

SIMPLE LOCAL ASSOCIATION TIPS TO ENSURE COMPLIANCE WITH SARBANES-OXLEY

Local associations are strongly encouraged to choose at least one process in each category and document it at a Board meeting in the official minutes by making an official motion. Changes can be made in the future by following the same protocol of making a motion at a Board meeting and recording in the official minutes.

1. Create documented policies and procedures for managing the local association's finances, which are approved by the Board and reviewed annually. Minutes of the Board should document the approval and/or review of any policy or procedure. A local could have their financial records audited by an outside firm on some established cycle, but this is just one way to validate internal controls and ensure oversight and may not be economically feasible for smaller organizations.

Management of Cash

- Define who will prepare the initial listing of checks for deposit.
- Obtain a check stamp and stamp the back of check with "for deposit only."
- Designate an individual who will take the deposits to the bank.
- Compare bank deposit slips to the original listing and investigate variances.
- Compare the total bank deposits on the bank statement for the month to the general ledger.

Bank Reconciliation

- Determine who will receive the unopened bank statements. Consider sending them to the chairman or president to review rather than the treasurer. Then have the chairman or president initial or sign each page documenting their review before forwarding to the treasurer. Or, at any Board meeting, review the current bank statement and document the review in the Board minutes.
- Consider having cancelled checks returned then maintain the cancelled check with proof of the corresponding expense.
- Establish a procedure for verifying the numerical sequence of checks and maintenance of voided checks.
- Define who will prepare the bank reconciliation and who will review the reconciliation comparing it to the bank balance.

Cash Disbursements

- Establish a policy defining who will be authorized to sign checks. Be sure to update the authorized signatures at the bank each year when new officers are elected.
- Consider dual signature requirements when checks are written for a significant amount. For example, checks under \$1,000 require one authorized signature, but checks written for \$1,000 or more require the treasurer's signature and the president's signature.
- Make sure checks are pre-numbered and, at least annually, inventory checks compared to bank records to ensure all checks have been accounted for. Then, officially report those findings at a Board meeting and document the report in the meeting minutes.

- Documentation should be required to support financial actions that have occurred, and each action should be aligned with the activity documented in the bank statement.
2. Adopt a conflict of interest policy and have Board members document any disclosures each year by signing a conflict of interest statement annually.

(Refer to sample/template conflict of interest policy located at <http://www.michiganpharmacists.org/mpa/locals/resources/sampleconflictofinterestladdc.pdf>)

3. Maintain a record of all official association information and provide to more than one board member. These records should include the address of bank location(s), account numbers, tax identification number, copies of annual reports and tax documents, bylaws, copy of articles of incorporation, IRS declaration forms, etc. If desired, local boards can forward copies to the Local Association Development Committee who will maintain these copies with other local records.
4. An annual financial report should be provided to the general membership

Two provisions of the Sarbanes-Oxley Act, the Whistleblower Protection and document destruction apply to all entities because they are amendments to the federal criminal code, therefore, all nonprofit organizations, including local associations, need to comply with these provisions.

Whistleblower Protection

The Sarbanes-Oxley Act provides protections for whistleblowers and imposes criminal penalties for actions taken in retaliation against those who risk their careers or volunteer positions by reporting suspected illegal activities in the organization. It is illegal for any entity, for-profit and nonprofit alike to punish the whistleblower in any manner.

Relevance to Nonprofit Organizations: Nonprofits must start by protecting themselves. They must eliminate careless and irresponsible accounting practices and benefit from an internal audit that brings attention to light weak spots and installs processes that are not vulnerable to fraud and abuse. Written policies that are vigorously enforced by executive staff and the board sends a message that misconduct is not tolerated. These policies should cover any unethical behavior within the organization, including sexual harassment.

Each organization must develop procedures for handling employee and volunteer complaints, including the establishment of a confidential and anonymous mechanism to encourage employers and volunteers to report any inappropriateness within the entity's financial management. No punishment for reporting problems – including firing, demotion, suspension, harassment, failure to consider the employee for promotion, volunteer prohibition of participation or any other kind of discrimination – is allowed. Even if the claims are unfounded, the organization may not reprimand the employee or volunteer. The law does not force the employee or volunteer to demonstrate misconduct; a reasonable belief or suspicion that fraud exists is enough to create protected status.

Recommendations: Nonprofits must develop, adopt and disclose a formal process to deal with complaints and prevent retaliation. Nonprofit leaders must take any employee or volunteer

complaints seriously, investigate the situation and fix any problems or justify why corrections are not necessary.

(Locals could simply adopt a policy and share it with membership on an annual basis.

See the model template created by LADC at

<http://www.michiganpharmacists.org/mpa/locals/resources/samplewhistleblowerpolicyladc.pdf>)

Document Destruction

The Sarbanes-Oxley Act addresses destruction of litigation-related documents. The law makes it a crime to alter, cover up, falsify or destroy any document (or persuade someone else to do so) to prevent its use in an office proceeding (e.g., federal investigation or bankruptcy proceedings). The Act turns intentional document destruction into a process that must be monitored, justified and carefully administered.

Relevance to Nonprofit Organizations: Common sense dictates that individuals, nonprofit organizations and companies regularly need to shred or otherwise dispose of unnecessary and outdated documents and files. Like their for-profit counterparts, nonprofit organizations need to maintain appropriate records of their operations. For example, financial records, significant contracts, real estate and other major transactions, employment files and fundraising obligations should be archived according to guidelines established by the organization. Because of current technology, electronic files and voicemail can become complicated, as we come to understand the relevance of the delete button as a permanent method of file removal.

Recommendations: A nonprofit organization should have a written, mandatory document retention and periodic destruction policy. Such a policy also helps limit accidental or innocent destruction. The document retention policy should include guidelines for handling electronic files and voicemail. Electronic documents and voicemail messages have the same status as paper files in litigation-related cases. The policy should also cover back-up procedures, archiving of documents and regular check-ups of the reliability of the system.

(Some of these items may not apply to a local; however, financial records should be maintained as recommended by the IRS and establish a procedure for destroying records once no longer needed.

See the model template created by LADC at

<http://www.michiganpharmacists.org/mpa/locals/resources/sampledocumentpolicyladc.pdf>)