

7-1-2006

## SOX Goes to College

Craig Piotrowki CPA

Robert Yahr CPA, Ph.D.

*Marquette University*, robert.yahr@marquette.edu

# SOX GOES TO COLLEGE

## A nonprofit audit committee is formed

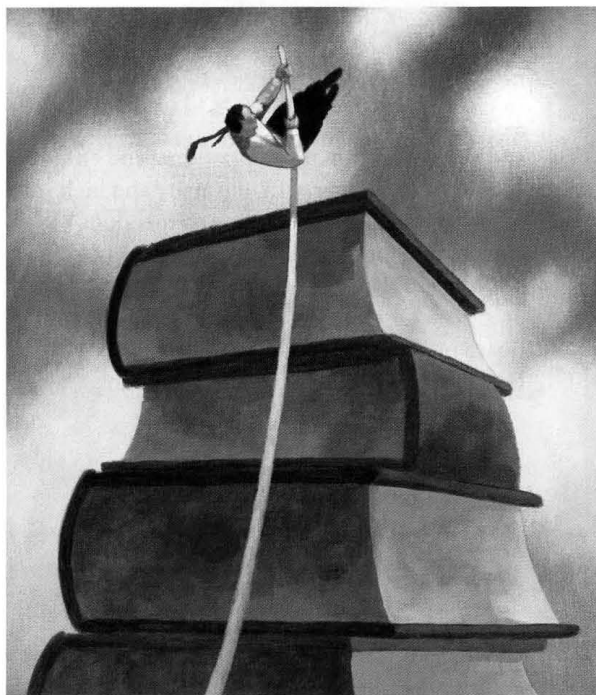
By Craig Piotrowski, CPA and  
Robert B. Yahr, CPA, Ph.D.

**M**etro Milwaukee community leaders have expressed concern about the future of some nonprofits following recent financial dilemmas. On a small scale, these events may mirror happenings in U.S. for-profit organizations that resulted in the Sarbanes-Oxley Act of 2002.

Just as a large part of the burden of regulatory reforms brought about by SOX falls on the shoulders of audit committees, the utilization of audit committees should be seriously explored by nonprofit organizations. For one thing, few of these organizations have independent audit committees.

In 2004, Milwaukee Area Technical College's (MATC) independent certified public accountant, Virchow, Krause & Co. LLP, shared an internal audit recommendation that the district review its policies and consider creating an audit committee. This recommendation was taken seriously by the MATC Board of Directors because of recent financial difficulties at several local nonprofits.

MATC officials researched the audit committee issue and found abundant guidance for governmental and other nonprofits flowing from SOX. The college focused on guidance from a PricewaterhouseCoopers' paper titled "The Changing Role of the Audit Committee: Leading Practices for College, Universities and Other Not-for-Profit Educational Institutions"



([http://www.pwcglobal.com/gx/eng/about/ind/edu/audit\\_committee\\_final\\_July2004.pdf](http://www.pwcglobal.com/gx/eng/about/ind/edu/audit_committee_final_July2004.pdf)).

The National Association of College and University Business Officers advocates the formation of an independent audit committee as a best practice. Although an audit committee is not required for nonprofits, the PwC paper also recommends the formation of an independent audit committee as a best practice.

The college surveyed other technical colleges in Wisconsin and found that none of them had independent audit committees consistent with PwC's guidance. The guidance requires members of the audit committee to be independent and that at least one member of the committee be a "financial

expert."

In discussing audit committees informally with various Wisconsin CPAs, MATC found few governmental audit committees that seemed to meet these criteria in Wisconsin. Since members of most governmental boards are elected or appointed based on criteria which does not require financial expertise, the college created an audit committee that recruited volunteer members with independent financial expertise.

During 2005, the college formed the MATC Advisory Audit Committee, which included two MATC Board members and five volunteers with diverse financial expertise. Current members of the MATC Audit Com-

mittee are:

- Chair **Bobbie R. Webber**, a Milwaukee Fire Department captain and vice chair of the MATC Board
- Vice chair **Robert B. Yahr, CPA**, associate professor of accounting at Marquette University
- Vice chair **Charlotte Y. Cannon-Sain**, tax compliance officer for Potawatomi Bingo Casino
- **Bonnie Baerwald, CPA**, vice president of financial management at Moraine Park Technical College
- **Jeannette Bell**, mayor of the City of West Allis and chair of the MATC Board
- **Anne Szczygiel**, Greendale School District Board member and former Milwaukee County Department of Administration bud-

get analyst and budget unit manager

• **Thomas G. Wieland, CPA**, partner at Reilly, Penner & Benton LLP.

Yahr, Baerwald and Wieland are members of the Wisconsin Institute of CPAs.

## GUIDANCE

Some of the leading practice recommendations of PriceWaterhouseCoopers include:

1. "Establish a separate audit committee." MATC's Advisory Audit Committee was established with a special adviser to assist in its creation and first year of operation.

2. "Appoint at least three members, and preferably five or seven members." MATC formed a seven-member committee that combined a majority of members with financial expertise, which includes the MATC Board chair and vice chair. The MATC Board's vice chair leads the committee and meets with two vice chairs who have financial expertise. The meetings are held between the MATC Advisory Audit Committee's regular quarterly meetings in order to review and plan meetings.

3. "Audit committee members should be independent – no members from management." There are no members of management on MATC's committee.

4. "If possible, include one financial expert as defined by Sarbanes." Again, the majority of MATC committee members are financial experts.

5. "Write a charter that includes the audit committee's responsibilities; review and update it periodically." The nine-page MATC Advisory Audit Committee Charter was created in 1995, actively reviewed during its first year of operation, and is to be updated annually.

6. "Meet as often as necessary to fulfill the committee's responsibilities, typically four or more times per year." The MATC committee meets quarterly and holds additional meetings as needed.

7. "Be responsible for all facets of the relationship with the independent external auditor." The MATC committee is currently considering a five-year request-for-proposal for external auditors.

8. "Work closely with internal audit, an important resource for the audit committee." The MATC committee is re-establishing an independent internal audit function at the college and plans to utilize an outside firm for internal audit services.

## FUTURE PERSPECTIVE

MATC's Advisory Audit Committee empowers its Board of Trustees with financial expertise that provides them with added knowledge and understanding to perform fiscal responsibilities for district taxpayers and other stakeholders. Wisconsin nonprofit board members and their independent CPAs

**MILWAUKEE AREA**

**TECHNICAL COLLEGE**

**IS COMMITTED TO BEING A  
WORLD-CLASS EDUCATIONAL  
INSTITUTION THAT EMPOWERS**

**STUDENTS, FACULTY**

**AND STAFF**

**TO REALIZE**

**THEIR**

**POTENTIAL.**

should evaluate whether nonprofit boards have the independent financial expertise to fulfill their fiduciary responsibilities. ● ●



MATC Advisory Audit Committee vice chairs and chair Robert B. Yahr, CPA, Ph.D., Charlotte Cannon-Sain and Bobbie Webber (l-r).

# On Balance

COMING IN OUR NEXT ISSUE:

- Sox prompts nonprofits to take action
- Boards under a microscope: What are the internal policies and best practices of nonprofits?
- Making sure mega-donors make good on pledges
- Determining the financial health of a nonprofit: What a donor needs to know

PLUS:

- WICPA bids farewell to LeRoy C. Schmidt, CPA
- Tax-advantaged planning for closely-held exporters