities.

As upcoming rulings change the regulations of nonprofit accountability, it is imperative that nonprofit organizations continue to strengthen and uphold their standards of regulation. We will let you know about further developments as they occur. Please let us know if you have any questions as they relate to your organization.

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Legacy Peer Review



CPA firms periodically undergo their own version of an "audit." This program is called the "Peer Review" and is designed to provide assurance that public accounting firms establish and enforce the appropriate quality control system for their accounting and auditing practice, and do so in accordance with the standards and procedures formulated by the AICPA. Typically, a peer review is performed every three years.

In November 2004, Legacy Professionals LLP successfully completed its peer review. The peer

review team of an outside CPA firm made an independent assessment of Legacy's quality control

system and inspected the working papers and reports on a sample of engagements. They also inspected the administrative files and records and interviewed professional personnel to determine the extent of qualifications, supervision, and training.

We are very pleased to report that the team issued an unqualified report with no "Letter of Comment" to our Firm. What does this mean? This is the best result you can receive since the Letter of Comment usually includes suggestions for improvement. We will continue to do our very best to provide the top-notch service our clients have come to expect. Contact our Managing Partner, Bob Tiberi at rtiberi@legacypas.com or at (312) 368-0500 if you have any specific questions concerning the Peer Review or if you would like to receive a copy of our most recent Peer Review letter.

Do's and Don'ts of Technology Funding for Nonprofits



How can your nonprofit organization keep pace with technological advances? It takes money—perhaps more than you can expect to generate through regular donation programs. If you are hoping to drum up support from the government or a major corporate

sponsor, be aware that competition in this arena is fierce.

The trick is to differentiate your proposal from the countless others being pitched as potential sources of technology funding. Here are some practical do's and don'ts to follow:

Don't focus on cutting-edge technology. This is not necessarily attractive to the leading funding sources. It is usually more persuasive to add high-tech aspects to

proven ideas. Demonstrate how the new technology can be used to further your mission.

Don't request funding for basic operations. It is likely you will be shut out if you take this simplistic approach. In other words, you cannot expect the funding entity to balance your nonprofit's budget on its back. You stand a much better chance of success if the funding proposal is linked to one or more specific nonprofit projects.

Do your homework. Indicate that you are aware of what other nonprofits are doing in this area, how your proposed project will fit into your overall operation, and what the level of complexity is. Technology funders are less likely to be swayed if you are simply jumping onto the bandwagon so you can latch onto the latest high-tech gizmo.

Don't get in over your head. Delegate technical matters to the person in your organization who is best qualified to explain what you are hoping to accomplish. Caveat: The person must be able to express your position in "plain English." If there's no one aboard up to the task, seek assistance from the business community.

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audit committee, it has to actually "do" what it is designed to do. Also, members of an audit committee face strong fiduciary responsibilities, though its presence does not diminish those of the Board itself.

Another alternative to consider is to augment the mission of an already standing finance committee. Such a committee may already possess individuals with the knowledge necessary. If this is the direction you wish to take, the Board would need to pass a resolution empowering the committee to do such work and the committee name should have "audit" in it; for example, "finance and audit committee." The drawback to this approach is that if the finance committee makes major financial recommendations, the same committee would

not be able to independently review these decisions. Once again, having an audit committee is not a requirement for nonprofits, but in today's marketplace, with its heightened scrutiny, everyone should explore all alternatives to best safeguard the resources that you have been entrusted with. This is only a snapshot of some of the considerations involved. For more information, we recommend that you speak to your auditors and your attorney. If you want to discuss this topic, please feel free to contact us.

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Do's and Don'ts of Technology Funding for Nonprofits

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Do develop an evaluation plan. This is as critical as it is with most other funding proposals. In this "bottom line" era, you must be able to produce results with the money you are given. An evaluation plan also demonstrates that you are taking a long-term approach to the project.

Don't ignore potential problems. Your proposal cannot be just about the computer hardware and the software. Be sure to address such issues as the need for comprehensive training, maintenance of equipment, provisions for downtime and obsolescence. With advances continuing at breakneck speed, today's cutting-edge technology could be old hat in just a few years.

Do follow procedures. If the funding organization has established guidelines for obtaining a grant, follow them precisely. Don't try to take shortcuts or skimp on information. It is better to provide too much detail about your proposal than not enough.

Finally, make sure that your proposal is related to your charitable function. Simply asking for a bank of new computers won't leave much of an impact. However, if you can show how a new computer system or software improves an existing service, you will make a better impression, especially if the funding organization already supports your cause.

Please let us know if you have any questions.

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