

The Door Has Opened:

New Form 990 Creates Strategic Opportunities and Risks for Nonprofit Organizations

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Abstract

It is important to increase awareness and discussion of the strategic implications of the New Form 990, with particular attention to increased oversight and accountability for nonprofit governance—key objectives of the Internal Revenue Service in issuing the New Form 990. This article emerged from the authors' extensive experience advising nonprofit organizations in preparing for the increased transparency and scrutiny engendered by the new reporting requirements in the Form 990. We highlight here the opportunities and risks these reporting requirements pose, with our recommendations for leveraging these to the advantage of the organization.

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Introduction

A major step in transparency is unfolding in the nonprofit world. The vehicle delivering this change is the newly revised Form 990, *Return of Organization Exempt from Income Tax* (New Form 990), which nonprofit organizations will begin to file for the 2008 tax year. The impact that the increased transparency will have on nonprofit organizations has been severely underestimated. It is not sufficient for nonprofit staff and board members to simply be made aware of these changes. They must also be alert to the strategic implications of the changes and have tools to successfully manage them. If prepared, nonprofit organizations can capitalize on the opportunities created by the increased transparency. If unprepared, they may be unnecessarily subjected to potentially damaging external risks. The key to strategic use of the new reporting requirements lies in the governance practices of nonprofit organizations.

Transparency and Accountability: Three Key Documents

In the last several years, three federal government actions have effectively changed baseline expectations of transparency and accountability for nonprofit organizations. Two of these have received a great deal of attention in nonprofit associations and in publications, the third has not.

First, *The Public Company Accounting Reform and Investor Protection Act*, commonly called the *Sarbanes-Oxley Act of 2002*, significantly expanded reporting and accountability requirements for public corporations (House of Representatives, 2002). Although only two of these requirements apply directly to nonprofit organizations (whistleblower protection and document retention and destruction), the entire statute and the discussion that accompanied its passage greatly increased scrutiny of nonprofit operations, expenditures, and reporting. In some

cases, individual states have gone beyond the federal statute to apply additional accounting and reporting requirements to nonprofits (Mulligan, 2007).

Second, after extensive public comment and discussion, the Internal Revenue Service promulgated the New Form 990. For the most part, the revised form continues to be an information reporting document, albeit with a very significant difference. The primary intended audience is no longer the IRS but the general public and more specifically, the donor public (Internal Revenue Service, 2009, January 7b). The format has been thoroughly revised to present, up front, that information mostly likely to be of greatest interest to potential donors: organizational mission, organizational governance, and comparative financials. It must be expected that when these reports are posted for public view, as they must be, they will receive much broader interest than before. Thus, nonprofit board and staff members must be prepared to address the wave of inquiries from numerous parties in relation to the governance, operations, and financial performance of their organizations. The following overview highlights the strategic governance related revisions made to the Form 990. For a complete listing of the Form 990 changes made related to policies, procedures and practices refer to Grant Thornton's *Not-for-Profit Governance and Transparency in the Spotlight* (n.d.).

Governance related changes in the New Form 990 appear in the reordering of the requirements, new questions, increased consistency of disclosure, and an overall improvement in user understandability (Internal Revenue Service, 2009, January 7a). The new Part I Summary includes two key subsections, placed front and center for inquiring donors. Included in the "Activities and Governance" subsection are questions highlighting the nonprofit organization's mission (also in Part III), the number of voting members (also in Part VI), and the number of independent voting members (also in Part VI). Included in the "Comparative Financial

Summary” is a year-to-year comparison of revenues, expenses, and net assets. The bottom of the front page includes the “Signature Block,” making it crystal clear who is assuming responsibility for the accuracy and integrity of the report.

Part VI is a new section of the New Form 990 entirely dedicated to governance increasing the focus on governance both in substance and in form. It includes three Sections: A. Governing Body and Management, B. Policies, and C. Disclosure.

Finally, the Financial Statements and Reporting questions included in Part XI drives home a reminder to nonprofit boards that they are ultimately responsible for the accuracy of the nonprofit organization’s financial reporting. Specifically, they are asked whether the financial statements are compiled, reviewed, or audited by an independent accountant. This section also includes a line of questioning related to assignment of the auditing committee, oversight of the audit, and the selection of the independent accountant.

The third key document has received little public commentary, yet it plays a fundamental role in translating expectations of public accountability and transparency into reality. Posted as an educational tool for the first time in 2004, the IRS’s *Life Cycle of an Exempt Organization* provides guidance for nonprofit organizations in all its interactions with the IRS during its existence. Buried within the “Starting Out” section of the document is an eight-page set of principles and requirements entitled, “Governance and Related Topics.” Here the IRS presents six topics of crucial relevance to the new disclosure and transparency requirements embodied in the New Form 990: Mission, Organizational Documents, Governing Body, Governance & Management Policies, Financial Statements & Form 990 Reporting, and Transparency & Accountability. This section of *Life Cycle* was updated in parallel to the final governance related revisions which were made to the New Form 990 and is intended to be used in conjunction with

the New Form 990 for guidance on governance practice (Internal Revenue Service, 2009, January 5). To reinforce this point, *Life Cycle* references where each of the six governance topics is included in the New Form 990.

Although the IRS is not the authoritative body responsible for determining what constitutes good governance for nonprofit organizations, the New Form 990 is clearly positioned to encourage good governance practice. In part, this use of the Form 990 is justified in the interest of increasing “the likelihood that organizations will comply with tax law, protect their charitable assets and, thereby, best serve their charitable beneficiaries” (Internal Revenue Service, 2008, December 23). Nonprofit board members and staff leadership are advised to consider the strategic implications of these changes in reporting before their information on the New Form 990 is made available to the public. At a minimum, a strategic approach will prepare board members for potential inquiries. A strategic review may also alter how the organization chooses to respond to the governance related inquiries and/or requirements in the New Form 990. Most importantly, a strategic review may ultimately lead nonprofit organizations to improve their governance practice.

Six Strategic Implications, Opportunities, and Risks

The governance related revisions have transformed the Form 990 from merely a tax exemption compliance form into an informative report to potential donors. It is the responsibility of nonprofit board members and staffs to ensure that this informative report positions their respective organizations in a positive light when their New Form 990 reports are posted. In our analysis, the Governance and Related Topics section of *Life Cycle* serves as the roadmap for the strategic analysis of the New Form 990, focusing on the strategic implications of the New Form

990 and the related opportunities and risks that nonprofit organizations should consider. A step-by-step tactical review of the New Form 990 would diminish the strategic importance of the changes.

1. Mission

The inclusion of an organization's mission in the Form 990 is not new. What *is* new is the shift in terminology from the legalese "primary exempt purpose" in the old form (obscurely located only on page 3 under the "Statement of Program Service Accomplishments"), to the new terminology and prominent on page one of the New Form 990. The board should recognize the relative importance of the page one position, which allows any reader to immediately understand why the organization exists. In addition, the use of the term "mission" implies an increased expectation of professional standards. The increased visibility places greater emphasis on the mission for decision making and invites comparisons to the missions of similar or competing organizations. It may be beneficial to research the mission statements of competing organizations and be prepared to speak to the differences. The opportunity presented by this change is that nonprofit organizations can better leverage their mission statements, both for internal communication and guidance as well as external marketing and public relations. Hence, the mission should be evaluated in terms of its effectiveness from these varying perspectives.

At the same time, the increased visibility poses a risk to nonprofits if the mission is outdated and/or misrepresents the current organizational goals and objectives. At a minimum, each board should review its organization's mission to ensure that it is representative of current operations, is written in language that is clearly understood, and presents the organization in a positive light. The *Life Cycle* states that, "The Internal Revenue Service encourages charities to

establish and review regularly the organization's mission" (Internal Revenue Service, 2008, February 4). The document further states, in a section entitled "1. Mission," that a mission answers three questions:

- why the charity exists
- what it hopes to accomplish
- what activities it will undertake, where, and for whom

2. Organizational Changes

Nonprofit organizations are clearly held accountable for updating and communicating changes to their organizational documents, ensuring that the documents are representative of current activities for which they receive exemption. Although the old Form 990 asked about organizational changes in the "Other Information" section, the New Form 990 places this question in the newly created Part VI. The IRS is clearly signaling to donors whether or not a fundamental change has occurred in the organization's governance (Form 990, Part VI). At the same time, this accented feature of reporting reminds filers of their accountability to their exempt purpose as it appears in their documentation for exemption.

This reporting requirement provides an opportunity to update governance documentation, which is ultimately in the best interest of the organization. More importantly, it highlights the risk involved in improper documentation. Improper maintenance of the organizational documents could result in the loss of tax exempt status. The board should insist upon an annual internal review of organizational documents from the administration including the issuance of an internal report that details the review process as well as the findings.

3. Governing Board

According to the IRS *Life Cycle*, “The Internal Revenue Service encourages an active and engaged board,” elaborating further that “Governing boards should be...persons who are informed and active in overseeing...operations and finances.” (Internal Revenue Service, 2008, February 4, in “3. Governing Body”). In response to these very pointed and descriptive expectations provided in *Life Cycle*, the New Form 990 has increased the number and specificity of the questions regarding board independence and oversight of management. “Organizations that file Form 990 will find that Part VI, Section A, Lines 1, 2, 3, and 7 ask questions about the governing board” (Internal Revenue Service, 2008, February 4, in “3. Governing Body”). These changes by the IRS have essentially increased the public’s expectation of nonprofit boards with emphasis on transparency and accountability. All of the new questions are designed to reveal if the governing board is active and whether or not it is independent from outside influences.

The 2007 Form 990 asked for the total number of officers, directors, and trustees permitted to vote on organization business at board meetings” (Internal Revenue Service, n.d.b). The New Form 990, Line 1, breaks down the inquiry into two questions in order to provide better transparency into the board, asking for “the number of voting members of the governing body” and later for “the number of voting members that are independent” (Internal Revenue Service, n.d.c) . Thus, Line 1b implicitly invokes the three criteria for independence stated in the instructions for this section (Internal Revenue Service, n.d.a), that directors meet the following criteria:

- They are “not compensated as an officer or other employee.”
- They “did not receive total compensation or other payments exceeding \$10,000.”
- They have no financial transactions with the organization.

Line 2 asks about family and business relationships, using language more specific than appeared in the 2007 Form 990.

Line 3 asks if the board has delegated control of management, potentially a dangerously revealing question. If the board has delegated control of management, it must be prepared to clearly state why and how this does not put the organization in a compromised position.

Line 7a asks if “the organization [has] members, stockholders, or other persons who may elect one or more members of the governing body” (Internal Revenue Service, n.d.c); and Line 7a asks if decisions of the board are subject to member approval. This change makes the organization’s governance and control over operations explicit.

These new questions reinforce a standard of independence and clarity in governance. If the nonprofit organization does not meet these expectations, steps to meet these independence requirements should be taken. This may be difficult for organizations in smaller communities, but the effort in itself is beneficial in reminding directors that the expectations of independence should be met in all deliberations and actions even if they cannot be met completely in the overlapping relationships of the community.

As previously mentioned, the questions align precisely with *Life Cycle*, which suggests that the governing board should be involved “informed and active” in both finances and operations (Internal Revenue Service, 2008, February 4). Board members being “informed and active” in finances is a challenge but should be attainable through the proper utilization of the finance and audit committees. The greater challenge is to be “informed and active” in operations. It is our opinion that to truly practice good governance, the board must have a clear understanding of the organization’s operations and have confidence that controls are in place and properly followed. The increased transparency created by the New Form 990 will make this

information (financial and operational) clear and therefore will be used by donors and contractors when making decisions. Board members may be asked about the finances and operations of their organization, and to reply intelligently they need to understand its finances and operations. This is an opportunity for board members to develop a better understanding of the organization's operations and controls. This will result in increased clarity of responsibilities and accountability for both the board as well as the administration, with the associated risk that increased board accountability will magnify inactive boards. Board members could be subject to criticism or worse if governance issues arise. The following self assessment steps are recommended to establish where the board currently sits along the "informed and active" continuum. *First*, a systematic internal review of each board member should be performed to ensure independence. *Second*, the board should develop a complete list of responsibilities and the related activities for which the board assumes ownership. *Third*, the board should assess whether or not its members have a good understanding of the organization's finances, operations and related controls. These steps will establish a baseline from which further analysis will be performed.

4. Governance and Management Policies

Although the IRS *Life Cycle* is clear that the "Internal Revenue Code does not require...governance and management policies," the IRS *Life Cycle* makes it equally clear that the IRS will utilize the New Form 990 "to determine whether the organization has implemented policies relating to executive compensation, conflicts of interest, investments, fundraising, documenting governance decisions, document retention and destruction and whistleblower claims" (Internal Revenue Service, 2008, February 4, in "4. Governance and Management

Policies”). By stating that it will use the Form 990 to determine if these seven governance and management policies have been implemented, one can infer that the IRS intends to use the answers to the related questions to determine candidates for future audit.

The opportunity here is that the IRS has provided a template of minimum expectations that should be met. Meeting these expectations provides donors and stakeholders with a standard level of assurance to move forward with potential contributions. The risk that this standard creates is that the nonprofit organizations answering “no” to these minimum expectations create an atmosphere of doubt that may result in contributions moving to another organization.

A complete review of existing governance and management policies should be developed, including a comparison of policies to the minimum (implied) requirements set by the New Form 990. Policy gaps should be documented and addressed, with the understanding that policies which are not documented are of minimal value. In addition to written documentation, all policies should be accompanied with detailed procedures to ensure understanding and awareness. A review process for policies and procedures should be incorporated into each annual plan. Finally, all policies and procedures should be disseminated throughout the nonprofit organization (administration, staff and board) each year.

Of the seven governance and management policies identified by the IRS, we give greatest attention here to executive compensation and conflict of interest, both of which are subject to a wide range of strategic implications. In contrast, investments, fundraising, and the documentation of governance decisions are more objective and can be addressed from a technical versus strategic approach. As for document retention and destruction and whistleblower claims, each has been thoroughly discussed over the past few years due to the significant attention created by Sarbanes-Oxley.

Executive compensation

The *Life Cycle* makes it clear that the “Internal Revenue Code does not require charities to follow a particular process in determining the amount of compensation to pay...[but it] should be determined by persons who are knowledgeable in compensation matters and have no financial interest in the determination” (Internal Revenue Service, 2008, February 4, in “4. Governance and Management Policies”). *Life Cycle* points to Part VI, Section B, Line 15 of the New Form 990, which asks whether or not the determination of executive compensation includes the following three criteria: “review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision” (Internal Revenue Service, n.d.c).

The questions as to whether the three criteria were included when determining compensation clearly puts the nonprofit organization in a defensive position of having to answer whether it follows good governance practice when determining executive compensation. While, per the instructions, it is clear that organizations are not required to follow the procedure as described, it certainly puts the nonprofit organization that does not follow the criteria on call for questions and inquiries. If the three criteria are met, the process/procedure must be documented in Schedule O.

Executive compensation reporting is also found in Part VII, which is entirely dedicated to compensation. According to Grant Thornton’s sixth annual survey of nonprofit governance, “results show that 71% of boards or appropriate board committees are meeting once a year to discuss executive management’s compensation and benefits” (Grant Thornton, 2008, p.1). This level of discussion is encouraging, but more than discussion is required. Due to the complexities of reporting and the related disclosure of sensitive data, it is recommended that a detailed review

is performed by an independent accountant (CPA) to ensure accuracy and protect board members and key employees. Prior to meeting with a CPA, it is recommended that the nonprofit organization board members be made aware of the basic disclosure requirements. One tool that can assist in this process is the use of a “decision tree” (Tate, 2008). The “decision tree” is a top-down visual representation which simplifies the process of determining which individuals will require disclosure.

It is clear that the disclosure requirements (discussed above) require a level of expertise to ensure accuracy. But it is also clear that three criteria suggested for determination of compensation are quite simple and would be considered by most as basic business practice. Thus, while the upside of adhering to these practices may be limited, the downside could be significant. In the event that compensation issues were to arise, the nonprofit organization can point to the fact that recommended procedures were followed. This could make a difficult public relations event easier to manage. The nonprofit organization that chooses not to follow such common sense procedures risks public criticism and may create doubt in terms of its governance practices.

In addition, if compensation issues were to arise from within the organization, the board and management staff would be in a less defensible position. Executive compensation policies and procedures should be developed and followed when determining executive compensation for both existing and newly hired employees. The three criteria included in the Form 990 should be included in the policies and reviewed closely.

Executive compensation is an area that the IRS has clearly bolstered from the prior Form 990. In fact, in the *Life Cycle* document the IRS states that it has “observed significant errors or omissions in the reporting of executive compensation.” *Life Cycle* goes on to state, “Executive

compensation continues to be a focus point in our examination program” (Internal Revenue Service, 2008, February 4, in “4. Governance and Management Policies”). These pointed comments in the *Life Cycle* document and the extent of documentation in the New Form 990 reflect high profile public scrutiny of nonprofit compensation levels, and boards should closely review their compensation policies (ensuring that the three criteria provided by the IRS are incorporated) and procedures with the expectation that they will be questioned. If no policies exist to define how compensation is set, clear notice is being given that they should.

Conflicts of interest

As stated in the *Life Cycle* (Internal Revenue Service, 2008, February 4, in “4. Governance and Management Policies”), “The IRS encourages a charity’s board of directors to adopt and regularly evaluate a written conflict of interest policy...” In addition, the *Life Cycle* recommends written procedures for determining if a conflict of interest exists and the necessary course of action to take if a conflict of interest has been identified. Further reference is made to IRS Form 1023 as a suggested sample conflict of interest policy. *Life Cycle* points out that the Form 990 “...Part VI, Section B, Line 12 asks whether an organization has a written conflict of interest policy, and whether it regularly and consistently monitors and enforces compliance with the policy.”

Line 12a asks “Does the organization have a written conflict of interest policy” (Internal Revenue Service, n.d.c). Although the old Form 990 also asked this question, the New Form 990 once again steps up the level of inquiry with two additional questions related to monitoring and enforcement:

- 12b. “Are officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?”
- 12c . “Does the organization regularly and consistently monitor and enforce compliance with the policy?”

The IRS is making it clear that a policy alone does not guarantee good governance, without regular monitoring and enforcement. Policies and procedures, with regular monitoring and enforcement, create an opportunity to significantly reduce or eliminate potentially damaging conflict of interest events. Not incorporating such procedures subjects the nonprofit organization to unnecessary avoidable risks. Review the existing policy and related procedures. Incorporate a conflict of interest review for all board members and staff annually.

5. Financial Reporting

The IRS *Life Cycle* could not be clearer in placing responsibility for accurate financial reporting directly on nonprofit boards, “Directors are stewards of a charity’s financial and other resources. The IRS encourages the board... to ensure... funds are appropriately accounted for by regularly receiving and reviewing up-to-date financial statements and any auditor’s letters or finance and audit committee reports” (Internal Revenue Service, 2008, February 4, in “5. Financial Statements and Form 990 Reporting”). The *Life Cycle* directs attention to the New Form 990, Part XI, Line 2a, b, and c (Internal Revenue Service, n.d.c), which ask:

- “Were the organization’s financial statements are compiled or reviewed by an independent accountant?”
- “Were the organization’s financial statements audited...?”

- “If yes...does the organization have a committee that assumes responsibility for oversight...?”

Consistent with the *Life Cycle*, New Form 990, Part VI, Section A, Line 10 asks whether a copy of the Form 990 was given to the governing board before it was filed. The organization must describe its procedure for review in Schedule O (Internal Revenue Service, n.d.c).

According to the Grant Thornton survey, “Only 45 percent of respondents say their organizations have established a policy for board members to review their Form 990” (2008, p. 9). However, from this point forward, public perception will assume that the board reviews and approves financial documents. This gives boards an opportunity for increased involvement and understanding of financial information, exactly the kind of public oversight assumed in the corporation’s tax exemption.

The perception that a board that has delegated its oversight responsibility entirely to management can erode public confidence and increase the opportunity for malfeasance. Board members should have a solid understanding of the financial statements as well as Form 990. A policy should be developed that requires a quarterly review of the financial statements, leading to the annual review of the Form 990, and be completed prior to Form 990 submission. In addition, board members should consider signing the Form 990. A signature by the board would be a powerful public statement.

Potentially the most significant change introduced in the New Form 990 is the addition of comparative financial information included in Part I, which appears on the front page of the form. Providing a year-to-year comparison is transformational and moves nonprofit reporting conceptually further towards the requirements of a publicly traded company. Year-to-year comparative information greatly increases reader insight into the performance of the organization

and will generate significant external discussion about the performance of a nonprofit organization. Board members should expect an increase in inquiry, including a more informed line of questioning. Board members should have a solid understanding of the annual financial changes and the key drivers of these changes, as well as the overall financial position of the organization. Responses to potential questions should be developed in advance and be prepared by individuals with the necessary financial and operational expertise. Board members should be properly briefed on the responses and guidelines should be developed to ensure consistency and accuracy of external reporting.

6. Transparency and Accountability

As the *Life Cycle* clearly states, the IRS encourages every charity to adopt and monitor procedures to ensure that its Form 990, annual reports, and financial statements, “are complete and accurate, are posted on its public website, and are made available to the public upon request” (Internal Revenue Service, 2008, February 4, in “6. Transparency and Accountability”). The fact that the Form 990, in its previous format, has historically been made available for external public review is not at all comparable to the New Form 990 with its revised reporting format, increased transparency on governance, and accentuated year-to-year comparative format for finances. With each increase in transparency will come a corresponding increase of inquiry, which will be require an increased number of external communications. Each communication creates risk for the nonprofit organization if information is either reported in error or, equally, misinterpreted in response to inquiries.

Conclusion and Recommendations

In light of the preceding discussion, we offer several recommendations, with the caveat that these recommendations should not be considered exhaustive. The intention is rather to initiate discussion among board members and their organization's administrators.

Immediate Term. A board meeting should take place that includes legal and financial representation. While the New Form 990 may appear to be a Finance Committee matter, it clearly is much more than that. The New Form 990 is a "strategic" concern that the entire board should understand. Prior to the board meeting each member should be provided a draft copy of the New Form 990. Agenda items may include:

- Review New Form 990 (including identification of internal and external stakeholders).
- Develop a comprehensive list of current governance practices (policies and procedures).
- Develop a list of critical governance practices that are not currently in existence (the New Form 990 and Life Cycle documents are an excellent starting point).

Near Term. After the initial board meeting, an operational review should be performed. The purpose is less for evaluation than to develop a basic understanding of the operations of the organization. The agenda should include:

- Review a listing of employees and summary of primary responsibilities.
- Use a strategy mapping process to ensure that the operational review is completed in the context of the overall organization strategy (Kaplan and Norton, 2000).
- Create and review responses to crucial questions on the Form 990, with particular attention to items that may put the organization's credibility at risk.
- Develop a communications strategy for responding to inquiries, including delegation of spokesperson responsibilities.

In addition to internal discussion, it is highly recommended that the board seek external expertise. At a minimum, financial (CPA) and legal representation should be included the process. It is also advisable to seek individuals with public relations expertise, if such expertise is not currently within the organization.

Table 1

Overview of Strategic Implications: Opportunities, Risks, and Recommendations

Overview of Revision	Strategic Implications	Opportunities and Risks	Recommendation to the Board
Mission	Increased visibility for the reader. Greater emphasis on the mission for decision making.	Opportunity – Leverage the mission as an external communication tool. Risk – Outdated mission.	Review mission to ensure that it is current and easily understood.
Organizational Documents	Emphasis on proper documentation. Increased emphasis on governance expectations.	Opportunity – The IRS provides an annual reminder. Risk – Loss of tax exempt status.	Insist upon an annual internal review of organizational documents.
Governing Body (Board)	Increasing expectations of nonprofit boards with emphasis on transparency and accountability.	Opportunity – Develop a better understanding of the organization’s operations and controls. Risk – Inactive boards are exposed.	Ensure that the board has a good understanding of finances, operations, and controls.
Governance & Management Policies	Use of the Form 990 to determine if governance and management policies have been implemented.	Opportunity – The IRS has provided a “standard.” Risk – Not meeting the “standard” creates atmosphere of doubt.	Review existing governance and management policies.
Governance & Management Policies <i>Executive Compensation</i>	Three criteria of appropriate compensation: <ul style="list-style-type: none"> • review and approval by independent persons • comparability data • documentation of decisions. Executive compensation is a focus in examinations.	Opportunity – Following the criteria creates a defensible position. Risk – Not following the criteria leaves themselves open to criticism and questions of governance practices.	Develop and follow policies and procedures for determining executive compensation.
Governance & Management Policies <i>Conflict of Interest</i>	Increased level of inquiry on monitoring and enforcement. Policy alone does not suggest good governance.	Opportunity – To significantly reduce or eliminate potentially damaging conflict of interest events. Risk – Conflict of interest issues which may have been avoided arise.	Incorporate a conflict of interest review for all board members and staff annually.
Financial Statements and	The board is clearly responsible for proper	Opportunity – Increase board involvement and its level of	Board members should have a solid understanding of the financial

Form 990 Reporting	reporting.	understanding of financial information. Risk – Board that has delegated responsibility erodes public confidence.	statements as well as the Form 990. A review process should be incorporated into year-end procedures.
Financial Statements and Form 990 Reporting <i>Comparative Financials</i>	Year-to-year comparative information greatly increases reader insight into the performance of the organization. Board members should expect an increase in inquiry, including a more informed line of questioning.	Opportunity – Comparative financial information generates external discussion. Well run organizations will benefit from the increased public exposure. Risks – Board members that are not well versed on performance and related drivers.	In addition to the annual 990 review, the board should develop and conduct a quarterly financial and operational review. A quarterly review is both a good control measure as well as an ongoing educational process.
Financial Statements and Form 990 Reporting <i>Reformatting and development of consistent schedules</i>	The reformatting of the Form 990 creates an overall consistency that did not exist before. This consistency increases the likelihood of comparisons to other nonprofit organizations.	Opportunity – Well run organizations can leverage their performance by making direct comparisons to competing organizations. Risk – Poorly run organizations will be exposed.	Comparative information should be gathered on both similar and dissimilar nonprofit organizations that draw upon the same list of potential donors.
Transparency and Accountability	Expanded governance and financial reporting are now posted for public review.	Opportunity – Well run organization’s operations will be clearly presented. Risk – Weaknesses are exposed in public view.	Board should be educated on current status of governance, finances, and operations. A long term plan should be developed and implemented to ensure on-going oversight and improvement.

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