Nonprofit

Risk Insights

Provided by Camargo Insurance

The Importance of an Audit Committee

In recent years, several companies have found themselves on newspaper front pages for illegal business activities. In response to these events, organizations are recognizing the tremendous value an audit committee is to their company. These committees serve to ensure that all financial dealings are legal and ethical, and assure that there is no fraudulent behavior within the company.

Businesses have also responded to the regulations set forth by the Sarbanes-Oxley Act of 2002. The Act outlines standards regarding financial dealings and auditing procedures within publicly traded companies. However, several provisions also apply to nonprofits, which instruct organizations to establish concrete auditing procedures. For instance, it provides explicit provisions for electing audit committee members, protections for whistle-blowers and regulations regarding the destruction of documents.

As a result of notable scandals, nonprofits must remain educated concerning the design and responsibilities of an audit committee to ensure that their organization remains financially strong and responsible.

Audit Committee Members

According to the Sarbanes-Oxley Act, a company's audit committee must be comprised of members of the Board of Directors who are also considered "independent." This means that committee members must not receive compensation for their services on the audit committee or within the organization in another function, except if they are paid as a Board of Directors member. Generally, though, members of the board are volunteers and do not receive compensation.

The committee must also contain one designated finance "expert" who interfaces with the auditor. This person must have the knowledge and ability to analyze financial documents. The other members should also be financially competent enough to make sound financial decisions. Specifically, they should be able to select a credible auditing firm and understand the audit data once it is completed.

Responsibilities

Nonprofits conduct audits through an outside professional, with that auditor's purpose being to discover any fraudulent activities within the organization. The auditing committee will then work with the auditor and the Board of Directors to identify financial red flags and ensure that all aspects of the organization are operating legally.

In addition, the auditing committee supervises the organization's management and oversees the finance reporting procedures, including the following duties:

- Selects the outside auditor without management input to ensure there is no conflict of interest
- Works with the auditor to regulate the organization's finances on a regular basis and especially at the end of the fiscal year
- Establishes a level of openness within the organization, and encourages employees and board members to speak up about any fraudulent activity
- Monitors the organization's operations and risk management controls
- Ensures that all financial reporting within the organization complies with federal and state regulations, and follows the doctrines established by the Board of Directors

Insurance Options

There are several insurance options available to combat losses in the event of fraudulent activity. These coverage options, along with an audit committee, can add financial security to a nonprofit organization.

- Employee Dishonesty Coverage: Protects the organization in the event of fraudulent activity of one or more employees including loss of funds, property and securities.
- Fiduciary Dishonesty Coverage: Covers the loss of assets from an ERISA plan in the event of theft or larceny by an employee of an organization.
- Fiduciary Liability: Protects employee welfare and pension plans, the organization itself and the individual fiduciaries of the plans. Covers any liability from violations of responsibility, obligation or duties imposed upon the fiduciaries by ERISA.

Contact Camargo Insurance at 513.561.5311 for more information about the best coverage options to protect your nonprofit entity.