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## FINANCIAL FOCUS



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## Governance Checklist For Not-For-Profits

The Sarbanes-Oxley Act was originally established to restore the public's trust in the corporate community following a wave of accounting scandals. Although the Act only applies to publicly-traded companies many other businesses and organizations have incorporated pieces of it in to their own accounting procedures. With these new standards in hand, federal and state officials have begun examine ways parts of the Act can be applied to the accounting practices of Not-For-Profit organizations. As those organizations come under greater scrutiny many have decided to voluntarily incorporate some of the elements of the Sarbanes-Oxley Act into their own accounting and audit procedures as a sign of good governance.

Below is a checklist Not-For-Profit Organizations can use to identify some of the red flags that can be brought to light through the Sarbanes-Oxley Act and suggestions for elements that can be applied to their own policies and procedures.

- 1. Conflicts of Interest and Insider Transactions** – Be sure to study and comply will all laws dealing with compensation and benefits paid to executives and directors. In general it's a good idea not make personal loans to directors or executives, but if the board insists document everything. Ensure that all terms are disclosed and formally approved by the board. Also, the terms and value of the loan should be disclosed publicly. Establish a strict 'Conflict of Interest' policy along with strong measures to enforce it.
- 2. Independent and Competent Audit Committee** – If possible, conduct an external financial audit every year. Maintain a clear separation of the audit committee and the organization's board of directors. Board members who also serve on the audit committee must be free of any potential conflicts of interest and must not receive compensation for their service on the audit committee. At least one member of the audit committee should be a "financial expert", CPA or other accredited accountant. The audit committee should be responsible for selecting and overseeing the audit firm. They should also be sure to review the final audit. Require the full board approve the final audit results. Provide financial literacy training for all board members.

- 3. Financial Statement Certification** – To ensure they are accurate, complete and filed on time, CEOs and CFOs should either formally or in practice sign off on all financial statements including the Form 990 tax returns. The Form 990 tax returns and financial statements should also be reviewed for completeness and accuracy by the organization’s Board.
- 4. Disclosure** – Not-For-Profit organizations are required by IRS law to disclose Forms 990 and 990-PF in a current and easily accessible way. Complete and file Forms 990 and 990-PF in a timely manner without the use of extensions except when required by unusual circumstances. Audited financial statements should be disclosed. Utilize electronic filing for Forms 990 and 990-PF.
- 5. Whistle Blower Protection** – Establish, institute and disclose a formal process to handle complaints and prevent retaliation. Have processes in place to investigate employee complaints and resolve any problems or explain why the problem did not necessitate a resolution.
- 6. Document Destruction** – Maintain a formal written mandatory document retention and periodic destruction policy including strategies for electronic files and voicemail. If an official investigation have begun or you suspect one may be forthcoming, immediately cease all document destruction or purging to avoid possible criminal obstruction charges.

If you have any questions about the suggestions detailed in this article, do not hesitate to contact Neely Duncan, Not-For-Profit Manager at (214) 461-1437 or by email at [nduncan@lgt-cpa.com](mailto:nduncan@lgt-cpa.com).

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