
STAPLES
Sunday
Monday

In the spring of 2005, the Dallas professional association affiliate of Commercial Real Estate Women (CREW) was enjoying tremendous success. Our organization, established 25 years ago, had gained visibility and stature in the Dallas community. Our membership had grown to 300, and our separate charitable arm, CREW Classic, had donated more than $2 million to local charities.

CREW Dallas is one of 60 separately incorporated members of CREW Network, a national federation in Lawrence, Kansas, that works to advance women in the commercial real estate industry. At CREW Dallas, everything was great—until the IRS came calling.

The Internal Revenue Service notified us by letter in the spring of 2005 that they would be performing a compliance audit for both our 501(c)(6) professional association and our 501(c)(3) charitable organization. What could have been a nightmare turned into a unique opportunity to transform much of our organization.

After surviving this experience, we decided to share our tale with other association executives to help them understand the audit process and the administrative and governance responsibilities required of a nonprofit organization.

Are You Audit Ready?

You've heard the joke about the IRS agent who tells the association executive, "I'm from the government, and I'm here to help." Well, in this case, the agent actually did.

By Elizabeth E. Solender

The Letter's in the Mail

We received the audit notification in a roundabout way, this in itself demonstrating the accounting and recordkeeping issues we had to face. The IRS mailed the initial letter to a previous address still on file with the Texas Secretary of State's office. We didn't receive it.

So the IRS sent a second letter to the office of a former part-time administrator. She forwarded it to the national office, which sent it back to the current part-time administrator's office. Three months passed before Michelle Wheeler, our current volunteer treasurer and chief financial officer of Jackson-Shaw Company in Dallas, received the letter. She opened it during a board meeting, which caused quite a furor.

Wheeler, who is a CPA, immediately called the IRS, apologized for the delay in responding, and set an appointment to meet the agent. The letter included a detailed list of requested documents. The agent requested hard-copy documents of all organization calendars, newsletters, membership directories, committee members, boards of directors, association sponsors, donors to CREW Classic, board meeting minutes, bylaws, and financial records.

To prepare for the meeting, our board members and the national office began gathering documents. Locating these documents proved difficult for four reasons:

- Our chapter did not have a central filing location.
- Our chapter's calendar and newsletters appeared on the organization's Web site; we did not keep paper copies.
- The national CREW office had assumed our accounting responsibilities and was sharing the administrative responsibilities for the chapter with a local part-time administrator. We had sent several boxes of financial information and other chapter materials to the national office, which we now had to get back.
- Our chapter's legal counsel changed annually among attorneys serving on the board. No individual was responsible for current amendments, bylaws information, or for serving as a registered agent.

What Happened to Our Return from 1999?

Given these challenges, Wheeler, with the help of the administrators in Dallas and staff at the national office, spent a month tracking down documents in volunteer files, various boxes, and Web site archives. In September, Wheeler met with the IRS agent, personally delivering four file boxes of materials for the IRS.

We received a letter several months later that included an "explanation of items" document indicating where our organization needed to improve. We learned that no tax returns had been filed for 1999, and a return for another year had been filed without an officer's signature. How could this happen?

A number of things contributed to the oversights, primarily the fact that our financial-reporting formats and information varied from year to year. Some years, our board of directors included an accountant, who served as treasurer. Other years, we did not have anyone on the board with an accounting background. For four years, one of the national accounting firms filed our

FREE RESOURCES FOR ASSOCIATION AUDIT COMMITTEES

By Diane Babuin

"Today, associations and not-for-profit organizations come under scrutiny similar to public companies," says John F. Morrow, vice president, American Institute of Certified Public Accountants (AICPA), New York City. "Therefore, it's vitally important that these organizations have a strong audit committee in place, functioning at the highest level of efficiency. A financial-reporting scandal is not just about a potential loss of public confidence; it can also leave an organization unable to fulfill its mission."

That's why the AICPA created the Audit Committee Effectiveness Center within its Web site at www.aicpa.org/audcommctr. At this site, you will find The *AICPA Audit Committee Toolkit: Not-for-Profit Organizations,* which includes checklists, model policies, sample letters, reports, and other resources. You can obtain a printed version for a nominal fee or a free download at www.aicpa.org/audcommctr/toolkitsnpo/homepage.htm. The download is available in Microsoft Word format, and you can customize the tools for internal use.

"This is an excellent set of tools for the nonprofit-sector audit committee," says Richard F. Sample, audit committee chair for Alternatives, Inc., Raritan, New Jersey, which provides services and support to developmentally handicapped individuals. "This has been particularly useful to us as we are a nascent committee, and the tools have given us a roadmap and a usable guide that cut our workload significantly."

To help you in the search for talent and expertise on your audit committee, the AICPA also offers an Audit Committee Matching System at www.aicpa.org/info/committees/index.asp. You can use this free online resource to find CPA candidates to serve on your board of directors and audit committee. This tool facilitates a match between the skills of a candidate and the needs of your own organization.

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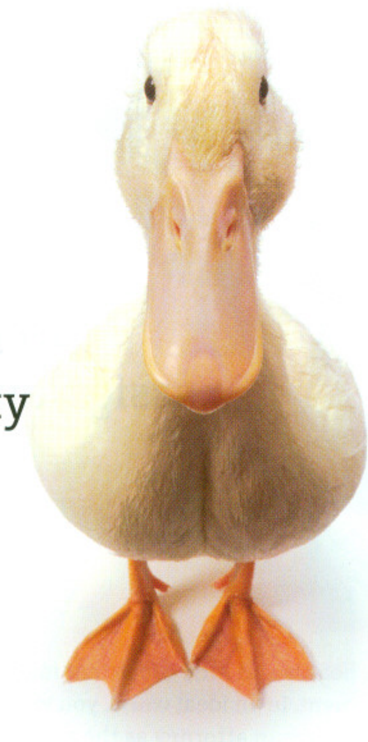

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tax returns pro bono. Even then the firm relied on the accuracy of the information provided, and the returns were unaudited and unreviewed.

In addition, the IRS agent found it difficult to distinguish between the professional association and the charitable organization because of significant commingling in their calendars, newsletters, sponsorships, donations, and even in their board members. For example, the association and charity sometimes solicited sponsorships and donations in the same documents.

Another red flag signaled problems: Other than handwritten thank-you notes, no letters were sent acknowledging donations or the value of the donations to donors.

From Transgressions to Transformations

Although the audit process was time consuming and more than a little scary, we were lucky. The IRS chose not to penalize either organization. Ultimately, we used the process as a valuable learning experience and a unique opportunity to transform our recordkeeping, administration, and boards.

We now have a new registered agent who serves as general counsel and has agreed to archive all official documents. A certified public accountant is acting as the treasurer for the next two years and will oversee the tax returns. Our professional association and charity now have separate boards. We have also hired a full-time executive director to oversee chapter administration and compliance. The new executive director also takes the minutes, which include an attendance record, the date and time the meeting starts, and the meeting agenda. Minutes are not detailed and offer very little narrative.

Based on the lessons we learned, we offer this advice to other association executives:

Designate someone to keep official records. Many association chapters of national organizations have rotating

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boards and little consistent management. In an ideal world, you would designate an attorney as the registered agent for all notices and as corporate counsel. This person needs to archive most official documents for up to three years.

Obtain consistent accounting services. Rotating volunteer treasurers with different accounting methods can yield inconsistent bookkeeping. If it is financially possible, hire outside accountants. Appoint a financial or audit committee to review the organization's finances and tax returns. Include one financial expert, who should chair the committee, and two or three other individuals who can read financial statements. Depending on the size of your organization,

WHAT'S ON YOUR DOCUMENT-RETENTION LIST?

If your association does not already have a document-retention list, now is the time to develop one. The National Council of Nonprofit Associations, Washington, DC, recommends keeping bank statements and general correspondence for a minimum of three years. Minutes, bylaws, and the charter should be retained permanently.

Include the following in your retention program:

- Charter, bylaws, and all amendments;
- Tax-exemption letter;
- Name of registered agent for the Secretary of State;
- Tax returns and worksheets for Form 990;
- Accounts payable and check copies;
- Audit reports;
- All correspondence with the IRS;
- Organization's official annual calendar of all events;
- Newsletters;
- Membership directory;
- Membership applications and reports;
- Board of directors, including contact information;
- Minutes of board meetings;
- Sponsor or donor lists;
- Sponsorship-solicitation letters; and
- Sponsorship-acknowledgement letters.

assign an accountant to audit or review all financial information.

Keep complete and accurate minutes. Taking the minutes at a board meeting is not an appreciated responsibility. Yet minutes that document board actions are extremely important.

File the tax return (Form 990). Some organization's volunteers fail to file because they assume that nonprofit organizations do not have to file tax returns. With few exceptions (tax-exempt organizations with gross annual receipts of less than $25,000, churches, and certain religious, state, and local instrumentalities), these volunteers would be wrong.

If your organization does not hire an accountant to file tax returns, include the filing deadlines for state and national returns on your board's calendar. The IRS maintains a Web site (www.irs.gov) that lists filing requirements and links to state sites.

Differentiate between related organizations. Make the differences between your 501(c)(6) trade association and your 501(c)(3) charitable organization very clear. Each board should operate separately, with its own meetings, minutes, newsletters, accounting, and invoices.

When related organizations share members, a board of directors, and administrative services, it can be difficult to discern their differences. Keep in mind that the trade association can provide administrative services to the charity; however, the charity must operate exclusively for its charitable purposes and cannot provide goods or services to the association.

Properly acknowledge sponsors. Professional associations often rely on sponsors to provide funds to underwrite programs and services for their members. Carefully review what benefits sponsors are given in return.

Displaying the sponsor's name and logo is not considered a substantial benefit. However, displaying product information, addresses, phone numbers, price lists, and Web sites is considered advertising. Funds from sponsors receiving these benefits can be subject to unrelated business income taxes.

Is an Audit in Your Future?

All nonprofit organizations are required to file tax returns, but most have never been audited. We were the exception, but that could be changing.

The Bureau of National Affairs reports that since July 2004, the IRS has contacted more than 1,800 nonprofit organizations, initiating either examinations or compliance checks to gather more information. An IRS representative reported in May that this has resulted in 1,225 compliance checks and 600 examinations.

During a compliance audit, the IRS verifies that an organization is adhering to recordkeeping and reporting requirements. Examinations are more detailed. Failure to correct deficiencies can result in an organization receiving monetary penalties and/or losing its tax-exempt status, as well as being subject to additional audits.

By sharing our experience, we hope we've encouraged association leaders to remain vigilant about their recordkeeping, administration, and governance responsibilities. Of course, to ensure proper compliance, it's always a good idea to obtain the advice of a professional accountant or tax specialist—just in case the IRS decides to pay you a visit, too. an

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