

National Survey Finds Awareness of Sarbanes-Oxley Among Not-for-Profits Surges

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Awareness of the Sarbanes-Oxley Act of 2002 had surged in the not-for-profit industry over the past year. According to the second annual Grant Thornton Board Governance Survey for Not-for-Profit Organizations, 83 percent of survey respondents say they are "very" or "somewhat" familiar with the act, compared to 56 percent in the 2003.

The survey, which includes responses from more than 700 not-for-profit entities, also found that these organizations are not only aware of the act, but many are also taking action because of it. Almost half (48 percent) of survey respondents have made changes to their corporate governance policies as a result of Sarbanes-Oxley.

"This increased awareness and action is, no doubt, the result of board members, governmental entities and other constituencies requiring enhancements in governance, operational and fiscal matters." says Frank Kurre, managing partner of Grant Thornton's National not-for-profit practice.

The number of not-for-profit organizations with an audit committee is also on the rise; 84 percent of survey respondents cite having an audit committee within their organization, compared to 77 percent in 2003.

The makeup of the audit committee is coming under review in the not-for-profit community, as well. While not-for-profit organizations are not currently required to have a financial expert serve on the audit committee, 82 percent say their audit committee does include some sort of financial expert.

"While many not-for-profits previously included professionals with some financial expertise as members of the audit committee, now, more than ever, organizations are striving to incorporate accountants, bankers and other professionals with solid financial experience into their audit committees," says Kurre.

Only 15 percent of survey respondents, however, report making any changes to the makeup of their audit committee post-Sarbanes-Oxley.

Regarding their relationships with their external auditors:

- Forty-six percent have put their audit engagement out to bid within the past two years.
- The majority (54 percent) meet with their external auditor only once a year and 38 percent say they meet with their auditor two or more times a year.

The chief executive officer or chief financial officer still selects the auditor at 36 percent of organizations. The audit committee or board of directors selects the auditor at 30 percent and 26 percent, respectively, of not-for profit organizations surveyed.

Internal controls have come under higher scrutiny post-Sarbanes-Oxley at 81 percent of responding organizations. Of the 19 percent who have not evaluated their internal controls, 61 percent are planning to review them in the future.

Not-for profit organizations are confident about the level of documentation that maintain for their internal controls. One-third (32 percent) of respondents say they maintain a high level of documentation and 51 percent a medium level. Almost two out of 10 (17 percent) cite a low or no level documentation.

"Internal controls are an integral checks-and-balances structure for all businesses, non-profit and for-profit, alike," says Kurre. "Organizations that have not put adequate controls in place or have not yet closely reviewed established controls in light of the provisions of Sarbanes-Oxley are leaving a door open for corporate governance risks to impact their organizations."

Whistle-blower policies are beginning to be adopted by the not-for-profit community; 26 percent of responding organizations have a whistle-blower policy in place. And, while 42 percent of those without a whistle-blower policy are considering one - an increase from only 21 percent in 2003 - 58 percent are not presently considering such a policy.

"Whistle-blower policies allow not-for-profit organizations to learn about potential fraud regarding internal controls and financial reporting," says Kurre. "By putting a whistle-blower policy in place, organizations can mitigate risks that could ruin their good name and reputation within the not-for-profit community and the general public."

Other findings include:

- Conflict-of-interest policies seem to be standard operating procedure at 83 percent of organizations surveyed.
- Of those with a conflict-of-interest policy, 85 percent have their board members sign it, 49 percent have executive management sign, and 39 percent have all employees sign the policy.
- More than three-quarters (76 percent) of responding not-for-profits have a records-retention policy. The number of those currently without a policy that are now considering one has increased significantly from last year: 69 percent in 2004 versus 49 percent in 2003.

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