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Scott R. Haumersen, CPA



**B**y now, most of us have learned about as much as we care to know about Sarbanes Oxley and its effect on companies, clients and accounting practices. For the most part, SOX has only applied to public companies—except for the whistleblower and document destruction provisions of the law. What are some of the more far-reaching effects on non-public companies and, specifically, nonprofit organizations?

More than anything, SOX has sent a wake-up call to directors of nonprofit organizations, cautioning them that the very same scandals that hit public companies do not occur within the nonprofit sector, as well. Nonprofit leaders don't want to be sitting ducks on a board that doesn't have the right people asking the right questions and ensuring the public's trust.

Recent headlines in Milwaukee have caused some funding sources to look more closely at how organizations are governed. The most notable is the Milwaukee Public Museum's fiscal crisis, but we should not forget problems at other nonprofits.

In each of these situations one might argue that the board was not doing its job. As one board member said, the board did not assume the responsibility of governing the organization, the directors considered their job to be fund-raising.

So where does SOX fit into the governance model and the requirements for nonprofits to properly manage their businesses? SOX provides a framework upon which organizations can begin to develop best practices. This is vital in the competitive world of funding in which these

organizations must compete to survive.

My observations are that larger organizations have embraced many of the fundamentals of SOX, either through initiatives by knowledgeable board members or upon the insistence of their national affiliates. What remains, however, are smaller nonprofits that do not have the resources or financial literacy to implement SOX-like measures.

In Milwaukee some have taken action to address this situation. Fourteen foundations through the Nonprofit Management Fund have formed BoardStar, with seed money of more than \$100,000 to fund educational programs targeted specifically at improving the accountability and financial literacy of board members.

Jose Vasquez, program manager of BoardStar, said: "It is essential for nonprofit boards to understand after all is said and done, that they are responsible for running a business in a very competitive environment that is highly regulated." Vasquez added, "Many boards are simply not equipped to do this job."

BoardStar has developed training programs to help these boards restructure in order to meet SOX standards.

CPAs in public and private practice can help organizations better understand how to make themselves accountable. Transparency is key. Much can be accomplished by assessing whether some SOX provisions would benefit organizations.

**Ron Kral, CPA**, president of Candela Solutions, Inc. in Madison, has formed [DirectorConnector.com](http://DirectorConnector.com), a Web-based system for matching the talents of individuals such as CPAs, with organizations that need

# SOX

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prompts  
nonprofits  
to take action

to enhance the level of competency of their boards. CPAs can register at DirectorConnector.com for free.

What does the future hold for nonprofits and SOX? Some states have enacted SOX-like provisions like the California Nonprofit Integrity Act, which mandates independent audit committees for nonprofits. Currently Colorado, Illinois, Iowa,

Indiana and New York are considering similar SOX provisions.

Will similar legislation be introduced in Wisconsin? Popular opinion says no, but we may be just a few scandals away from a legislator proposing similar provisions.

Current thinking is that many of the SOX provisions would be too costly for nonprofit organizations to implement, especially smaller ones. However, it would be best for CPAs to come together as a profession and help nonprofit organizations avoid similar situations.

Some people believe that SOX will eventually lose its momentum. This may be true, but most important, nonprofits must consider some of these provisions as essential safeguards for maintaining an organization's integrity and transparency.

We are likely to see more regulatory provisions coming from the Internal Revenue Service. In 2005, the Panel on the Nonprofit Sector completed its report to the Senate Finance Committee, which included 15 recommendations for strengthening charitable organizations. We have seen recent changes to IRS reporting forms, including further data gathering on conflict-of-interest policies. Stay tuned: More is likely to

come as the government attempts to step in to further regulate nonprofits.

Best practices to consider recommending to your clients or to boards are: audit committee charters with members who have sufficient financial expertise, codes of ethics for officers and directors; conflict-of-interest policies; internal control reviews and documentation similar to the requirements of section 404; auditor independence; director training; and an enhanced commitment to transparency. CPAs are in a strategic position to have an impact on the future and accountability of nonprofit organizations in Wisconsin.

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# ACCOUNTING for career success

Imagine what it was like to take your first steps on a college campus. Remember how nervous and excited you were to begin a new part of your life? After all, the college years are some of the best years of life.

The **Young Entrepreneurial Scholarship (YES) Program** provides minority high school students the opportunity to experience campus life and jump-start their careers. YES brings together high school students, business professionals, companies offering internships, and the WICPA. Students attend a weeklong camp in June at the University of Wisconsin-Oshkosh, where they study the ins and outs of business, get a taste for college and

have the opportunity to receive internships from various companies.

At the end of the week each YES student completes a business plan. The two best plans are presented at an awards luncheon where CPAs and company representatives network with the students and their families. Students who receive internships started work in July and work through August.

The WICPA Educational Foundation has sponsored YES for eight years, and each year students meet more future employers. When YES students attend college for "real," they feel comfortable with the experience and their career choices.



## Peer review is required to renew most firm licenses

In order to renew a firm license, the firm that provides or offers to provide attest services must have undergone a peer review through a peer review program approved by the Wisconsin Accounting Examining Board within the three years preceding the application for renewal.

Attest services are defined in Section 422.001(1) of the state statutes. Peer review is required if your firm performs engagements under:

- Statements on Auditing Standards (SASs)
- Statements on Standards for Accounting and Review Services (SSARS)
- Statements on Standards for Attestation Engagements (SSAEs)
- Government Auditing Standards (the Yellow Book) issued by the U.S. General Accounting Office (GAO).

The AICPA peer review program is administered in Wisconsin by the Wisconsin Institute of CPAs. It is the only program approved by the Accounting Examining Board.

A firm is defined in Section 422.001(4) as a "sole proprietorship, partnership, limited liability partnership, corporation, service corporation, or limited liability company."

For information and forms on the peer review process in Wisconsin, log in to [www.wicpa.org](http://www.wicpa.org) and select Peer Review in the left column. The site includes Frequently Asked Questions, the AICPA Standards, and information about the process. More information is available at [www.aicpa.org](http://www.aicpa.org) (select Peer Review in the left column).

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