



...find the answer here

**SUPPLEMENTARY HANDOUT for
Reviewing Financial Transactions Webinar
July 2, 2008**

The Board's Fiscal Integrity "To Do" List

(excerpted from *Pillars of Accountability: A Risk Management Guide for Nonprofit Boards*)

This section offers a list of possible steps that a nonprofit board might pursue in order to address weaknesses in the nonprofit's existing financial management systems and approach. Whether the items below are suitable as board action items or items that should be handled by professional staff members depends on the history, culture, size and maturity of the organization. In addition to selecting an action step, it is vital to identify a target date for completion and the lead board or staff member for the task. Review the list and check those that are suitable to your nonprofit.

Financial Reporting

- μ Ensure that the board or finance committee receive accurate financial statements on time each month (or less frequently, such as quarterly, for very small nonprofits). Financial reports should be included in materials distributed prior to in-person or telephone meetings of the board or finance committee, allowing participants to review statements in advance and bring any questions to the meeting.
- μ Feature a discussion of financial statements as a standing agenda item at board meetings. The organization should also work towards this discussion being led by the elected board treasurer, versus a staff member. When the treasurer has reviewed the statements in advance of a meeting and is prepared to talk about them and answer any questions during the meeting, it sets a great example of fiduciary responsibility.
- μ Financial information should be made more accessible to board members by creating a simple financial statement cover sheet that summarizes key points. Simple graphs or charts can be helpful to visualize activity. For instance, a pie chart showing the expenses of key programs and activities for the period might help the board understand the organization better.
- μ Schedule a board training session on reading and understanding nonprofit financial statements. Many board members are reluctant to ask questions in a meeting for fear they will appear deficient. A good training session of even a couple of hours by a nonprofit consultant or CPA could give board members the vocabulary and confidence they need to be more engaged.
- μ If an independent audit is not currently undertaken, determine whether one is needed or prudent. Have any of the nonprofit's key stakeholders requested that an annual audit be conducted?
- μ Review the nonprofit's current and prospective funder guidelines to determine whether an annual audit is required as a condition of receiving funds. For instance, the federal government requires an audit of organizations expending more than \$500,000 in federal funds within a year; some states require audits of all nonprofits, and some foundations also require them.

- μ Consider whether your organization is growing financially—both in terms of total dollars and complexity. Many organizations growing from startup status to an established entity with a paid accounting function, a defined program or programs, and support from a variety of donors will benefit from an annual audit—even if it is not required by a funder or state regulator. The audit is an opportunity to learn and improve on accounting standards and practices.
- μ Engage the board of directors in the decision to purchase an audit. Remember that the board of directors is the “client” in an audit relationship with a CPA or firm. If the board decides (or the organization is required) to move forward to engage the services of an independent audit firm to conduct a financial statement audit, it should also establish a separate audit committee.
- μ Add the completion of an independent annual audit to the budget and work plan for the organization.
- μ Make certain that the draft and final reports prepared by the audit firm are presented to the full board of directors for review and acceptance (following initial review by the audit committee).
- μ Ask nonprofit colleagues whom they use for their annual audits. Finding an auditor with a current nonprofit practice is important because nonprofit accounting standards change periodically. Once there is a group of potential candidates, draft a Request for Proposals (RFP). The RFP tells potential auditors something about the organization and its finances, what services are needed on what timeline, etc. The RFP is what the auditors respond to in offering the board a proposal for the scope and price of the work.
- μ If an audit is already conducted, consider the following steps to increase the effectiveness of the audit. Select the action steps the organization has not already taken but would like to take in the months ahead.
 - Obtain a minimum of three bids for the audit no less than every five years.
 - Schedule an opportunity for the audit firm representative to meet with the board *without the executive director or other staff present*.
 - Establish an audit committee of the board of directors to coordinate the auditor selection process and presentation to the board. Keep in mind that paid employees of the nonprofit should not serve on the audit committee, nor should the nonprofit’s volunteer Treasurer (or Finance Committee Chair).

The committee should be charged with responsibility for overseeing the selection of the independent auditor and the process itself.

- μ Establish a charter (see sample below) for the audit committee that clearly delineates its responsibilities. Document the contrasting responsibilities of the audit and finance committees.

SAMPLE

[Name of Nonprofit]

Audit Committee Charter

The Board of Directors of the [Name of Nonprofit] hereby establishes an Audit Committee in accordance with the guidelines described below.

The Audit Committee shall meet at least twice annually, but more often if desired or necessary, in order to discharge its responsibilities. All meetings may be held by telephone conference call. Unless otherwise authorized by the Board, the Audit Committee shall have no power to act on behalf of the Board, but shall present its recommendations to the Board for action. The members of the Audit Committee shall be persons serving on the organization's board who have no existing financial, family or other personal ties to management of the organization. No staff members of the organization will be eligible to serve on the Audit Committee.

Member qualifications include:

1. A clear understanding of the role of the [Name of Nonprofit] and its services.
2. Financial literacy/expertise (at a minimum, the ability to read and understand financial statements).
3. Courage to ask probing questions and to follow up for answers.
4. Ability to see the big picture.
5. A commitment to safeguard the organization and its assets.
6. A commitment to the staff (employees and volunteers) of the organization.
7. A commitment that the organization will report fairly, accurately, and regularly on its activities and condition.
8. Willingness to do the right thing, not just do things right.

The Audit Committee's responsibilities shall include:

1. Selecting the audit firm to conduct an independent audit of the organization's financial statements.
2. Reviewing and approving the audit scope and fees.
3. Reviewing and approving any proposed involvement of the audit firm in activities other than the annual audit.
4. Ensuring a direct line of communications with the organization's auditor.
5. Providing oversight of management's performance with respect to required and recommended financial responsibilities and disclosure.
6. Consider and review, with management and the auditors, the adequacy of the organization's risk management methodology and internal controls, including computerized information system controls and security.
7. Providing oversight of the organization's conflict of interest policy and keeping the board apprised of any changes required in the policy or its implementation.
8. Reviewing the adequacy of financial reports provided by the board and making recommendations for their improvement.

9. Reviewing and addressing the management letter and auditor's comments.
10. Review any serious difficulties or disputes with management encountered during the course of the audits.
11. Review other matters related to the conduct of the audits that are to be communicated to the Committee under generally accepted auditing standards.
12. Review published documents containing the organization's financial statements and consider whether the information contained in these documents is consistent with the information contained in the financial statements.
13. Cause to be made an investigation into any matter brought to its attention within the scope of its duties, with the power to retain outside counsel for this purpose if, in its judgment, that is appropriate. The Committee will promptly report any such actions to the Executive Committee.
14. Make recommendations to the board based on the committee's review activities.

Members of the Audit Committee shall be appointed by the President and serve for two-years.

For more information on any risk management topic, contact the Nonprofit Risk Management Center at www.nonprofitrisk.org or (202) 785-3891.

What's The Difference?
Audit Committee vs. Finance Committee

AUDIT COMMITTEE	SHARED RESPONSIBILITIES	FINANCE COMMITTEE
<p>The audit committee is authorized to consider matters related to (a) the financial statements of the organization and other official financial information provided to the public;</p> <p>(b) the systems of internal controls, including overseeing compliance by management with applicable policies and procedures and risk management (e.g., for organizations that are part of a national network, annually reviewing whether the organization meets the re-chartering requirements of its national organization);</p> <p>and (c) the annual independent audit process, including the recommended engagement of and receiving of all reports from the independent certified public accountants. The audit committee shall have such other authority and perform such other duties as may be delegated to it</p>	<p>The finance committee ensures that budgets and financial statements are prepared; the audit committee has oversight for ensuring that reports are received, monitored, and disseminated appropriately.</p> <p>The finance committee monitors financial transactions; the audit committee makes sure things are done according to policy and with adequate controls.</p> <p>The finance committee provides guidance about what can be done; the audit committee ensures that independent oversight occurs.</p>	<p>The finance committee shall oversee the preparation of the annual budget and financial statements.</p> <p>The finance committee shall oversee the administration, collection, and disbursement of the financial resources of the organization.</p> <p>The finance committee shall advise the board with respect to making significant financial decisions.</p>

by the board.		
---------------	--	--

For more information on any risk management topic, contact the Nonprofit Risk Management Center at www.nonprofitrisk.org or (202) 785-3891.

SAMPLE

REQUEST FOR PROPOSALS

to conduct three annual financial statement audits

of a nonprofit organization

A. NATURE OF SERVICES REQUIRED

1. Scope of Services

The purpose of this Request for Proposals is to seek a qualified auditor to perform a financial statement audit of the [name of nonprofit], an independent, nonprofit organization operating under Section 501(c)(3) of the Internal Revenue Code and located at [address of nonprofit]. [name of nonprofit] seeks to engage a firm to conduct financial audits for each of three years, beginning with the year ending December 31, [year]. The audits must meet all the requirements of generally accepted accounting principles (GAAP).

A Factsheet on [name of nonprofit] is provided as an attachment to this RFP.

2. Auditing Standards

The examination of financial statements shall be made in accordance with generally accepted auditing standards as promulgated in Statements on Auditing Standards published by the American Institute of Certified Public Accountants.

3. Periods to be Audited

The periods to be audited are as follows:

January 1 - December 31, [year]

January 1 - December 31, [year]

January 1 - December 31, [year]

4. Entrance Conferences

An entrance conference is required for the engagement involving representatives of the audit committee for the client organization and the key personnel who will be involved in performing services contemplated under the proposal.

5. Exit Conferences

An exit conference should be held between representatives of the auditor and the audit committee of the client organization before the audit reports are issued in order to obtain the client's views of the auditor's findings, conclusions, and recommendations.

6. Board Presentations

Following the finalization of the audit reports and after the presentation to the audit committee, a senior representative of the auditor will be required to make a presentation

to the board of directors of the [name of nonprofit]. The presentation should summarize essential findings of the audits and resultant recommendations.

7. Additional Services

In addition to the above services, the auditor will be required to prepare, review with management, and assist in the timely submission of Federal and state Tax returns, as appropriate, for [name of nonprofit].

B. ASSISTANCE AVAILABLE TO BIDDERS

1. Prior Audit Reports

Copies of prior year audited statements for each organization will be provided upon request to the [name of nonprofit]. Copies of additional prior audit reports will be made available to the successful bidder before the audit commences.

2. Staff Assistance

Representatives of [name of nonprofit] are available to assist bidders as requested and considered necessary by the parties. In addition, records to be audited will be made available for inspection during the proposal process. The bidder should make and state his or her own assumptions in the proposal as to the condition and completeness of the records to be audited.

3. Representation Letters

Representation Letters for inventory valuations, pledged assets, contingent liabilities, potential litigation, etc., will be issued by the client organization as appropriate.

4. Work Area

A work area, desk and chairs will be provided by the client organization for use by the auditor during the engagements. Equipment such as file cabinets, binders, calculators, etc. will be provided by the auditor.

C. AUDIT REPORT REQUIREMENTS

Form Distribution and Timeless

A written Audits Report shall be prepared and shall contain the Financial Statements and Auditors Opinion for Fiscal Year XXXX, Fiscal Year XXXX, and Fiscal Year XXX. The organization requires [number required] bound copies of the final audit. The cost of providing these copies should be included in, and not in addition to, the bid for the engagement.

D. TIME SCHEDULE

The following dates are firm. For this purpose, the close of business is 5:00 pm EST.

<u>ITEM</u>	<u>DATE</u>
1. Request for Proposals Distribution	[due date]
2. Proposals Due	[due date]
3. Contract(s) Awarded	[due date]
4. Commence Audit Work	[dates]

Note: the engagements may be conducted concurrently or in succession.

5. Exit Conference	[date]
6. Deliver Financial Statements	[date]
7. Deliver Presentations on audit findings to	[date]

audit committee and then board of directors

E. CONTRACTUAL ARRANGEMENT

All proposals should include a draft engagement letter for the three-year engagement described in this RFP or separate. The engagement is cancellable by the client organization in the event the auditor fails to fulfill his obligations and promises as provided in the original proposal. The engagements may be cancelled by the auditor in the event the organization fails to pay for services in accordance with the terms of the engagement letter.

F. WORKING PAPERS

1. Retention

A written record of the auditor's work shall be retained by the auditor in the form of working papers for at least three years.

2. Availability

Working papers shall be available for examination by authorized representatives of [name of nonprofit and, if applicable, name of contract accountant] as appropriate.

G. RIGHT TO REJECT PROPOSALS

The [name of nonprofit] reserves the right to reject any and all proposals submitted and to request additional information from any or all bidders. Any award may be made without discussion of proposals received and proposals should be submitted initially on the most

favorable terms, from a price and technical standpoint. Any award made will be made to the auditor who, in the opinion of client organizations, is best qualified. The costs of proposal preparation should be borne by each bidder.

H. INFORMATION TO BE FURNISHED BY BIDDERS

In order to simplify the review process and obtain the maximum degree of comparison, proposals should be organized in the following manner:

1. TITLE PAGE
2. TABLE OF CONTENTS
3. LETTER OF TRANSMITTAL
4. SUMMARY OF BIDDER'S QUALIFICATIONS

(a) Supervisory Experience

Identify the specific personnel who will work on the audits, including staff from other than the local office. Also describe commitment with respect to ensuring continuity with regard to staffing on the 2nd and 3rd year engagements. Note: it is not required that the same personnel be assigned to both engagements.

(b) Relevant Experience

Describe the recent experience of the local office of the auditor and personnel named in the proposal in performing audits of nonprofit organizations with operations similar to those of the client organizations or nonprofits of comparable size.

Also describe the recent experience of the local office of the auditor in conducting internal control reviews and/or reviews of financial management systems and assisting clients with appropriate implementation of the COSO report, *Internal Control -- Integrated Framework*.

Describe the expertise and knowledge of assigned personnel with regard to FASB 116 and 117 as well as how clients are kept up-to-date on significant IRS and FASB issues, and if there is an additional charge for this service.

5. BIDDER'S APPROACH TO EXAMINATION

(a) Work Plan

(b) Financial Audit

(1) Auditing Standards

(2) Errors or Irregularities

(c) Additional Data

(d) Detail Price of Audit

State the proposed fixed fee for the engagement for each of the three years contemplated under this RFP as well as the basis for any and all additional charges that may be billed.

6. THREE REFERENCES OF NONPROFIT AUDIT CLIENTS

Provide a list of three current clients for whom services of a similar nature to that being requested in this RFP have been performed. For each client, please note the following: client name; brief description of the project/complexity; point of contact/telephone number. The references should be clients served by the individuals who would staff the [name of nonprofit] audit.

I. EVALUATION OF PROPOSALS

1. MANDATORY CRITERIA

A Bidder will not be considered unless it meets each of the following criteria.

(a) Certified Public Accountant

Must be a Certified Public Accountant.

(b) Must meet the independence standards of the American Institute of Certified Public Accountants' Code of Professional Ethics and the GAO Standards.

2. TECHNICAL CRITERIA

Those bidders who have met each of the criteria in Section A above will be evaluated on the following criteria:

	Point
(a) <u>Responsiveness of the Proposal in clearly stating an understanding of the work to be performed</u>	<u>Range</u> 0-25
(b) <u>Technical Experience of Bidder</u>	0-20
(c) <u>Qualifications of Staff Assigned to the Audit</u>	0-25
(d) <u>Size and Structure of Bidder</u>	0-05
Total Technical points	0-75
(e) <u>Price of Audit</u>	0-25

J. DISCLOSURE OF INFORMATION

In the event a proposal includes information which the bidder does not want disclosed to the public or used by [name of nonprofit] for any purpose other than evaluation of this proposal, the Bidder must mark or reference each sheet of data to be restricted.

K. AWARD OF CONTRACT

1. CONTRACT NEGOTIATION AND AWARD

Upon completion of the evaluation of the offerer's proposals and negotiation, the President of [name of nonprofit], with the consent of the Board of Directors of [name of nonprofit] shall award the contract to that responsible bidder whose offer is the most advantageous to [name of nonprofit].

L. RESERVATIONS AND STIPULATIONS

The [name of nonprofit] reserves the right to cancel any contract, if, in their opinions, there has been a failure by the firm to adequately perform in accordance with the stipulations of this Request for Proposal. The organization further reserves the right to cancel any contract in the event there is any attempt by the firm to impose upon the organization, products or workmanship which are, in the opinion of the client organization, of an unacceptable quality. Any action taken in pursuance of this latter stipulation shall not affect or impair any rights or claim of the [name of nonprofit] to damages for the breach of any covenants of the contract by the firm.

M. CONVENANT AGAINST CONTINGENT FEES

The firm warrants that no person or selling agency has been employed or retained to solicit or secure this contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees, or bona fide established commercial or selling agencies maintained by the firm for the purpose of securing business. For violation of this warranty, the [name of nonprofit] shall have the right to terminate or suspend their respective contracts without liability or in their discretion to deduct from the contract price or consideration, the full amount of such commission, percentage, brokerage, or contingent fee.

N. NON-DISCRIMINATION

The [name of nonprofit] does not discriminate on the basis of age, race, national origin, sex, sexual orientation or handicapped status in admission or access to, or treatment or employment in, its programs and activities, and expects its auditors to similarly meet these standards.

O. SUBMISSION OF PROPOSAL

Copies of the proposal should be submitted to:

[name and address of contact]

All questions regarding this Request for Proposals should be directed to [name and telephone number of contact]

Closing Date

Two copies of the Proposal should be delivered to the person indicated above on or before 5:00 pm EST on [date proposals due]. Late proposals will not be considered.