508 Best Practices for Financial Management in Nonprofits

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Faculty Biographies

Tomer J. Inbar

Tomer J. Inbar is a partner in the tax practice of Morgan, Lewis & Bockius LLP, resident in Washington D.C. Mr. Inbar's practice focuses primarily on representing tax-exempt organizations in a variety of matters, including exemption applications, audits, unrelated business income tax issues, general corporate transactions, corporate governance matters, and charitable giving. In addition, Mr. Inbar has extensive experience in the areas of low-income housing and economic development, lobbying and political activity, intermediate sanctions, charter schools, corporate governance, and the program-related investments of private foundations.

Mr. Inbar received his B.A. from the State University of New York at Binghamton and his M.A. from Cornell University. Mr. Inbar is a graduate of the New York University School of Law, where he earned a J.D. and LL.M.

Mark T. Thomas

Mark T. Thomas is a partner with KPMG LLP in Costa Mesa, California. Mr. Thomas leads KPMG's not-for-profit and higher education practice in the Western United States. Mr. Thomas has been with KPMG for many years and serves on KPMG's national industry leadership team for not-for-profits.

Located in Orange County, California, Mr. Thomas currently serves some of the region's largest exempt organizations, including the Bill and Melinda Gates Foundation, the California State University System, World Vision, and the J. Paul Getty Trust. Mr. Thomas is a regular speaker on issues related to the not-for-profit industry, teaches at the university level, and has authored courses on auditing in the non-profit and government environments.

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James A. Woehlke is in-house counsel for the New York State Society of Certified Public Accountants (NYSSCPA) in New York City.

Prior to becoming NYSSCPA counsel, Mr. Woehlke served as the NYSSCPA tax policy director. Before joining the NYSSCPA, Mr. Woehlke had been a technical manager in the American Institute of Certified Public Accountants' (AICPA) tax division, practiced accounting with KMG/Main Hurdman, including with that firm's Washington national tax office, and law with the Wichita, Kansas, law firm of Fleeson, Gooing, Coulson & Kitch.

Mr. Woehlke is immediate past chair of the ACC Nonprofit Organizations Committee and is a past member of the American Society of Association Executives (ASAE) legal section counsel. He holds the certified association executive designation offered by ASAE.

Mr. Woehlke received his B.A. from Grove City College, where he graduated cum laude, his J.D. and M.B.A. from Drake University, and a Masters, with distinction, from Georgetown University Law Center.

Best Practices for Financial Management in Nonprofits

Association of Corporate Counsel
2006 Annual Meeting

Program 508
Tuesday, October 24, 2006
11:00 AM - 12:30 PM

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Best Practices for Financial Management in Nonprofits

Setting the Stage

While the 2002 Sarbanes-Oxley Act, passed in the wake of the Enron and WorldCom accounting scandals, has relatively little direct impact on nonprofits, requiring only whistleblower protection and imposing criminal sanctions on certain document destruction, the act has had significant indirect impact. States have begun enacting new Sarbanes-Oxley-inspired governance requirements for nonprofits. IRS has begun requiring minimal governance practices in the tax-exemption application process. And most recently, the Senate has proposed legislation placing new requirements on tax exempt organizations. Another indirect impact is heightened expectations from nonprofit board members.

Many nonprofit board members bring to their boards knowledge gained from the publicly traded, for-profit business world, which has been rocked since Sarbanes-Oxley's 2002 passage. Today's presentation, though not solely restricted to accounting matters, focuses primarily on the accounting and auditing practices inspired by Sarbanes-Oxley that are being considered by nonprofits or their boards. See Appendix A for a section-by-section description of Sarbanes-Oxley with commentary on potential impact on nonprofits.

I. An Understanding of Internal Control

A) Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), defined "internal control" as follows:

> Internal control is broadly defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
>
> - Effectiveness and efficiency of operations.
> - Reliability of financial reporting.
> - Compliance with applicable laws and regulations.
>
> The first category addresses an entity's basic business objectives, including performance and profitability goals and safeguarding of resources. The second relates to the preparation of reliable published financial statements, including interim and condensed financial statements and selected financial data derived from such statements, such as earnings releases, reported publicly. The third deals with complying with those laws and regulations to which the entity is subject. These distinct but overlapping categories address different needs and allow a directed focus to meet the separate needs.

Quoted from the Executive Summary of *Internal Control — Integrated Framework,* COSO 1994, 2002, available on-line at http://www.coso.org/publications/executive_summary_integrated_framework.htm.

B) Internal control is comprised of five interrelated components

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

C) Internal Controls: They're Not Just for Accountants Any More
[By Way of Example: A Far-from-exhaustive List of Internal Controls]

1. First and foremost, educate staff and volunteers about the internal controls they participate in. What do they need to do? Why? How is their procedure improving internal control?
2. Require two signatures on checks above an amount set by the governing body
3. Require a volunteer officer's signature on checks above an amount set by the governing body
4. Use "positive pay account" features of your bank, that is, electronically notifying the bank of all properly issued checks (number and amount) upon issuance of the check and limiting the authority of the bank to negotiate only those checks about which they have been informed.
5. Have the bank send the bank statement to someone other than the people responsible for custody of the cash disbursements function (the checkbook).
6. Have receipts received and tallied by someone other than the person completing the deposit slip and reconcile the recipient's tally with the amount deposited with the bank.
7. Do the monthly bank reconciliation promptly, and have it done by someone other than the person responsible for cash disbursements.
8. Require a properly approved purchase order for any expenditures.
9. Do not permit staff to use credit cards to make purchases that would otherwise require a purchase order, unless the expenditure is otherwise pre-approved or is a bona fide emergency.

10. Require legal review of all contracts with expenditures above an amount set by the board.
11. Require board approval of contracts with expenditures or income above a certain amount. (See NYSSCPA policy included as Appendix B)
12. Make sure the internal controls apply to EVERYONE. Neither the chief volunteer officer nor the chief staff officer may override an internal control without documenting the override and disclosing it to the auditor.
13. Before permitting a check to be cut, require that it be associated with an approved purchase order or contract.
14. Require legal review of personnel and other relevant files before terminating an employee.
15. Establish a confidential reporting mechanism, possibly through the legal department, that give employees and volunteers the opportunity to report expected fraud or breaches in compliance with processes and controls.
16. Have legal department conduct an annual confirmation of employees, officers and directors about their financial relationships with the organization and with other organizations, and whether such relationships create conflicts of interests.

D) More on Internal Controls.

1. Appendices C and D respectively are the American Cancer Society's "Procedures to Improve Internal Controls – COSO Based Approach" and "ACS's key internal control procedures", both reprinted with permission.
2. Appendix E is the "Asset Cycle" page from an excellent internal control assessment tool available from Endeavor, Inc., www.copedia.com. The other cycles covered by the spreadsheet are: Activities, Accounts Receivable, Accounts Payable, Assets, Cash, Checks, Communication, Data, Environment, HR, Job Cost, Monitoring, Project Management, Purchasing, Inventory, Reporting, Retail, Risk, Safety, and Sales.

II. Nonprofit Audits

A) Have an audit committee

1. Should be a stand-alone committee, i.e. should not be the finance committee or the executive committee
2. Develop an audit committee charter. Responsible for communicating to the auditor
3. Per Sarbanes-Oxley, audit committees should be comprised solely of independent board members. In the nonprofit world, however, it can be difficult to find enough board members who have the necessary level of financial acuity and sophistication. Per California's Nonprofit Integrity Act, audit committees may have non-board members. See, http://ag.ca.gov/charities/publications/nonprofit_integrity_act_nov04.pdf. Although the New York State Society of CPAs does not lack for financially attuned board members, for years it has used an audit committee without any board members. Their theory has been to have a fully independent audit committee, independent not only of management, but of the board itself. (In the interest of full disclosure, NYSSCPA's auditor, does not recommend this approach.)
4. Ensure each audit committee member is financial-statement literate, meaning each

   (a) Has an understanding of generally accepted accounting principles (GAAP)

   (b) Can assess GAAP in connection with accounting for estimates, accruals and reserves

   (c) Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the company's financial statements, or experience actively supervising one or more persons engaged in such activities

   (d) An understanding of internal controls and procedures for financial reporting

   (e) An understanding of audit committee functions

   (f) Has acquired the above knowledge through education or relevant experience
5. What does this mean for a smaller nonprofit? What sorts of things can a smaller nonprofit do to approximate these practices?

B) Do not use the same accounting firm both to do your audit and provide certain other services that would put the auditing firm in the position of auditing its own work.

1. Services an auditor is prohibited from providing to audit clients.

   (a) Bookkeeping or other services related to the accounting records or financial statements;

(b) Financial system design and implementation;

(c) Appraisal or valuation services, fairness opinions, or contribution- in-kind reports;

(d) Actuarial services;

(e) Internal auditing outsourcing services;

(f) Management functions or human resources;

(g) Broker or dealer, investment adviser, or investment banking services;

(h) Legal services & expert services unrelated to the audit;

(i) Any other service the Accounting Oversight Board determines, by regulation, is impermissible.

2. A PCAOB-registered public accounting firm may engage in any other service, including tax services, which is not described in (a) to (i) above, for a publicly traded audit client, <u>only if the Audit Committee approves the activity in advance.</u>

C) The audit committee must pre-approve all services provided by the auditor.

D) Rotate the lead (or coordinating) audit partner and the reviewing audit partners periodically. (Some companies have begun rotating auditing firms periodically, though this goes beyond Sarbanes-Oxley requirements.)

E) The public accounting firm must report to the Audit Committee:

1. All critical accounting policies and practices used by the client that have been discussed with management;

2. All alternative treatments of financial information, ramifications of such use, and the treatment preferred by the public accounting firm;

3. Other material written communication between the public accounting firm and management, such as the management letter or schedule of unadjusted differences.

F) The public accounting firm cannot have employed the CEO, controller, CFO, chief accounting officer, or any person in an equivalent position, during the one-year period preceding the audit.

G) Other audit committee functions and characteristics

1. The Audit Committee shall establish procedures for:

(a) The receipt, retention and treatment of complaints received by the company regarding accounting, internal controls and auditing matters.

(b) The confidential, anonymous submission by employees regarding questionable accounting or auditing matters.

2. The Audit Committee shall have the authority to engage independent counsel or other advisors, as it determines necessary to carry out its duties.

3. Each company shall provide appropriate funding as determined by the Audit Committee for payment and compensation to the public accounting firm employed and any advisors employed by the Audit Committee.

III. Have CEO and CFO certify financial information.

A) If the certification were to meet the Sarbanes-Oxley requirements, they would certify to

1. The fact that they had reviewed the report;

2. Based on their knowledge, the report does not contain any untrue statement of a material fact or omission of a material fact necessary in order to make the statements not misleading;

3. Based on their knowledge, the financial statements present in all material respects the financial condition and results of operations;

4. They are responsible for establishing and maintaining internal controls (see below), have designed such internal controls to ensure that material information relating to the company and its consolidated subsidiaries is made known to officers and others within those entities; have evaluated the effectiveness of internal controls within 90 days prior to the report, and have presented in the report their conclusions about the effectiveness of their internal controls based on their evaluation as of that date;

5. They have disclosed to the auditors and the Audit Committee all significant deficiencies in the design or operation of internal controls that could adversely affect the company's ability to record, process, summarize, and report financial data and have identified for the auditors any material weaknesses in internal controls;

6. They have indicated in the report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions.

B) The draft legislation proposed in 2003 by New York Attorney General Elliott Spitzer would have imposed a similar requirement on nonprofits.

C) Currently, as a best practice, the NYSSCPA CEO and Controller voluntarily certify as to the accuracy of financial information they present to the NYSSCPA governing body.

IV. Initiate Heightened Internal Controls

A) Identifying, designing, and maintaining controls and procedures that safeguard assets and minimize risk is sound business practice.

B) There are approaches nonprofits can take short of a full-blown internal control assessment to improve their internal control processes. Still, a good business practice would be to start planning how an internal control assessment might be conducted.

C) A few organizations have started doing risk assessments.

D) Another starting point might be the documentation of key financial processes. For reference, organizations can obtain a copy of the COSO model of an internal control framework at http://www.coso.org/publications.htm. The COSO model is considered the most widely accepted model for controls.

E) Organizations with Internal Audit departments should consider having Internal Audit periodically report on internal controls to the audit committee, and the audit committee should relay this information to the full governing body. Internal Audit activities should be coordinated with the risk assessment and internal control initiatives described above.

F) The results of an internal control assessment would have to be tested, to ensure compliance. The positive assertion on controls would require a large sustained effort. This would require a separate attestation arrangement, which would be expensive and time consuming.

IV. Adopt a Code of Ethics (See Appendix F for a number of samples.)

A) A best practice is the adoption of a code of ethics for senior financial and other officers.

B) Subsequently, the audit committee should review the adequacy of the code and periodically review how compliance is assured.

V. Law Firm Examination of Governance Practices

A) Why undergo a governance review by a law firm?

1. To discover problems involving . . .

(a) noncompliance with internal policies

(b) noncompliance with

(i) state not-for-profit laws (including charitable solicitation laws

(ii) state and federal tax law (including intermediate sanction regulations)

(iii) the organization's policies or internal controls

2. to preserve attorney-client privilege, where possible. In a forensic review, for instance, a CPA firm could be engaged by the law firm, rather than have the CPA firm perform the review directly

B) What sort of information is gathered during the course of the review? (Sample law firm initial information request letter included as Appendix G.)

1. Governing documents (articles of incorporation, bylaws)
2. Application for tax exemption and any correspondence with the IRS regarding same
3. Any rulings requested from the IRS
4. List of board members, including identification as to which board members are independent
5. List of board committees and membership on committees
6. Internal policies and procedures, including conflict of interest policy for board or staff (or both), code of ethics, whistleblower policy, anti-trust policy, anti-harassment policy, etc.
7. IRS Forms 990 and financial statements for the past three years
8. Annual reports for the organization for the past three years
9. Board and board committee minutes for the past three years; board books prepared for board and board committee members in advance of meetings (agenda materials)
10. If applicable, grant files for the organization's five largest and smallest grants during the past three years
11. Organizational chart and position descriptions for the organization's staff (including estimate of time devoted to position if less than full-time); compensation studies during the past three years providing data to support the reasonableness of compensation paid to the organization's officers

12. List of consultants engaged by the organization during the past three years, with an indication as to whether such consultants are independent of the Organization

C) Once familiar with the organization's basic organizational and operational structure, the review process would continue with interviews of the organization executives and other staff to discuss operational issues, as well as to follow up on questions from the document review.

D) Report on the results of the review to the governing body or other appropriate group

Appendix A

Mapping Sarbanes-Oxley to the Not for Profit Environment

The Sarbanes-Oxley Act requires extensive changes in governance practices for most publicly held companies. The following table discusses the sections that have relevance for not-for-profit organizations.

Section	**Sarbanes-Oxley Act of 2002**	**Comments and Potential Solutions**
Title I	**Public Company Accounting Oversight Board**	
101 - 109	Describes Public Company Accounting Oversight Board Duties	Not Applicable
Title II	**Auditor Independence**	
201	Public accounting firms are prohibited from performing these non-audit services to financial statement audit clients: (1) Bookkeeping or other services related to the accounting records or financial statements; (2) Financial system design and implementation; (3) Appraisal or valuation services, fairness opinions, or contribution- in-kind reports; (4) Actuarial services; (5) Internal auditing outsourcing services; (6) Management functions or human resources; (7) Broker or dealer, investment adviser, or investment banking services; (8) Legal services & expert services unrelated to the audit; (9) Any other service the Accounting Oversight Board determines, by regulation, is impermissible. A registered public accounting firm may engage in any other service, including tax services, which is not described in 1-9 above, for an audit client, <u>only if the Audit Committee approves the activity in advance.</u>	Prohibit independent auditors from providing prohibited services listed, unless extenuating circumstances exist and the audit committee approves the work in advance.
202	The audit committee must pre-approve all services provided by the auditor.	Implement pre-approval for all non-audit services performed by the independent auditor.
203	The lead (or coordinating) audit partner and the reviewing audit partner of the public accounting firm must rotate off the audit after every five years	Implement a rotation of the lead partner every seven years with a time out of two years.
204	The public accounting firm must report to the Audit Committee: (1) All critical accounting policies and practices used by the client that have been discussed with management;	Audit committee oversight is critical to ensure the independence of the audit decisions. The audit engagement letter should be addressed to the audit committee rather than internal management.

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Section	Sarbanes-Oxley Act of 2002	Comments and Potential Solutions
	(2) All alternative treatments of financial information, ramifications of such use, and the treatment preferred by the public accounting firm; (3) Other material written communication between the public accounting firm and management, such as the management letter or schedule of unadjusted differences.	Meetings between the auditor and the audit committee should occur prior to the audit and at the close of the audit, including executive sessions.
205	Conforming amendments to the SEC Act of 1934.	Not Applicable
206	The public accounting firm cannot have employed the CEO, controller, CFO, chief accounting officer, or any person in an equivalent position, during the one-year period preceding the audit.	Organizations should carefully consider the benefits of employing the former auditor versus the cost and risk of the one year wait period. To forego the one-year wait period, organizations should document the benefits and risks and seek board approval.
207	The GAO will do a study on the potential effects of requiring the mandatory rotation of public accounting firms.	The current emphasis is on rotation of audit partners (section 203) rather than rotation of firms. However, it may be a good practice to have a policy that requires periodic review and/or re-bid of the external audit.
208 - 209	SEC final authority for Section 10A and considerations by appropriate State regulatory authorities.	Not Applicable
Title III	**Corporate Responsibility**	
301	(1) The Commission may prohibit the listing of securities of any firm found not to be in compliance with paragraphs 2 - 6 of this section. (2) The Audit Committee shall be directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by its company and the public accounting firm shall report directly to the Audit Committee. (3) Each member of the Audit Committee shall be a member of the Board of Directors and shall otherwise be independent. Independent is defined as not receiving, other than for service on the Board of Directors, any consulting, advisory, or other compensatory fee from the company, and not being an affiliated person of the company. (4) The Audit Committee shall establish procedures for: (a) The receipt, retention and treatment of complaints received by the company regarding accounting,	Organizations that do not have an audit committee ought to assign the audit committee function to another committee of the board of trustees, for example, the finance committee. Organizations that assign audit committee functions to another committee should add "audit" to the committee title; for example, "Finance and Audit" committee. (1) Not Applicable (2) Audit committee involvement is critical in the selection of auditors and the performance of the audit. (3) Independence of audit committee members is important. Management representatives should not be voting members of the committee. (4) A good practice would be the establishment of a confidential complaint mechanism; for example, a hot line, confidential e-mail channel for employees, or extending existing processes such as the employee grievance process or a communication channel to the Organization's internal auditors. The audit committee should review the nature and disposition of reported matters.

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Section	Sarbanes-Oxley Act of 2002	Comments and Potential Solutions
	internal controls and auditing matters. (b) The confidential, anonymous submission by employees regarding questionable accounting or auditing matters. (5) The Audit Committee shall have the authority to engage independent counsel or other advisors, as it determines necessary to carry out its duties. (6) Each company shall provide appropriate funding as determined by the Audit Committee for payment and compensation to the public accounting firm employed and any advisors employed by the Audit Committee under paragraph 5 above.	(5) An audit committee charter should exist and contain authority language. (6) The charter should also specify that appropriate funding is available for the audit committee.
302	The CEO and CFO shall certify along with the annual audit report that: (1) They have reviewed the report; (2) Based on their knowledge, the report does not contain any untrue statement of a material fact or omission of a material fact necessary in order to make the statements not misleading; (3) Based on their knowledge, the financial statements present in all material respects the financial condition and results of operations; (4) They are responsible for establishing and maintaining internal controls, have designed such internal controls to ensure that material information relating to the company and its consolidated subsidiaries is made known to officers and others within those entities; have evaluated the effectiveness of internal controls within 90 days prior to the report, and have presented in the report their conclusions about the effectiveness of their internal controls based on their evaluation as of that date; (5) They have disclosed to the auditors and the Audit Committee all significant deficiencies in the design or operation of internal controls that could adversely affect the company's ability to record, process, summarize, and report financial data and have identified for the auditors any material weaknesses in internal controls; (6) They have indicated in the report whether or not there were significant changes in	The CEO and CFO are currently required to sign the external auditors' management representation letter, including many of these assertions. The provisions of the Act extend these responsibilities. If organizations publicly disclose financial statements, they should assess the need to include all of the assertions. However, be warned that assertion 4 includes new and complex affirmations on the adequacy of internal controls over the financial reporting and other financial information. Organizations should start documenting their financial reporting process; and identifying and evaluating the adequacy of controls over financial reporting and other financial disclosures. The Audit Committee should consider periodic inquiries of financial executives on the adequacy of controls.

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Section	Sarbanes-Oxley Act of 2002	Comments and Potential Solutions
	internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions. Reincorporating outside of the United States does not lessen the requirements of Section 302.	
303	It is unlawful for any officer or director of a company to take an action to fraudulently influence, coerce, manipulate, or mislead an auditor engaged in the performance of an audit for the purpose of rendering the financial statements materially misleading.	This should be addressed in an organization's code of conduct/code of ethics.
304	If an accounting restatement is necessary due to material noncompliance of the company with any financial reporting requirement, due to misconduct, the CEO and CFO shall reimburse the company for any bonus or other incentive or equity-based compensation received by that person during the 12-month period following the issuance of the financial statements, as well as reimburse the company for any profits realized from the sale of securities of the company during that same 12-month period.	Not Applicable. However, the Audit Committee may want to review compensation arrangements for the CEO and CFO. Incentives related to financial results should be disclosed to the audit committee.
305	The SEC may issue an order to prohibit, conditionally or unconditionally, permanently or temporarily, any person who has violated section 10(b) of the 1934 Act from acting as an officer or director of a company if the SEC has found that such person demonstrates unfitness.	Not Applicable. However, organizations should consider in connection with hiring officers and nominating trustees; and ensure that employment contracts of senior officers allow removal for financial impropriety.
306 - 308	Concerns sales of stock, fair funds for investors and attorneys practicing before the SEC.	Not Applicable
Title IV	**Enhanced Financial Disclosures**	
401	SEC shall study off-balance sheet disclosures to determine their extent and whether GAAP results in financial statement issuers reflecting the economics of such transactions.	Not-for-Profit should follow current and appropriate accounting standard guidance (i.e. FASB, GASB).
402	In general, it shall be unlawful for a company to extend personal loans to any director or executive officer.	The Audit Committee should be aware of and review policy on personal loans and understand that housing assistance included as part of compensation is typically not considered a personal loan.
403	Directors, officers, and 10%+ owners must report designated equity security transactions by the end of the second business day following the day the transaction was executed.	The Audit Committee should be aware of and review policy on ownership interests in related ventures or start-ups. HiNot-for-Profits can leverage existing conflict of interest policies and should review such policies with the audit committee.
404	Each annual report shall contain an internal control report, which:	The requirements for this section go well beyond the pure financial disclosure controls discussed in section 302.

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Section	Sarbanes-Oxley Act of 2002	Comments and Potential Solutions
	(1) States the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and (2) Contains an assessment, as of the end of the fiscal year, of the effectiveness of the internal control structure and procedures of the company for financial reporting. The public accounting firm shall attest to and report on the internal control assessment made by management.	Identifying, designing, and maintaining controls and procedures that safeguard assets and minimize risk is sound business practice. A good business practice would be to start planning how an internal control assessment might be conducted. A few organizations have started doing risk assessments. Another starting point might be the documentation of key financial processes. For reference organizations can obtain a copy of the Committee of Sponsoring Organizations (COSO) model of an internal control framework. The COSO model is considered the most widely accepted model for controls. Organizations with Internal Audit departments should consider having Internal Audit periodically report on internal controls to the audit committee. Internal Audit activities should be coordinated with the risk assessment and internal control initiatives described above. The results of the internal control assessment would have to be tested, to ensure compliance. The positive assertion on controls would require a large sustained effort. This would require a separate attestation arrangement, which would be expensive and time consuming.
405	Sections 401, 402, and 404 do not apply to any investment company registered under section 8 of the Investment Company Act of 1940.	Not Applicable
406	Requires each company to disclose whether it has adopted a code of ethics for its senior financial officers and the contents of the code of ethics.	A best practice is the adoption of a code of ethics for senior financial and other officers. Subsequently, the audit committee should review the adequacy of the code and periodically review how compliance is assured.
407	Companies are required to disclose whether at least one member of the audit committee is a "financial expert." The final rule also provides a definition of a financial expert. In the final rule, recognition was given that an audit committee financial expert can acquire the requisite attributes of an expert in many different ways and that experience, in addition to education, is an important consideration.	A best practice would be the inclusion of at least one financial expert on the audit committee. Not-for-Profit organizations should also consider rotating the individual in the role of financial expert and begin planning for the process and cost of recruiting, training and retaining financial expertise. The recruitment and retention of a financial expert by public organizations might be limited when alumni or elected officials appoint the board.
408 - 409	Addresses enhanced and real time disclosure by issuers of securities.	Not Applicable
Title V	**Analyst Conflicts of Interest**	
501	Treatment of security analysts by registered securities associations and national security exchanges.	Not Applicable

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Section	Sarbanes-Oxley Act of 2002	Comments and Potential Solutions
Title VI	**Commission Resources and Authority**	
601 - 604	Appearance and practice before the SEC, funding, federal court authority and qualifications of brokers and dealers.	Not Applicable
Title VII	**Studies and Reports**	
701 - 705	Concerns studies regarding accounting firms, credit rating agencies, violators, violations, investment banks, financial advisors, and enforcement of securities laws.	Not Applicable
Title VIII	**Corporate and Criminal Fraud Accountability**	
801 - 807	Discusses securities fraud, penalties, statute of limitations, sentencing, employee protection and sentencing.	Not Applicable, however regarding section 802, a good practice would be to ensure that documents and records sent or received in connection with the audit are retained for seven years.
Title IX	**White Collar Crime Penalty Enhancements**	
901 - 906	This section advances criminal penalties for fraudulent acts and the US department of Justice jurisdiction of financial statement certification. The certification requirement under section 906 is separate from the requirement under section 302.	Not Applicable
Title X	**Corporate Tax Returns**	
1001	The chief executive officer, per the "sense of the Senate" should sign the Federal income tax return of a corporation.	Organizations should review the level of authority of signers on the various tax returns; senior financial management with financial accountability for the information presented on the tax return should sign the return.
Title XI	**Corporate Fraud Accountability**	
1001 - 1004	Discusses fines, consequences and sentencing for individuals and issuers.	Not Applicable
1005	Gives the SEC the authority to prohibit anyone convicted of securities fraud from being an officer or director of any publicly traded company.	Organizations should consider securities fraud convictions relevant in background checks for new employees.
1006 - 1007	Addresses criminal penalties under the SEC Act of 1934 and penalties for retaliation against informants.	Not Applicable

Source: Some information above was derived from the National Association of College and University Business Officers website (www.nacubo.org)

Appendix B

NYSSCPA Contract Approval Policy
Approved by the Executive Committee
August 26, 2005

RESOLVED, that the Society's contract approval policy is revised to read as follows:

The President, the Executive Director, or the designee of either one of them is hereby authorized to execute any contract on behalf of the Society under the following conditions:

If the amount of revenue or expense reasonably expected to result during the initial term of such contract is		Then the President, the Executive Director, or his or her designee may sign the contract
More than	But not more than	
$0	$10,000	Without further review or authorization.
$10,000	$100,000	After a review and discussion of the contract by the president, the president-elect, and the treasurer and the approval of at least two of them.
$100,000	Unlimited	After the review and authorization by the Executive Committee or the Board of Directors.

Any and all Society contracts shall be subject to this policy, regardless of whether the expenditures or revenues contemplated in the contract or contracts have been explicitly included in the Society's annual budget.

See, http://www.nysscpa.org/governance/exec/exec_8.26.05.htm.

Appendix C

Procedures to Improve Internal Controls – COSO Based Approach

What can be done to improve internal controls and thus minimize the risk of financial loss and embarrassment? Following are suggestions, which, in the absence of collusion, reduce the likelihood of misappropriation of assets or misstatements of the accounts, and if they have occurred, maximize the likelihood of detection.

Control Environment

1. **Integrity and Ethical Values** - The Division has established and uses a formal code or codes of conduct and other policies communicating appropriate ethical and moral behavioral standards and addressing acceptable operational practices and conflicts of interest. Consider the following:
   - The codes are comprehensive in nature and directly address issues such as improper payments, appropriate use of resources, conflicts of interest, political activities of employees, acceptance of gifts or donations, and use of due professional care.
   - The codes are periodically acknowledged by signature from all employees.
   - Employees indicate that they know what kind of behavior is acceptable and unacceptable, what penalties unacceptable behavior may bring, and what to do if they become aware of unacceptable behavior.
2. **Integrity and Ethical Values** - An ethical tone has been established at the top of the organization and has been communicated throughout the Divisions. Consider the following:
   - Management fosters and encourages a culture that emphasizes the importance of integrity and ethical values. This might be achieved through oral communications in meetings, via one-on-one discussions, and by example in day-to-day activities.
   - Employees indicate that peer pressure exists for appropriate moral and ethical behavior.
   - Management takes quick and appropriate action as soon as there are any signs that a problem may exist.
3. **Integrity and Ethical Values** – Dealings with the public, Congress, employees, suppliers, auditors, and others are conducted on a high ethical plane. Consider the following:
   - Management cooperates with auditors and other evaluators, discloses known problems to them, and values their comments and recommendations.
   - Underbillings by suppliers or overpayments by users or customers are quickly corrected.
   - The Society has a well-defined and understood process for dealing with employee claims and concerns in a timely and appropriate manner.
4. **Integrity and Ethical Values** – Appropriate disciplinary action is taken in response to departures from approved policies and procedures or violations of the code of conduct. Consider the following:
   - Management takes action when there are violations of policies, procedures, or the code of conduct.
5. **Integrity and Ethical Values** – Management removes temptation for unethical behavior. Consider the following:
   - Management has a sound basis for setting realistic and achievable goals and does not pressure employees to meet unrealistic ones.
   - Management provides fair, nonextreme incentives to help ensure integrity and adherence to ethical values.
6. **Commitment to Competence** – Management has identified and defined the tasks required to accomplish particular jobs and fill the various positions. Consider the following:

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   - Management has analyzed the tasks that need to be performed for particular jobs and given consideration to such things as the level of judgment required and extent of supervision necessary.
   - Formal job descriptions or other means of identifying and defining specific tasks required for job positions have been established and are up-to-date.
   - The knowledge, skills, and abilities needed for various jobs have been identified and made known to employees.
7. **Commitment to Competence** – Management provides training and counseling in order to help employees maintain and improve their competence for their jobs. Consider the following:
   - There is an appropriate training program to meet the needs of all employees.
   - The agency emphasizes the need for continuing training and has a control mechanism to help ensure that all employees actually received appropriate training.
   - Performance appraisals are based on an assessment of critical job factors and clearly identify areas in which the employee is performing well and areas that need improvement.
8. **Management's Philosophy and Operating Style** – There has not been excessive personnel turnover in key functions, such as operations and program management, accounting, or internal audit that would indicate a problem with the agency's emphasis on internal control. Consider the following:
   - There has not been excessive turnover of supervisory personnel related to internal control problems,
   - Key personnel have not quit unexpectedly.
9. **Management's Philosophy and Operating Style** – Valuable assets and information are safeguarded from unauthorized use.
10. **Organizational Structure** - The Society's organizational structure is appropriate for its size and the nature of its operations. Consider the following:
    - The organizational structure facilitates the flow of information throughout the Society.
    - The organizational structure is appropriately centralized or decentralized, given the nature of its operations, and management has clearly articulated the considerations and factors taken into account in balancing the degree of centralization versus decentralization.
    - Management periodically evaluates the organizational structure and makes changes as necessary in response to changing conditions.
    - Hire all Employees Personally and Perform Background Checks
      In most nonprofit organizations where there is limited segregation of duties, the screening of new hires is critical and should include questioning as to motives, background, past work history, references, etc. The integrity of the bookkeeper is of utmost importance to the organization. The screening process, including reference checks, should be done by a senior-level person.

Risk Assessment

1. **Entity wide Objectives -** The Society has established entity wide objectives that provide sufficiently broad statements and guidance about what the division is supposed to achieve. Consider the following:
   - Management has established overall entity wide objectives in the form of mission, goals, and objectives, such as those defined in strategic and annual performance plans developed.
2. **Activity-Level Objectives** - Consider the following:
   - All significant activities are adequately linked to entity wide objectives and strategic plans.
   - Activity-level objectives are reviewed periodically to assure that they have continued relevance.
3. **Risk Identification** - Management comprehensively identifies risk using various methodologies as appropriate. Consider the following:
   - Qualitative and quantitative methods are used to identify risk and determine relative risk rankings on a scheduled and periodic basis.

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- Risk identification and discussion occur in senior level management conferences.
- Risk identification occurs as a result of consideration of findings from audits, evaluations, and other assessments.

4. **Risk Identification** - Adequate mechanisms exist to identify risk to the agency arising from external factors. Consider the following:
   - The Society considers risk associated with technological advancements and developments.
   - Consideration is given to risk arising from the changing needs of the public.
   - Risk posed by new legislation or regulations are identified.
5. **Risk Identification** - Adequate mechanisms exist to identify risk to the agency arising from internal factors. Consider the following:
   - Consideration is given to risks posed by disruptions of information systems processing and the extent to which backup systems are available and can be implemented.
   - The Society identifies any potential risks due to highly decentralized program operations.
   - Consideration is given to possible risks resulting from lack of qualification of personnel hired or the extent to which they have been trained or not trained.
   - Risks resulting from unusually employee access to vulnerable assets are considered.
6. **Risk Identification** - In identifying risk, management assesses other factors that may contribute to or increase the risk to which the Society is exposed. Consider the following:
   - Consideration is given to risks indicated by a history of improper program expenditures, violations of funds control, or other statutory noncompliance.
   - The Society identifies any risk inherent to the nature of its mission or to the significance and complexity of any specific program or activities it undertakes.
7. **Risk Analysis** - After the risks to the Society have been identified, management undertakes a thorough and complete analysis of their possible effect. Consider the following:
   - Management has established a formal process to analyze risks, and that process may include informal analysis based on day-to-day management activities.
   - Criteria have been established for determining low, medium, and high risks.
   - Appropriate levels of management and employees are involved in the risk analysis.
   - The risk identified and analyzed are relevant to the corresponding activity objective.
   - The Risk analysis includes estimating the risk's significance.
   - Risk analysis includes estimating the likelihood and frequency of occurrence of each risk and determining whether it falls into the low, medium, or high-risk category.
   - A determination is made on how best to manage or mitigate the risk and what specific action should be taken.

Control Activities

1. **Top Level Reviews –** Management Reviews at the Functional or Activity Level – Managers review actual performance against targets. Consider the following:
   - Both financial and program managers' review and compare financial, budgetary, and operational performance to planned or expected results.
2. **Common Control Activities – Information Processing –** The Society employs a variety of control activities suited to information processing systems to ensure accuracy and completeness. Consider the following:
   - Edit checks are used in controlling data entry.
   - Accounting for transactions is performed in numerical sequences.
   - File totals are compared with control accounts.
   - Exceptions or violations indicated by other control activities are examined and acted upon.
   - Access to data, files, and programs is appropriately controlled.
3. **Common Control Activities – Physical Control Over Vulnerable Assets –** The Society employs physical control to secure and safeguard vulnerable assets. Consider the following:
   - Physical safeguarding policies and procedures have been developed, implemented, and communicated to all employees.

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   - The Society has developed a disaster recovery plan, which is regularly updated and communicated to employees.
   - The Society has developed a plan for the identification of and protection of any critical infrastructure assets.
   - Assess that are particularly vulnerable to loss, theft, damage, or unauthorized use, such as cash, securities, supplies, inventories, and equipment, are physically secured and access to them controlled.
   - Assets such as cash, securities, supplies, inventories, and equipment are periodically counted and compared to control records and exceptions examined.
   - Cash and negotiable securities are maintained under lock and key and access to them strictly controlled.
   - Forms such as blank checks and purchase orders are sequentially pre-numbered and physically secured and access to them strictly controlled.
   - Mechanical check signers and signature plates are physically protected and access to them strictly controlled.
   - Equipment vulnerable to theft is securely fastened or protected in some other manner.
   - Identification plates and numbers are affixed to office furniture an fixtures, equipment and other portable assets.
   - Inventories, supplies, and finished items/goods are stored in physically secured areas and protected from damage.
   - Facilities are protected from fire by fire alarms and sprinkler systems.
   - Access to premises and facilities is restricted and controlled during non-working hours.
4. **Common Control Activities – Segregation of Duties–** Key duties and responsibilities are divided or segregated among different people to reduce the risk of error, waste, or fraud. Consider the following:
   - No one individual is allowed to control all key aspects of a transaction or event.
   - Responsibilities and duties involving transactions and events are separated among different employees with respect to authorization, approval, processing and recording, making payments or receiving functions, review and auditing, and the custodial functions and handling of related assets.
   - Duties are assigned systematically to a number of individuals to ensure that effective checks and balances exits.
   - Where feasible, no one individual is allowed to work alone with cash, negotiable securities, or other highly venerable assts.
   - The responsibility of opening mail is assigned to individual who have no responsibilities for or access to files or documents pertaining to the accounts receivable or cash accounts.
   - Bank accounts are reconciled by employees who have no responsibilities for cash receipts, disbursements, or custody.
   - Management is aware that collusion can reduce or destroy the control effectiveness of segregation of duties and therefore is especially alert for it and attempts to reduce the opportunities for it to occur.
5. **Common Control Activities – Execution of Transactions or Events –** Transactions and other significant events are authorized and performed by appropriate personnel. Consider the following:
   - Controls ensure that only valid transactions and other events are initiated or entered into, in accordance with management's decisions and directives.
   - Controls are established to ensure that all transactions and other significant events that are entered into are authorized and executed only by employees acting within the scope of their authority.
   - Authorizations are clearly communicated to managers and employees and include the specific conditions and terms under which authorizations are to be made.
   - The terms of authorizations are in accordance with directives and within limitations established by law, regulation and management.
6. **Common Control Activities – Recording of Transactions and Events–** Transactions and other significant events are properly classified and promptly recorded. Consider the following:

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- Transactions and events are appropriately classified and promptly recorded so that they maintain their relevance, value, and usefulness to management in controlling operations in making decisions.
- Proper classification and recording take place throughout the entire lifecycle of each transaction or event, including authorization, initiation, processing, and final classification in summary records.
- Proper classification of transactions and events includes appropriate organization and format of information on original documents (hardcopy paper or electronic) and summary records from which reports and statements are prepared.
- Excessive adjustments to numbers or account classification are not necessary prior to finalization of financial reports.

7. **Common Control Activities – Access Restrictions to and Accountability for Resources and Records –** Access to resources and records is limited and accountability for their custody is assigned. Consider the following:
   - The risk of unauthorized use or loss is controlled by restricting access to resources and records only to authorized personnel.
   - Accountability for resources and records custody and use is assigned to specific individuals.
   - Access restrictions and accountability assignments for custody are periodically reviewed and maintained.
   - Periodic comparison of resources with the record accountability is made to determine if the two agree, and differences are examined.
8. **Common Control Activities – Internal Control and all transactions and significant events are clearly documented -** Consider the following:
   - Written documentation exists covering the Society's internal control structure and for all significant transactions and events.
   - The documentation is readily available for examination.
   - The documentation for internal control includes identification of the Society's activity-level functions and related objectives and control activities and appears in management directives, administrative policies, accounting manuals, and other such manuals.
   - Documentation for internal control includes documentation describing automated information systems, data collection and handling.
   - Documentation of transactions and other significant events is compete and accurate and facilitates tracing the transaction or event and related information from authorization and initiation, through its processing, to after it is compete.

Information and Communications

1. **Information –** Pertinent information is identified, captured, and distributed to the right people in sufficient detail, in the right form, and at the appropriate time to enable them to carry out their duties and responsibilities efficiently and effectively Consider the following:
   - Managers receive analytical information that helps them identify specific actions that need to be taken.
   - Information is available on a timely basis to allow effective monitoring of events, activities, and transactions and to allow prompt reaction.
   - Program mangers receive both operational and financial information to help them determine whether they are meting the strategic and annual performance plans and meeting the agency's goals for accountability of resources.
   - Operational information is provided to managers to that they may determine whether their programs comply with applicable laws and regulations.
   - The appropriate financial and budgetary information is provided for both internal and external financial reporting.

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Monitoring

1. **Ongoing Monitoring –** Management has a strategy to ensure that ongoing monitoring is effective and will trigger separate evaluation where problems are identified or systems are critical and testing is periodically desirable. Consider the following:
   - Management's strategy provides for routine feedback and monitoring of performance and control objectives.
   - The monitoring strategy includes identification of critical operational and mission support systems that need special review and evaluation.
2. **Ongoing Monitoring –** Appropriate organizational structure and supervision help provide oversight of internal control functions. Consider the following:
   - Automated edits and checks as well as clerical activities are used to help control accuracy and completeness of transaction processing.
   - Separation of duties and responsibilities is used to help deter fraud.
   - The internal audit head is independent and has authority to report directly to the division head and does not conduct Society operations for management.
3. **Ongoing Monitoring –** Employees are regularly asked to state explicitly whether they comply with the Society's code of conduct. Consider the following:
   - Personnel periodically acknowledge compliance with the code of conduct.
   - Signatures are required to evidence performance of critical internal control functions, such as reconciliations.
4. **Separate Evaluations –** The scope and frequency of separate evaluations of internal control are appropriate for the Society. Consider the following:
   - Consideration is given to the risk assessment results and the effectiveness of ongoing monitoring when determining the scope and frequency of separate evaluations.
   - Separate evaluations are often prompted by events such as major changes in management plans or strategies, major expansion and/or downsizing of the Society, or significant changes in operations or processing of financial or budgetary information.
   - Appropriate portions or sections of internal control are evaluated regularly.
   - Separate evaluations are conducted by personnel with the required skills that may include the agency's Internal Audit Head or an external auditor.

Supplemental Internal Accounting Controls Checklist

The following questions reflect common internal accounting controls. You may wish to use this list to review your own internal accounting controls and determine which areas require further action.

Rating *	Indicator	Met	Needs Work	N/A
E	1. The organization follows accounting practices which conform to accepted standards.			
E	2. The organization has systems in place to provide the appropriate information needed by staff and board to make sound financial decisions and to fulfill Internal Revenue Service requirements.			
R	3. The organization prepares timely financial statements including the Balance Sheet [or statement of financial position) and Statement of Revenue and Expenses [or statement of financial activities] which are clearly stated and useful for the board and staff.			
R	4. The organization prepares financial statements on a budget versus actual and/or comparative basis to achieve a better understanding of their finances.			
E	5. The organization develops an annual comprehensive operating budget which includes costs for all programs, management and fundraising and all sources of funding. This budget is reviewed and approved by the Board of Directors.			

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R	6. The organization monitors unit costs of programs and services through the documentation of staff time and direct expenses and use of a process for allocation of management and general and fundraising expenses.			
E	7. The organization prepares cash flow projections.			
R	8. The organization periodically forecasts year-end revenues and expenses to assist in making sound management decisions during the year.			
E	9. The organization reconciles all cash accounts monthly.			
E	10. The organization has a review process to monitor that they are receiving appropriate and accurate financial information whether from a contracted service or internal processing.			
E	11. If the organization has billable contracts or other service income, procedures are established for the periodic billing, follow-up and collection of all accounts, and have the documentation that substantiates all billings.			
E	12. Government contracts, purchase of service agreements and grant agreements are in writing and are reviewed by a staff member of the organization to monitor compliance with all stated conditions.			
E	13. Payroll is prepared following appropriate State and Federal regulations and organizational policy.			
E	14. Persons employed on a contract basis meet all Federal requirements for this form of employment. Disbursement records are kept so 1099's can be issued at year end.			
E	15. Organizations that purchase and sell merchandise take periodic inventories to monitor the inventory against theft, to reconcile general ledger inventory information and to maintain an adequate inventory level.			
R	16. The organization has a written fiscal policy and procedures manual and follows it.			
E	17. The organization has documented a set of internal controls, including the handling of cash and deposits, approval over spending and disbursements.			
E	18. The organization has a policy identifying authorized check signers and the number of signatures required on checks in excess of specified dollar amounts.			
E	19. All expenses of the organization are approved by a designated person before payment is made.			
R	20. The organization has a written policy related to investments.			
R	21. Capital needs are reviewed at least annually and priorities established.			
R	22. The organization has established a plan identifying actions to take in the event of a reduction or loss in funding.			
R	23. The organization has established, or is actively trying to develop, a reserve of funds to cover at least three months of operating expenses.			
E	24. The organization has suitable insurance coverage which is periodically reviewed to ensure the appropriate levels and types of coverage's are in place.			
E	25. Employees, board members and volunteers who handle cash and investments are bonded to help assure the safeguarding of assets.			

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E	26. The organization files IRS form 990's in a timely basis within prescribed time lines.			
R	27. The organization reviews income annually to determine and report unrelated business income to the IRS.			
R	28. The organization has an annual, independent audit of their financial statements, prepared by a certified public accountant.			
R	29. In addition to the audit, the CPA prepares a management letter containing recommendations for improvements in the financial operations of the organization.			
R	30. The Board of Directors, or an appropriate committee, is responsible for soliciting bids, interviewing auditors and hiring an auditor for the organization.			
R	31. The Board of Directors, or an appropriate committee, reviews and approves the audit report and management letter and with staff input and support, institutes any necessary changes.			
E	32. The audit, or an organization prepared annual report which includes financial statements, is made available to service recipients, volunteers, contributors, fenders and other interested parties.			
A	33. Training is made available for board and appropriate staff on relevant accounting topics and all appropriate persons are encouraged to participate in various training opportunities.			
Indicators ratings: E=essential; R=recommended; A=additional to strengthen organizational activities				

Appendix D

Last Update Date: June 14, 2006

ACS's key internal control procedures include the following:

- Authority to operate the various divisions is delegated to their respective Chief Executive Officers within limits set by the Board of Directors of American Cancer Society, Inc. The appointment of executives to the most senior positions within American Cancer Society requires the approval of the Board of Directors of American Cancer Society.
- Functional, operating, financial reporting and certain management reporting standards are established by National Executive Team management for application across the whole of the American Cancer Society's independent divisions.
- Accounts Payable, Probate and Trust management, and Donation Processing functions are centralized in Oklahoma City and processed through consistent controls across the divisions.
- Standards are established at the division level to ensure the review and approval of all payment related transactions.
- Systems and procedures are in place in the American Cancer Society to identify, control and report on the major risks including credit, changes in the market prices of financial instruments, liquidity, operational error, breaches of law or regulations, unauthorized activities and fraud. Exposure to these risks is monitored by the National Home Office Audit and Stewardship Committee. Minutes of the National Home Office Audit and Stewardship Committee are submitted to the Board.
- Processes are in place to identify new risks from changes in market practices or donor behaviors which could expose American Cancer Society to heightened risk of loss or reputational damage.
- Periodic strategic plans are prepared for key support functions. Operating plans are prepared and adopted by all American Cancer Society divisions annually, setting out the key business initiatives and the likely financial effects of those initiatives.
- Centralized functional control is exercised over critical computer system developments and operations. Common systems are employed for similar business processes where practicable.
- The internal audit function, which is centrally controlled, monitors the effectiveness of internal control structures across the whole of the American Cancer Society. The work of the internal audit function is focused on areas of greatest risk to the American Cancer Society as determined by a risk-based approach. The head of this function reports to the Treasurer of the National Home Office Audit and Stewardship Committee.
- Management is responsible for ensuring that recommendations made by the internal audit function are implemented within an appropriate and agreed timetable. Confirmation to this effect must be provided to internal audit. Management must also confirm annually to internal audit that offices under their control have taken or are in the process of taking the appropriate actions to deal with all significant recommendations made by external auditors in management letters.

Appendix E

Asset Cycle

Internal Control Evaluation Detail

Period:
Cycle Owner:
Date Approved:
Comment:

Activity	Process Owner Entity or Title	Assessed By	Assessment Method, Evidence, or Specific Test Link Id or Description	Not Assessed Sound Acceptable Deficient	Risk Assessment H M L	Comments and Action Required	Process Approved
Division of Duties							
The person responsible for recording fixed assets does not make general ledger entries							
The reconciliation of the Fixed Asset detail accounts with the fixed asset control accounts and making entries into the fixed asset software are separate							
The custodian of the fixed assets and the taking of physical inventory are separate							
The person responsible for tagging fixed assets is not the fixed asset custodian							
The person responsible for locating missing fixed assets is not the fixed asset custodian							

Appendix E

Asset Cycle

Period:
Cycle Owner:
Date Approved:
Comment:

Internal Control Evaluation Detail

Activity	Process Owner Entity or Title	Assessed By	Assessment Method, Evidence, or Specific Test Link Id or Description	Not Assessed Sound Acceptable Deficient	Risk Assessment H M L	Comments and Action Required	Process Approved
Division of Duties							
Capital asset purchases require authorization							
Asset disposals require authorization							
General Asset Controls							
There are written procedures for purchasing, receiving, recording assets, and inventory management							
Asset records properly classify and identify the assets							
Assets are tagged when received							
Physical asset inventories are actually performed							

Appendix E

Asset Cycle

Period:
Cycle Owner:
Date Approved:
Comment:

Internal Control Evaluation Detail

Activity	Process Owner Entity or Title	Assessed By	Assessment Method, Evidence, or Specific Test Link Id or Description	Not Assessed Sound Acceptable Deficient	Risk Assessment H M L	Comments and Action Required	Process Approved
Division of Duties							
Physical inventories of assets are performed when transition of employee asset custodians occurs							
Missing assets are logged in a missing asset log							
Documentation is prepared when assets are received, sold, moved, transferred, damaged, or disposed of							
Asset reconciliations are actually performed							
Asset additions are properly valued							
Asset capitalization includes costs required to place the asset in service including (direct costs, preparation costs, fees, damages, interest, etc.)							

Appendix E

Asset Cycle

Period:
Cycle Owner:
Date Approved:
Comment:

Internal Control Evaluation Detail

Activity	Process Owner Entity or Title	Assessed By	Assessment Method, Evidence, or Specific Test Link Id or Description	Not Assessed Sound Acceptable Deficient	Risk Assessment H M L	Comments and Action Required	Process Approved
Division of Duties							
Assets gains and losses are properly recorded							
Assets are adequately insured							

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Sample Nonprofit Codes of Conduct
(Including Partial Codes, Such as Conflict-of-Interest Policies)

RULES GOVERNING THE BOARD OF TRUSTEES OF THE CALIFORNIA STATE UNIVERSITY

TRUSTEES' CODE OF CONDUCT
(Originally Adopted 5/1988; Incorporated into Trustees' Rules 3, 2004)
Excerpted with permission from
http://www.calstate.edu/BOT/rules_of_procedure.pdf

1. A Trustee shall devote time, thought, and study to his or her duties as a member of the Board of Trustees of the California State University.

2. A Trustee shall learn how the California State University functions--- its uniqueness, strength, and needs --- and its place in postsecondary education.

3. A Trustee shall carefully prepare for, regularly attend, and actively participate in the Board meetings and committee assignments.

4. A Trustee shall accept and abide by the legal and fiscal responsibilities of the Board as specified in federal and state law and the regulations, rules of procedure, standing orders, and resolutions of the Board of Trustees.

5. A Trustee shall base his or her vote upon all information available in each situation and shall exercise his or her best judgment in making decisions which affect the course of the California State University.

6. A Trustee shall vote according to his or her individual conviction, and may challenge the judgment of others when necessary; yet a Trustee shall be willing to support the majority decision of the Board and work with fellow Board members in a spirit of cooperation.

7. A Trustee shall maintain the confidential nature of Board deliberations in closed session. This includes written and verbal communication concerning the closed session. A Trustee shall avoid acting as spokesperson for the Board unless specifically authorized to do so.

8. A Trustee shall understand the role of the Board as a policymaking body and avoid participation in administration of that policy unless specifically authorized to do so by the Board.

9. A Trustee shall learn and consistently use designated institutional channels when conducting Board business (e.g., responding to faculty and student grievances, responding to inquiries concerning the status of a presidential search).

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10. A Trustee shall comply with conflict of interest policies and requirements prescribed in state law. A Trustee shall refrain from accepting duties, incurring obligations, accepting gifts or favors, engaging in private business or professional activities when there is, or would appear to be, a conflict or incompatibility between the Trustee's private interests and the interests of the California State University.

11. A Trustee shall refrain from actions and involvements that may prove embarrassing to the California State University.

12. A Trustee shall act and make judgments always on the basis of what is best for the California State University as a whole and for the advancement of higher education in general.

Procedure for Responding to Breaches of the Code of Conduct

1. Should evidence or allegations of violations of the Code of Conduct by a Trustee of the California State University come to the attention of the Chair of the Board, which after further review by the Chair appears to constitute a breach of the Code of Conduct, the Chair and the Vice Chair shall discuss the matter with the Trustee to obtain additional facts and perspective and to seek a mutually agreeable resolution.

2. Should the Code continue to be violated by the Trustee after discussion with the Chair and the Vice Chair, the Chair, after appropriate consultation, will place the matter on the agenda for appropriate action by the Board of Trustees. The Board shall discuss the matter in open session, allowing the Trustee whose conduct is at issue to provide an explanation of the conduct. The Board may then by majority vote censure the Trustee.

3. Should the Board censure the Trustee, formal notification of the censure shall be communicated to the Governor, as President of the Board, and to any separate recommendatory or appointive authority of the Trustee, e.g., the Academic Senate of the California State University, the California State Student Association, or the CSU Alumni Council.

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XYZ INTERNATIONAL BUSINESS ETHICS AND CONDUCT POLICY

It is our policy to conduct business ethically and in compliance with all applicable laws such that no one individual will profit from the organizations. We respect the individual dignity of all persons affiliated with our organizations including members, employees, volunteers, officers, directors and members of the Boards of Directors.

APPLICABILITY

This Business Ethics and Conduct Policy applies to all employees, volunteers, and officers of XYZ International, Inc., XYZ Charities, Inc., XYZ School, Inc. (PROGRAM A) and PROGRAM B, Inc. (PROGRAM B), and to all members of the XYZ International, PROGRAM A and PROGRAM B Boards of Directors. Further, we expect our volunteers, suppliers, vendors, contractors and joint-venture partners to behave in accordance with this policy when working with us.

A waiver of certain sections of this policy may be required due to unusual circumstances. XYZ International's Board of Directors may make any waiver of any section of this policy for officers or members of the Boards of Directors only after careful consideration. Any such waiver will be promptly disclosed, as required by law. Waivers of any sections of this policy for employees may be made only by ______. The Audit Committee will review any such waiver as appropriate under the circumstances.

RESPONSIBILITIES

The Company

XYZ International, XYZ Charities, PROGRAM A and PROGRAM B are responsible for implementing this policy by:

- making the policy available
- providing clear guidelines on matters of everyday business conduct
- ensuring that all employees and other relevant organizations and individuals are aware of and understand the policy
- providing guidance on our policies, standards, guidelines and procedures to any employee, officer, director or others who seek it
- supporting working conditions consistent with the provisions of this policy, at all locations
- monitoring and enforcing compliance with this policy
- developing, improving and updating this policy

Supervisors/Managers

All supervisors and managers are responsible for the implementation of this policy and will be held accountable for:

- ensuring that all current and new employees and volunteers under their supervision are informed of how to access this policy and understand its meaning and application
- periodically reviewing the knowledge and understanding of this policy by the employees under their supervision
- stressing to all employees and volunteers a continuing commitment to the policy
- demonstrating their own commitment through their conduct in the management of their department and of the activities of all employees and volunteers under their supervision
- maintaining a work environment that encourages open and frank communication concerning the application of the policy
- providing guidance to employees and volunteers as needed

Employees, Volunteers, Officers and Members of the Boards of Directors

All employees, volunteers, officers and members of the Boards of Directors are responsible for:

- reviewing this policy regularly to increase their knowledge and understanding of the policy
- upholding this policy and the other policies, standards, guidelines and procedures that support it
- contributing to a work environment that complies with the policy
- obtaining guidance from management when the proper course of action is unclear or unknown and urging fellow employees and volunteers to do the same
- being conscious of situations that could potentially violate the law or this policy and bringing such situations to the attention of management
- reporting potential violations of the law or this policy in accordance with the procedures in this policy

USING THE BUSINESS ETHICS AND CONDUCT POLICY

This policy is important and must be taken seriously. Violations of this policy will not be tolerated and will result in appropriate disciplinary action.

Our Compliance Program

Our Compliance Program provides guidance to all employees, volunteers, officers and members of the Boards of Directors on matters of ethics and business conduct. The Business Conduct and Ethics Policy is the centerpiece of that program, outlining more specifically how we will conduct our business ethically and responsibly, comply with the law and provide a safe and satisfying work environment.

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Our officers review recommendations on policies, standards, guidelines and procedures pertaining to the Compliance Program. The Legal Department is responsible for appropriate legal guidance under this policy and for interpreting applicable laws, regulations and government orders.

The Legal Department and our officers are available to answer questions, give advice, address concerns and investigate allegations related to the meaning and application of this policy.

Proper Use of the Compliance Program

The foundation of a successful compliance program is open, honest and responsible communication. To be effective, communication must be handled with the utmost responsibility and respect. **No employee or volunteer in the name of "ethics," should ever attempt to harm or slander another employee or volunteer through false accusations, malicious rumors or other irresponsible actions. Such behavior, if proven, will be subject to discipline.**

Likewise, any employee or volunteer who threatens reprisal against another employee, volunteer, officer or member of the Boards of Directors for exercising his or her responsibilities under this policy will be subject to discipline. **Reprisal is not only prohibited by this policy but, in some instances, is also a violation of the law.**

This policy is an umbrella policy that describes our commitment to the ethical and legal conduct of our operations. By using and following this policy and other enterprise policies, each of us-employees, volunteers, officers and members of the Boards of Directors-is playing a vital role in ensuring that XYZ International's, XYZ Charities', PROGRAM A's and PROGRAM B's business activities are legally compliant and consistent with our values and principals. Each of us is responsible for complying with the specific policies, standards, procedures, guidelines and rules applicable to our individual business locations. Hard copies of this policy and our other policies can be obtained from your supervisor, Human Resources or the Legal Department.

If you have questions about this policy or any other related policy, consult your supervisor or the "Reporting" section of this policy. You are expected to use this policy in conjunction with all policies, standards, guidelines and rules adopted by XYZ International at all business locations. **This policy is not an employment contract, and does not modify or alter your employment relationship, at-will or otherwise.**

REPORTING

Communication Channels

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If you are concerned about what appears to be an inappropriate situation in your department or in another department or area, there are several ways to bring this to the attention of our designated personnel who will assist you in resolving questions involving ethics and conduct. You should not hesitate to take advantage of such help. Your supervisor is the best place to start, but you can also contact the Legal Department or Human Resources. You may also pursue the matter with any higher level of management. Your concerns will be acted upon and will receive proper attention. **We will not tolerate threats or acts of retaliation or retribution for using any communication channels.**

You may communicate your concerns by telephone, through e-mail, in person, on-line or by contacting the Compliance Hotline. The Compliance Hotline enables you to anonymously report possible criminal activities or policy violations, violations of governmental laws, rules or regulations, or any other ethical concerns. The Compliance Hotline is available 24 hours a day. In the United States and Canada you may call 1-555-555-5555.

We all have a serious business responsibility to ensure that our conduct is consistent with this policy. Difficult as it may be at times, we also have obligations regarding the conduct of those who work around us. In cases where you become aware of a violation of the policy, you should make the violation known by use of the communication channels outlined above.

This policy will be enforced at all levels fairly and without prejudice. **Subject to our obligations under the law and our policies, we will keep confidential the identity of employees or volunteers about or against whom allegations of violations are brought**. **Similarly, we will take all reasonable steps to keep confidential the identity of anyone reporting a possible violation**.

YOU AND YOUR JOB

It is our policy to conduct business ethically and in compliance with all applicable laws.

Personal Conduct

Central to this policy and our business principals is the concept of mutual trust and accountability between and among our employees, volunteers, officers and members of our Boards of Directors. Each of us is expected to act in accordance with this policy. Ethical behavior on the job is demonstrated by complying with XYZ International, XYZ Charities, PROGRAM A and PROGRAM B policies and dealing honestly and fairly with other employees, volunteers, members, suppliers, competitors, government agencies and the public.

Duty of Fair Dealing

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Everyone at XYZ International, XYZ Charities, PROGRAM A and PROGRAM B should endeavor to deal fairly with our members, volunteers, suppliers, vendors, and fellow employees. Taking unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or other unfair dealings is contrary to the spirit of this policy.

Work Environment

A safe and healthy workplace contributes to a positive, constructive work environment, which is essential for long-term productivity and employee satisfaction. Such an environment, based on mutual respect, must be free of any type of discrimination and harassment for any reason. **We will not tolerate any conduct in the workplace that creates an intimidating or otherwise offensive environment**. Similarly, remarks, jokes, suggestive materials or conduct that encourages or permits an offensive work environment will not be tolerated.

If you believe you are subject to such conduct, report your concerns as outlined in the "Reporting" section of this policy. All complaints concerning such conduct will be investigated promptly. Employees, volunteers, officers or members of the Boards of Directors found to have engaged in harassment or discrimination, or to have misused a position of authority in this regard, are subject to disciplinary measures, up to and including termination.

Some other activities are prohibited because they are clearly not conducive to a good work environment. Employees, volunteers, officers and members of the Boards of Directors who engage in any of these prohibited activities are subject to disciplinary action, up to and including dismissal. These activities include:

- threats or violent behavior
- possession of weapons of any type
- use, distribution, sale or possession of illegal drugs or any other controlled substance, except for approved medicinal purposes.

Privacy

XYZ International, XYZ Charities, PROGRAM A and PROGRAM B collect or maintain personnel information that relates to your employment, including benefit information. Access to such information is restricted to people with a legitimate business need to know. With your approval, your personnel information may be released outside XYZ International, XYZ Charities, PROGRAM A and PROGRAM B to verify employment or in response to legal requirements. Employees who are responsible for maintaining personnel information and those who are provided access to such information must ensure that the information is not disclosed in violation of our policies or practices.

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Protecting Our Assets

Our assets, including physical assets and proprietary information, are of great value to our success as a business. Proprietary information includes intellectual property that is typically the product of ideas and hard work of many talented people, as well as business-confidential data, including passwords and similar information that is entrusted to many employees in connection with their jobs.

Protecting all of our assets, including confidential information entrusted to you by vendors and suppliers, is very important. Their loss, theft or misuse jeopardizes their value. For this reason, we are all personally responsible not only for protecting property entrusted to us, but also for helping to protect our assets in general. Awareness of security practices can play a critical role. Always be alert to any situations or incidents that could cause or lead to the loss, misuse or theft of property, including intellectual property. Report all such situations as outlined in the “Reporting” section of this policy.

Proprietary Information

Proprietary and/or confidential information includes, but is not limited to the following:

- business, financial, technical, marketing and pricing information associated with our products
- personnel information such as salary data
- designs, engineering and manufacturing know-how and processes
- internal databases and patent applications and copyrighted material, such as software
- anything else that XYZ International, XYZ Charities, PROGRAM A and PROGRAM B deem proprietary or confidential

Confidential information should not be discussed in the presence of others who are not authorized, such as at convention receptions or on an airplane. This also applies to family members or with friends, who might innocently or unintentionally pass the information on to someone else. Keep in mind that harmful disclosure may start with the smallest leak of bits of information, which may then be pieced together with other bits of information to form a fairly complete picture.

Disclosure

While we must maintain the confidentiality of certain company information for business reasons, there are legal rules that govern the timing and nature of our disclosure of material information to the public. We are committed to full and timely disclosure. It is our policy that all disclosures made to members and the public should be accurate and complete and fairly represent the financial condition and results of operations in all material respects, and should be on a timely basis as required by applicable laws.

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Direct Requests for Information

If someone outside XYZ International, XYZ Charities, PROGRAM A or PROGRAM B asks you questions about our business activities, either directly or through another person, do not attempt to answer them unless you are authorize to do so. If you are not authorized, refer the person to the appropriate source:

- unless you have been authorized to talk to reporters, or anyone else who is writing about or otherwise covering XYZ International, PROGRAM A or PROGRAM B, direct the person to the Vice President of each organization
- if you receive a request for information or an interview from an attorney, investigator, or any law enforcement officer, and the request concerns the business of XYZ International, PROGRAM A or PROGRAM B, you should refer the request to the Legal Department
- any contact by any employee or agent of a government taxing authority concerning our business should be referred to the Finance Department
- if you do not know what functional area the questioner should be referred to, ask your supervisor

Use of Confidential Information

In addition to your obligation not to disclose any confidential information about XYZ International, XYZ Charities, PROGRAM A and PROGRAM B to anyone outside the companies, you are also required to use such information only in connection with our business. These obligations apply whether or not you develop the information yourself.

Employees of XYZ International, XYZ Charities, PROGRAM A and PROGRAM B generally sign agreements under which they assume specific legal obligations relating to treatment of confidential information. The form of the agreement signed by employees may differ based on the laws of the employee’s location. For a copy of the agreement for your location, please contact Human Resources. Certain positions, such as attorneys, paralegals and accountants, also have fiduciary, client confidentiality obligations and duties under the standards of ethics for their respective professions. These are continuing obligations that survive even after you leave our employment. For further information, contact the Legal Department.

Internal Information Systems

Employees should not maintain or store business information relating to XYZ International, XYZ Charities, PROGRAM A or PROGRAM B at home or other off-site locations, except when necessary for current off-site use. All information relating to our organizations is subject to document retention rules.

The increasing reliance placed on internal information and communications systems in carrying out our business makes it absolutely essential to ensure their integrity. Like other assets, these facilities and the information they make available through a wide variety of systems should be used only for conducting our business or for purposes authorized by management. Their unauthorized use, whether or not for personal gain is a misappropriation of assets. Each of us has a responsibility to make sure that use of any of our systems is authorized and proper, and that passwords and other security codes are protected.

Conflicts of Interest and Business Opportunities

We all owe a duty to XYZ International, PROGRAM A and PROGRAM B to advance their legitimate business interests when opportunities to do so arise. You should avoid any interest, influence or relationship that conflicts or gives the appearance of conflicting with our legitimate business interests. Our assets or resources cannot be used for illegal purposes. In some instances, personal use of our assets or resources is expressly permitted by our policies.

In addition, you may not:

- take for personal use any opportunity discovered through the use of our property, information or your position with us
- use our property, information, or your position with us for personal gains or
- compete with us

Members of XYZ International's Board of Directors have a special responsibility because they are prominent individuals with substantial other responsibilities. To avoid conflicts of interest, we have adopted policies and disclosure mechanisms to address commercial transactions in which members of the Board of Directors may have a commercial interest as a result of a position as an officer or director of another entity. In addition, by resolution and as it deems appropriate, the XYZ International Board of Directors or a committee of the Board may specifically address a non-employee director's obligations under this provision to accommodate the non-employee director's duties to his or her current employer.

Recording and Reporting Information

All employees should record and report information accurately, honestly and in a timely fashion. Anyone entering data into any of XYZ International's, XYZ Charities', PROGRAM A's or PROGRAM B's information systems is responsible for its timeliness and accuracy. Keep in mind that virtually everyone records and submits information of some kind-time cards, product test reports, expense reports, etc. In addition, providing dishonest or misleading information to organizations and people outside of XYZ International, XYZ Charities, PROGRAM A or PROGRAM B is strictly prohibited and could lead to civil or criminal liability for the companies and the reporting individual. All information relating to us is subject to the document retention rules.

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CONDUCTING OUR BUSINESS IN COMPLIANCE WITH LAWS

Any questions regarding this section of the policy should be directed to the Legal Department.

Health, Safety and Environment

Our policies ensure that our plants and facilities are managed and operated to protect the environment and the health and safety of our employees, contractors and the public in compliance with health, safety, and environmental laws.

Each of us must take reasonable care for our health and safety and that of our fellow employees and others affected by what we do. We must cooperate with XYZ International, XYZ Charities, PROGRAM A and PROGRAM B on all health and safety matters and follow all policies, standards, guidelines and procedures concerning health and safety. In addition, all worksite injuries must be reported immediately.

Any employee involved with processes that affect the environment must perform his or her job in a manner consistent with our policies, standards, guidelines and procedures. Examples of functions that are impacted by environmental compliance include the operation of facilities, as well as measuring, recording, or reporting discharges or emissions to the environment or handling hazardous waste. All of us have a responsibility to comply with environmental regulations and permits.

Bribes, Gifts and Entertainment

Gifts offered to or exchanged by employees of different companies vary greatly. They can range from widely distributed advertising novelties of nominal value, which you may give or accept under appropriate circumstances, to bribes, which absolutely may not be given or accepted.

Neither you nor any member of your family may request, accept from or give to a supplier, vendor, customer, government agency or any other organization anything (including money or gifts) that could reasonably be construed to influence our business relationships. Gifts include not only material goods, but also services, promotional premiums or discounts on personal purchases of goods and services.

CONCLUSION

This Business Ethics and Conduct Policy provides the framework for all of us to live our values as outlined in the following tenets:

As a nonprofit fraternal organization, we realize that our people are one of our most valuable assets. We are committed to treating our people with respect, fully utilizing their

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abilities and promoting workplace diversity. We conduct our business in an ethical and environmentally responsible manner, comply with the law and provide a safe and satisfying work environment.

This policy will be reviewed periodically to ensure it remains applicable to the challenges we face in a dynamic business environment.

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___ABC___ Society, Inc.

Conflict of Interest and Ethics Policy for ABC Officers, Directors and Committee Members, and Other Volunteers

Those who choose to serve as officers, directors and committee members, or any other volunteers, of the ABC Society, Inc. (ABC), are held to the highest standards of conduct. These individuals assume an obligation to subordinate individual interests to the interests of ABC. The purpose of this policy is to help inform these individuals about what constitutes a conflict of interest or unethical behavior, assist them in identifying and disclosing actual and potential conflicts or unethical behavior, and help ensure the avoidance of conflicts of interest or unethical behavior, where necessary.

Those who serve ABC must do so in keeping with the utmost business standards, without personal gain, without regard to personal relationships and without financial gain to their employers, and must behave in such a way so as to enhance member and public trust and confidence in ABC. These individuals must avoid any real conflicts of interest or improprieties, as well as even the appearance of any conflicts of interest or improprieties. This may lead to a level of conduct beyond that appropriate for circumstances outside ABC.

The key elements of this policy are the disclosure of circumstances which may give rise to a conflict or impropriety or unethical behavior, the physical absence and non-participation in the decision making process that might lead to a potential conflict or impropriety or unethical behavior, and the commitment to honor the confidentiality of organizational information.

Under no circumstances shall any member of ABC Board of Directors, Standing or Ad Hoc Committees, Councils or task forces participate in the evaluation or approval by ABC of any contractual arrangement of which ABC may become a party, if such individual, or such individual's employer, would benefit financially, either directly or indirectly, from ABC becoming a party to such agreement.

All actual and potential conflicts of interest or unethical behavior shall be disclosed by such individuals covered hereunder to ABC Executive Committee through an annual disclosure form and whenever a conflict or unethical behavior arises. The disinterested members of the Executive Committee shall make a determination as to whether a conflict exists or unethical behavior has occurred, and what subsequent action is appropriate (if any). ABC Executive Committee shall inform the Board of Directors of such determination and action. The Board shall retain the right to modify or reverse such determination and action, and shall retain the ultimate enforcement authority with respect to the interpretation and application of this policy.

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On an annual basis, all Board, committee, council and task force members shall be provided with a copy of this policy and be required to complete and sign the acknowledgement and disclosure form below. All completed forms shall be provided to and reviewed by ABC Executive Committee, as well as all other information provided by such individuals.

Approved October, 2005

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ABC, Inc.
Conflict of Interest and Ethics Policy

Acknowledgement and Disclosure Form

I have read ABC Conflict of Interest and Ethics Policy and agree to comply fully with its terms and conditions at all times during my service as a member of ABC Board of Directors, Committee, Council or Task Force, as the case may be. If at any time following the submission of this form I become aware of any actual or potential conflict of interest or unethical behavior, or if the information provided below becomes inaccurate or incomplete, I will promptly notify ABC General Counsel in writing.

Disclosure of Actual or Potential Conflict of Interest or unethical behavior:

____
Name:

ABC Affiliation:

Date:

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CONFLICT OF INTERESTS POLICY

Nonprofit corporation leadership must act in the best interests of the corporation. Therefore, it is the policy of the _____________Association that its volunteer leadership and staff manage the Association's business with the same care, diligence and prudence that they would use to manage their own business. Acts and decisions in a __A capacity should promote the Association's purpose and well-being rather than any private interest.

(a) Potential conflicts of interest may arise in the relations of volunteers and staff with any of the following third parties:

a. Persons and firms supplying goods and services to the Association;
b. Persons and firms from whom the Association purchases or leases property and equipment;
c. Persons and firms with whom the Association is dealing or planning to deal in connection with the gift, purchase or sale of real estate, securities, or other property;
d. Other associations or corporations;
e. Donors and others supporting the Association;
f. Agencies, organizations and others which affect the operations of the Association.

(b) A material conflict of interest which might affect or be reasonably thought by others to affect the judgment or conduct of an Association volunteer or staff could include:

a. Owning stock or holding debt or other proprietary interests in any third party dealing with the Association not including ownership of less than 1% of outstanding shares of public corporations.
b. Holding office, serving on the board, participating in management, or being otherwise employed (or formerly employed) in any third party dealing with the Association.
c. Receiving remuneration for services with respect to individual transactions involving the Association.
d. Using Association personnel, equipment, supplies or goodwill for anything other than Association-approved activities, programs and purposes.
e. Receiving personal gifts or loans from third parties dealing with the Association.
f. Obtaining an interest in real estate, securities or other property which the Association might consider buying or leasing.

(c) If a material conflict of interest exists, the following three protections should be applied:

a. Disclosure. If an Association volunteer or staff member believes that he or she may be perceived to have a conflict of interest, this should be disclosed.
b. Abstention. An interested volunteer or staff member should not participate in discussion (unless necessary) or voting with respect to the conflicted matter.
c. Fairness. Above all, the transaction must be fair and reasonable from the Association's perspective.

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NYSSCPA/FAE Conflict Of Interest Policy

(Approved by NYSSCPA October 2, 2003
and FAE November 17, 2003)

The volunteer leaders and employees of the New York State Society of Certified Public Accountants ("NYSSCPA"), the Foundation for Accounting Education, Inc. ("FAE"), the NYSSCPA CPA PAC, Inc. ("PAC"), the NYSSCPA Benevolent Fund, Inc. ("Benevolent Fund") and affiliated companies (individually and collectively referred to as the "Society") owe a duty of loyalty to the Society which requires that they act, not in their personal interests or in the interests of others, but solely in the interests of the Society. Each volunteer leader and employee must place the interests of the Society foremost in any dealings involving the Society. Furthermore, each has a continuing responsibility to comply with the requirements of this policy throughout their period of service.

The volunteer leaders and employees may not use (1) their positions as leaders and employees, (2) information they have about the Society, or (3) Society property, in a manner that allows them to secure a pecuniary benefit for themselves or their Affiliated Organizations or Related Parties. Furthermore, the leadership and employees of the Society have an obligation to conduct business within guidelines that preclude actual and even potential conflicts of interest.

The purpose of this policy is to provide guidance so that volunteer leaders and employees can meet their duties of loyalty to the Society.

Definitions

Affiliated Organization. An Affiliated Organization means: (i) an entity over which the volunteer leader or employee has significant influence, and (ii) an entity that has significant influence over the volunteer leader or employee.

Assembly. An Assembly is a deliberative group with the authority to take an action with the potential to bind the Society. Examples of assemblies include the NYSSCPA Board of Directors and Executive Committee, the FAE Board of Trustees, the Finance Committee, and other committees.

Conflict of Interest. An actual or potential Conflict of Interest occurs when a person identified in Group I or Group II is in a position to influence a decision that may result in a personal gain for that person or for a Related Party or Affiliated Organization (other than the Society) as a result of business dealings with the Society.

Group I. Individuals in Group I include the following:
- Chairpersons of NYSSCPA committees (other than those included in Group II)
- Chapter Executive Board members
- Any other assemblies or groups included in Group I by action of the NYSSCPA or FAE governing body.

Group II. Individuals in Group II include the following:

- NYSSCPA Board
- FAE Board
- PAC Board
- Benevolent Fund Board
- NYSSCPA Audit Committee
- NYSSCPA and FAE Finance Committee
- FAE Scholarship Committee
- NYSSCPA and FAE Investment Committees
- Volunteers authorized to sign NYSSCPA or FAE checks
- Employees
- Any other assemblies or groups included in Group II by action of the NYSSCPA or FAE governing body

Presiding Officer. The Presiding Officer of the governing body of the NYSSCPA, FAE, NYSSCPA PAC, NYSSCPA Benevolent Fund, Inc. or affiliated company is the respective company's President, or if the President is not in attendance, the person chairing the meeting. The Presiding Officer of a committee or task force is the committee chairperson or acting chairperson.

Related Party. A Related Party means a person's spouse, spousal equivalent, parent, dependent, nondependent child, sibling, employer, employee, business associate (including without limitation, a partner, co-shareholder, co-owner, non-equity partner or the equivalent, owner or employee of an Affiliated Organization). Related parties also include any person whose relationship with the volunteer leader or employee could in any way affect the judgment of the volunteer leader or employee.

POLICY STATEMENT

I Requirements to Serve

Group I Service. To qualify to serve as a member of Group I, individuals are required to (1) read the NYSSCPA Conflict of Interest Policy, (2) acknowledge that they have read it, and (3) agree to recuse themselves from any Society-related decisions in which they have a Conflict of Interest, and (4) on an annual basis, complete and sign the then-current NYSSCPA-Board approved Group I Conflict of Interest Disclosure Statement (Exhibit A).

Group II Service. To qualify to serve as a member of Group II, individuals are required to

- read the NYSSCPA Conflict of Interest Policy,
- acknowledge they have read it,
- on an annual basis, complete and sign the then-current NYSSCPA-Board approved Group II Conflicts Disclosure Statement (Exhibit B),
- in the case of volunteers, agree to notify the Presiding Officer of any actual or potential Conflicts of Interest that have arisen pertaining to the volunteer's Society-related activities coming to the attention of such volunteer after completing the Group II Conflict of Interest Disclosure Statement
- in the case of employees, agree to notify the Executive Director or the NYSSCPA President of any actual or potential Conflicts of Interest that have arisen pertaining to the Society and
- agree to abide by the decision of the applicable Assembly, or in the absence of such decision, the decision of the Presiding Officer of such Assembly, or, in the case of an employee, the decision of the Executive Director or the President, regarding the handling of any actual or potential Conflicts of Interest.

II Addressing Conflicts of Interest of Group II

Conflicts of Interest of Volunteers. In the case of volunteers, whenever a member of Group II discloses the existence of a potential or actual Conflict of Interest, the applicable Presiding Officer will assess the seriousness of the Conflict of Interest and is empowered to

(a) preclude the volunteer from
- (i) participating in any Assembly discussion giving rise to the Conflict of Interest,
- (ii) voting on any proposed motion relating to a matter giving rise to the Conflict of Interest, or
- (iii) attending the meeting until the matter giving rise to the Conflict of Interest has been decided; or

(b) ask the Assembly to determine the proper handling of the Conflict of Interest.

The decision of a Presiding Officer relating to the handling of a Conflict of Interest may be appealed by a disclosing volunteer to the applicable Assembly. If either the Presiding Officer or the disclosing volunteer is dissatisfied with the Assembly's decision, he or she may appeal the Assembly's decision to the NYSSCPA Board of Directors, which shall serve as a forum of last resort.

Conflicts of Interest of Employees. In the case of employees, the Executive Director or the President will determine how to address the Conflict of Interest, and such decision will be binding on the employee.

Reporting of Conflicts of Interest. Giving due regard to the disclosing party's right to privacy and professional responsibilities as to confidentiality, the Presiding Officer or the Executive Director shall report to the appropriate Assembly regarding Conflict of Interest disclosures. Such report shall be for information purposes, unless the Assembly is being called upon to take action in light of a Conflict of Interest disclosure. Any reporting and resulting discussion by an Assembly shall occur in executive session.

III Privacy

Except to the extent disclosure to the President, the Executive Director, or a Group II Assembly is found to be necessary, all persons receiving a communication from a member or employee pursuant to this policy will maintain the confidentiality of all details disclosed pursuant to this policy. However, they will not maintain the confidentiality of their conclusion as to the existence of a Conflict of Interest.

> Example. A NYSSCPA board member is in a business venture with a person seeking to become the NYSSCPA's auditor. This business relationship violates the board member's partnership agreement with his firm. If all these facts are disclosed to the President, he or she will ordinarily only disclose to the Board his or her conclusion that a conflict exists. The president ordinarily will not disclose the board member's dishonesty vis a vis his firm. Situations can arise, however, that could force more detailed disclosure, such as the

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member's appeal to the NYSSCPA Board of the President's decision that the member is conflicted out of participating in the Board's auditor selection or a court subpoena issued to the President by the member's firm.

IV Further Guidance

Examples of the application of this policy are included in Exhibit C. In addition, members and employees seeking guidance regarding Conflicts of Interest are encouraged to discuss their situations with the NYSSCPA in-house legal counsel. While the legal counsel will strive to maintain the confidentiality of these discussions, professional obligations he or she owes to the NYSSCPA may lead to disclosure to the Executive Director or President.

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Exhibit A

Group I Conflict of Interest Disclosure Statement

To qualify for service as (Check all applicable)

- ☐ Chairperson of an NYSSCPA or a FAE Committee (other than those included in Group II of the NYSSCPA/FAE Conflict of Interest Policy)
- ☐ Member of a Chapter Executive Board
- ☐ Other (Please specify) ____

I declare that

1. I have read the NYSSCPA/FAE Conflict of Interest Policy (Approved by NYSSCPA Board on October 2, 2003, and by FAE Board on November 17, 2003) and

2. To the best of my information and belief, I, my Related Parties, and Affiliated Organizations have no relationships at present with the Society which could give rise to a Conflict of Interest other than the following:

____

____

____

3. I agree to recuse myself from any Society- and FAE-related decisions in which I believe I might have a Conflict of Interest.

______________________________ ______________________________

Signature Date

____

Print Name

Note: Defined terms have the meaning given them in the Policy.

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Exhibit B

Group II Conflict of Interest Disclosure Statement

ALL ANSWERS ARE TO BE GIVEN TO THE BEST OF YOUR INFORMATION AND BELIEF.

THE NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS (“NYSSCPA”), THE FOUNDATION FOR ACCOUNTING EDUCATION, INC. (“FAE”), THE NYSSCPA CPA PAC, INC. (“PAC”), THE NYSSCPA BENEVOLENT FUND, INC. (“BENEVOLENT FUND”) AND ANY AFFILIATED COMPANY ARE INDIVIDUALLY AND COLLECTIVELY REFERRED TO HERE AS THE “SOCIETY”. Note: Defined terms have the meaning given them in the Policy.

I am submitting this disclosure statement to comply with the NYSSCPA/FAE Conflict of Interest Policy (the “Policy”). I recognize that am completing this form disclosing Conflicts of Interest and potential Conflicts of Interest that I have AND ALSO Conflicts of Interest and potential Conflicts of Interest that arise by virtue of “Related Parties” and “Affiliated Organizations” as such terms are defined in the Policy.

I am completing this disclosure statement to qualify for service as (check all applicable)

- ☐ NYSSCPA Board
- ☐ FAE Board
- ☐ PAC Board
- ☐ Benevolent Fund Board
- ☐ Audit Committee
- ☐ NYSSCPA or FAE Finance Committee
- ☐ FAE Scholarship Committee
- ☐ NYSSCPA or FAE Investment Committee
- ☐ Volunteer check signer
- ☐ Employee
- ☐ Other, specify:

  ____

1. I declare that I have read and will abide by the NYSSCPA/FAE Conflict of Interest Policy (Approved by the NYSSCPA on October 2, 2003 and by FAE on November 17, 2003).

2. NAME (please print) ____

3. Have you or any Related Parties or Affiliated Organizations provided compensated services or property to the Society in the past year?

   _____YES _____NO

   If yes, please describe the nature of the services or property:

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4. With the exception of your NYSSCPA membership and FAE courses at which you or a Related Party have been a paid attendee, have you or any Related Parties or Affiliated Organizations purchased services or property from the Society in the past year?

   _____YES _____NO

   If yes, please describe the purchased services or property:

5. Please indicate whether you or any Related Parties or Affiliated Organizations had, have, or will have any direct or indirect interest in any business transaction(s) in the past year to which the Society was or is a party?

   _____YES _____NO

   If yes, describe the transaction(s):

6. With the exceptions of your NYSSCPA membership dues, FAE courses for which you or a Related Party have registered and travel advances, were you or any Related Parties or Affiliated Organizations indebted to pay money to the Society at any time in the past year?

   _____YES _____NO

   If yes, please describe the indebtedness:

7. Other than travel reimbursements, in the past year, did you or any Related Parties or Affiliated Organizations receive, or become entitled to receive, directly or indirectly, any personal benefits from, or as a result of your relationship with, the Society that in the aggregate could be valued in excess of $1,000?

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_____YES _____NO

If yes, please describe the benefit:

8. Are you or any Related Parties or Affiliated Organizations a party to, or have an interest in, any pending legal proceedings involving the Society?

_____YES _____NO

If yes, please describe the proceeding(s):

9. Are you aware of any other events, transactions, arrangements or other situations that you believe should be examined by the NYSSCPA President or other Presiding Officer in accordance with the terms and intent of the Policy?

_____YES _____NO

If yes, please describe the situation(s):

I HEREBY CONFIRM that I have read and understand the Policy and that, to the best of my information and belief, my responses to the above questions are complete and correct.

_______________________________ _______________________________

Signature Date

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Exhibit C

Examples of Conflicts of Interest

The following scenarios are examples of Conflicts of Interest covered by the NYSSCPA Conflict of Interest Policy. <u>THE EXAMPLES ARE NOT AN EXHAUSTIVE LIST, BUT MERELY SERVE AS ILLUSTRATIONS OF CONFLICTS THAT MUST BE DISCLOSED UNDER THIS POLICY.</u>

Example 1. Mr. Smith is under consideration by the FAE president to replace an outgoing member of the FAE Board of Trustees, but unknown to the FAE President, Mr. Smith is a paid speaker at FAE events. Mr. Smith must disclose to the FAE President (or other Presiding Officer, if applicable) that he is receiving income from FAE and must either (1) agree to cease receiving pay to speak at FAE events during his term as a FAE trustee or (2) decline to serve as a FAE trustee.

Example 2. Ms. Jones is very active as a peer review team captain and has been elected to serve as a member of the Board from a chapter. A proposal has been included in the NYSSCPA Board agenda that the NYSSCPA Board should recommend a bylaw change that would require peer review of all Society members. Ms. Jones should inform the Presiding Officer for the Board meeting that she would stand to gain financially if the proposal is passed. The Presiding Officer should then determine if Ms. Jones will be permitted to participate in the discussion or vote on the matter. If Ms. Jones disagrees with the determination of the Presiding Officer, she may raise a parliamentary “question of privilege” appealing the Presiding Officer’s decision to be decided by the entire Assembly.

Example 3. Mr. Baker, a member of the NYSSCPA Executive Committee is married to a partner in a company that owns a facility under consideration to be the location for the annual leadership conference. Mr. Baker should notify the Presiding Officer before the discussion begins on where to locate the leadership conference.

Example 4. Ms. Able’s firm has as an audit client a company seeking to manage a NYSSCPA/FAE trade show. Ms. Able, who is a member of the FAE Board of Trustees and NYSSCPA Board of Directors, should notify all applicable Presiding Officers before discussion begins on whether to hire the trade show manager.

Appendix G

Law Firm Initial Information Request

August __, 2006

VIA EMAIL/PDF

PRIVILEGED AND CONFIDENTIAL
ATTORNEY-CLIENT PRIVILEGE

Organization X
Attn: General Counsel

Dear _____:

This follows our recent conversation regarding Organization X (the "Organization"). You have asked us to conduct a confidential internal review to determine whether the Organization is in compliance with the federal tax laws applicable to it. You have also asked us to review whether the Organization is governed and operated in a manner consistent with the applicable state nonprofit corporation law, as well as whether its governance and operational standards reflect "best practices" for tax-exempt organizations generally. With respect to the latter, we note that this is an evolving area that is currently undergoing review by legislators, regulators, and the nonprofit sector itself. While there is as yet no consensus as to what constitutes "best practices," we will have this objective in mind and offer observations based on our experience representing charitable organizations generally, including other corporate Organizations.

We anticipate conducting this review in a three-step process: (1) we will review relevant background documents and materials, including those listed below; (2) once we are familiar with the Organization's basic organizational and operational structure, we may wish to interview one or more of the Organization executives to discuss operational issues, as well as to follow up on questions from our document review; and (3) we will brief you and others as appropriate on the results of this process.

The following is a list of the documents that we would like to review as an initial matter:

Appendix G

1. Governing documents (articles of incorporation, bylaws); application for tax exemption and any correspondence with the IRS regarding same; any rulings requested from the IRS;

2. List of board members, including identification as to which board members are independent; list of board committees and membership on committees;

3. Internal policies and procedures, including conflict of interest policy for board and/or staff, code of ethics, whistleblower policy, etc.;

4. IRS Forms 990 and financial statements for the past three years;

5. Annual reports for the Organization for the past three years;

6. Board and board committee minutes for the past three years; board books prepared for board and board committee members in advance of meetings;

7. [Grant files for the Organization's five largest and smallest grants during the past three years];

9. Organizational chart and position descriptions for the Organization's staff (including estimate of time devoted to position if less than full-time); compensation studies during the past three years providing data to support the reasonableness of compensation paid to the Organization's officers; and

10. List of consultants engaged by the Organization during the past three years, with an indication as to whether such consultants are independent of the Organization.

_____, please give me a call if you have any questions about the scope of this project or the materials outlined above. We look forward to working with you on this matter.

Best regards.

Sincerely,

Tomer Inbar
Partner

cc: