

Untangling Recent Changes to Accounting and Tax Regulations: Sarbanes Oxley; Audit Standards and Form 990

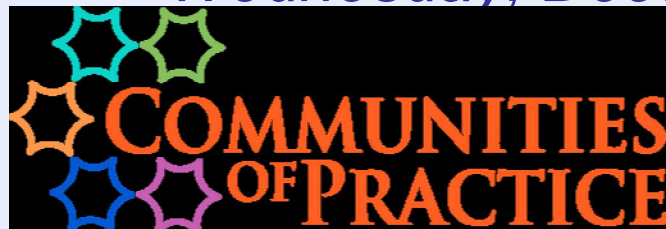
Facilitator: Stephane Acel

Guest: Jeff Fearn

Jewish Community High School of the Bay

San Francisco, California

Wednesday, December 18, 2007 at 1:00 pm Eastern



Goals of the Call

- Introduction – 5 minutes
- Overview of current environment – 5 minutes
- What should we have learned from Sarbanes-Oxley? – 10 min
- Why is the CPA profession confusing us with new Auditing Standards? – 10 min
- And what is the Internal Revenue Service doing to further add to the confusion? – 10 min
- Questions, Wrap Up, Next Steps – 5 minutes

Your Burning Issues!

- We are talking about Sarbanes-Oxley and Audit/Tax Regulation Changes Today. What are YOUR burning issues? We will record them here so we remember to go back to them during the call and continue the conversation on the Google Group.
- Kelly Kogan at Gesher JDS – Sarbanes Oxley for Nonprofits by AICPA

Current Environment

- Loss of confidence in corporate governance as result of Enron and WorldCom financial disasters.
- Stakeholders feeling the need for more transparency.
- Board Members recognizing their fiduciary responsibilities.

Sarbanes-Oxley

- Signed into law July 30, 2002
- A response to the corporate and accounting scandals of Enron, Arthur Andersen & Co. and others of 2001 and 2002. Needed to rebuild public trust.
- Generally only applies to public companies with two exceptions.
- Yet SOX changed the landscape for nonprofits. California Nonprofit Integrity Act.

The Two Exceptions

- Document Destruction
- Whistle-blower Protection
- More about these later

Best Practices for Independent Schools

- Insider transactions and conflict of interests
- Audit Committee
- Auditor/School Relationship
- Audited Financial Statements
- Disclosure/Transparency
- Whistle-blower protection
- Document Destruction

Why Guidestar?

- Web Site that discloses information about nonprofits.
- Form 990 (without Schedule B)
- Audited Financial Statements
- Schools can control the way their information appears on Guidestar by being proactive both in terms of uploading their Form 990 and financial statements
- Evidence of transparency if you upload your own information.
- Better solution is to put your information up on your school web site.

Audit Committee?

- See sample audit committee charter
- Challenge is to staff the committee with financially aware lay people.
- Can serve as a farm system to recruit future board members.
- Refer to AICPA Nonprofit Audit Committee Tool Kit for more information about establishing an audit committee.

Importance of Written Policies

- Whistle-blower protection should be documented in your employee handbook.
- Written document destruction policy is really part of your document retention policy. Helps you control what documents you retain and how long you retain them.
- Stop any document purging at the start of any official investigation.

Audit Committee?

- Who staffs it?
- Role of the volunteer treasurer?
- Role of the business officer?
- Practical aspects of dealing with the audit committee?

Sarbanes-Oxley Discussion

- What kind of discussions take place in your school about Sarbanes-Oxley?
- Who has implemented Sarbanes-Oxley provisions (Whistle-blower policies or Audit Committees)?
- What questions do you have for the group?

What is our Auditor Doing to us Now!

- SAS No. 103 - Date of Auditor's Report
- SAS No. 112 – Internal Control redefined
- Significant Deficiency
- Material Weakness
- Why do I receive two management letters?

Significant Deficiency

- Replaces “reportable condition”
- Control deficiency where there is more than a remote likelihood that a misstatement that is more than inconsequential will not be prevented or detected by the school’s internal control over financial reporting.

Material Weakness

- A control deficiency where there is more than a remote likelihood that a material misstatement will not be prevented or detected by the school's internal control over financial reporting

Both must be reported

- In writing
- To the Audit Committee or Board
- Must include unresolved conditions from prior years. (yes all of the prior years)
- Misstatement does not have to have occurred. There just has to be a chance of it occurring and going undetected.

Financial Reporting Controls?

- Does anyone have a policy laying out how you control your financial reporting?
- Auditors are still figuring out how to address the impact of SAS No. 112 with their nonprofit clients.
- What can you do?

New Requests from your Auditor

- Statement of Cash Flows
- Preparation of Footnotes
- Calculation of present value adjustment as it relates to pledge receivables to be received more than a year in the future.
- Prepare Statement of Functional Expenses.
- Demonstrate ownership of financial statements.

Easy Steps To Demonstrate Ownership

- Establish a well-defined monthly closing process. Reconcile accounts on a regular basis.
- Take ownership of the year-end close and the preparation of the financial statements.
- Deliver financial statements that require no adjusting entries by the auditors.
- Ask your auditors for a financial disclosure checklist so you can review your operations to see if you need to address anything new.

Recognize what you don't know!

- Many business officers are not CPA's.
- Learn from your auditors
- See what talent is available in your parent or board group to assist you.
- Review your operations with your auditors to see if there is anything new that might need to be reflected in your financial statements before field work begins.

Audit Standards Discussion

- How will this change the way you conduct audits at your school?
- What questions do you have for the group?

IRS Comes into the Mix!

- Form 990 is being revised.
- First draft of Form 990 has gone through its comment period.
- Second draft is due out in 2008.
- Revised Form 990 should be in use for the 2008 tax year.
- Schools with a 6/30/2009 year-end will use the new form.

Principles of Redesign

- Enhancing transparency
- Promoting tax compliance
- Minimizing the burden on filing organizations

Revamped Layout

- Core of 10 pages applying to all filers
- 15 additional schedules that apply to only specific organizations
- Early evaluation of draft Form 990 indicates that only the smallest of schools will find the burden to be minimized.

Core Form

- Snapshot of entity with brief description
- Provides indicators as to efficiency and effectiveness of organization
- Goal is to allow comparison between organizations and to enhance transparency

Remainder of Core

- Detailed information about officers, directors and key employees
- Revenues and expenses
- Program Service
- New portion on governance to identify potential compliance issues resulting from governance and management practices.

Suggestions for dealing with New Form

- Review the new form so that you can modify your general ledger to capture additional information that might be required.
- Consider making any governance changes that might be necessary to be in compliance such as adopting a written whistle-blower policy.

Suggestions continued

- While most of the policies and procedures contained in the governance aren't required to maintain tax exempt status, they do reflect on your school in terms of how donors might view your responses.
- Form 990 will be more important than it has been in the past.

Summary

- All of the topics discussed today relate to the environment in which we find ourselves.
- Transparency is expected
- Effective Governance is demanded
- Stakeholders/Donors are expecting independent schools to be well-run with effective oversight.

References

- “Sarbanes-Oxley for Nonprofits by Jackson and Fogarty published by Wiley
- “Not-For-Profit Audit Committees-Best Practices by Warren Ruppel published by Wiley
- AICPA Nonprofit Audit Committee Tool Kit available off their web site in a zip file

Questions?

- Thanks for participating in this call
- Stay tuned for our next call on Dashboard Indicators. Date and time to come.
- On line Google Group discussion and materials on multi-year financial aid allocation.