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Governance, management and disclosure: Best practices ensure best administration

By Filomena Scibelli

If you run a nonprofit organization or sit on a board of directors, you know it's a balancing act. Giving is down and funding sources are limited. Compliance requirements and oversight from funding sources are more stringent.

This is the time when best practices can have the greatest impact on the overall success of an organization and a healthy public perception.

In the spirit of Sarbanes Oxley, the IRS is encouraging best practices through a series of governance, management and disclosure policy questions on the annual Form 990.

Some of the questions include:

- Does your organization have a written conflict of interest policy?
- Does your organization have a whistleblower policy?
- Does your organization have a written document retention and destruction policy?
- Was a copy of the Form 990 provided to the organization's governing board before it was filed?

While not required by the Internal Revenue Code, these policies have been introduced because authorities believe they are appropriate practices relevant to governance and tax administration.

Additionally, the IRS will use this information along with other information reported on the form to assess the risk of noncompliance with federal tax law.

Governance. A nonprofit should be governed by an engaged board of directors composed of independent individuals who meet on a regular basis.

Board members should be actively involved in overseeing the organization's mission, operations and finances.

Best practices for those charged with governance include:

- Assisting with and approving realistic operating and/or capital budgets,
- Ensuring that internal control policies and procedures in place are adequate,
- Implementing policies for determining executive compensation,
- Maintaining minutes of meetings, particularly outlining decisions reached, and

- Implementing policies for investment strategies, objectives and choices.

Management. Effective management requires involvement at all levels of the organization. This includes directors, management, support and administrative staff.

Management best practices involve:

- Maintaining accurate books and records to support compliance with taxing authorities and funding sources;
- Implementing internal controls over accounting and finances and monitoring those controls on a periodic basis;
- Regular review of the organization's financial statements, information returns and evaluation of program and fundraising accomplishments;
- Instilling the organization's mission and goals with all employees on a regular basis;
- Providing appropriate training and supervision of staff.

Disclosure. Disclosure means ensuring that the organization is transparent and accountable in all respects, both fiscally and in accordance with its mission and goals. This is key to the success of an organization.

Best practices in this area include:

- Ensuring the accuracy of financial information available to the public;
- Ensuring that information regarding the organization's mission, programs and finances is made available to the public and where that information is made available;
- Ensuring that tax filings are prepared and filed in a timely manner.

There is an abundance of best practice information available to nonprofit organizations that can be found at www.irs.gov and various state attorney general websites, particularly in the area of governance.

A knowledgeable CPA, however, is an ideal resource because all of these aspects – governance, management and disclosure – are directly related to the tax-exempt status of a nonprofit organization. Your best bet is to call upon that resource for assistance with best practices.

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