

AHLBECK & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

FRAUD AND POLITICS..... WHAT'S NEW?

START THE DAY WITH FRAUD

Ahlbeck & Company recently hosted a buffet breakfast at the Park Ridge Country Club for about 35 executives and board members of not-for-profit organizations. Denise Urban, CPA, CFE, made a presentation on fraud prevention and detection in the not-for-profit industry. Changes to the 2005 Internal Revenue Service Form 990 and the additional information required were also discussed.

In the question and answer session that followed, some attendees asked questions requiring additional research. Our answers are included in the "We've Been Asked" column on the following page.

VOTE FOR?

In this election year, it seems appropriate to remind charitable organizations - those qualified as tax-exempt under IRC Section 501(c)(3) - that political activity is strictly prohibited. Political activity is defined as an action which favors or opposes a particular candidate for office. Most other not-for-profit entities not specifically organized for political purposes also face restrictions on political activities.

Issue statements are allowed. For example, a statement that your organization favors immigration reform is permitted. A statement that candidate X agrees with you or that candidate Y disagrees is prohibited, as is a statement that the candidates of Z party agree or disagree.

Certain activities are permitted if they are politically neutral. Thus, a candidate may speak at an event hosted by a not-for-profit organization provided that all candidates for the same office are afforded the same opportunity; but no candidate may solicit political contributions at such an event. A candidate may place literature in a reception room provided that literature from other candidates for the same office is also displayed. Voter guides may be issued or distributed provided they address questions of interest to the general electorate on a variety of topics (usually six or more) and contain the responses of all competing candidates.

Individuals may take any position they wish provided that they make it clear that they are not representing or speaking for the organization.

There are no restrictions on general civic activities, such as encouraging employees, members, or clients to register and vote.

This is a particularly sensitive area and violations of the law can result in severe penalties, including loss of tax-exempt status. The IRS has published extensive guidance on this subject including the recently issued Fact Sheet 2006-17, which deals specifically with political activity by section 501(c)(3) organizations. We urge everyone to consult these publications (available at www.irs.gov) and legal counsel before venturing into this potential minefield.

Not-for-Profits

WE'VE BEEN ASKED...

Q. The changes in Schedule A, Form 990, require additional information regarding payments to employees and contractors. What should be included in these amounts? Are expense reimbursements included?

A. The rules for reporting on Forms W-2 or 1099 are applicable. If there is an "accountable" reimbursement plan (i.e. the employee must furnish receipts or other evidence of the expense), then the reimbursement is not included in Schedule A.

Q. In view of the additional information required, will "preliminary" copies of Form 990 be provided by your firm for review in the same manner as preliminary financial statements?

A. We do not plan to furnish "preliminary" copies of Form 990. We will make every effort to prepare and complete the form sufficiently in advance of the due date. It is very important that the client read the form when it is received to verify the information. Remember that most of this form becomes a matter of public record.

Q. What are the responsibilities of board members of a not-for-profit organization?

A. The duties would vary with the size and type of organization. Board service is a significant commitment and entails important responsibilities based on high ethical standards and strong principles of governance. Some responsibilities are mandated by state law while others are the result of court decisions over the years. For additional information, consult the Attorney General's website at www.ag.state.il.us/. The Donors Forum of Chicago also has a ten-page booklet available dealing with nonprofit governance. For copies, please contact our office or The Donors Forum directly at www.donorsforum.org.

(as issued on our website www.ahlbeckco.com)

Pursuant to Internal Revenue Service Circular No. 230, be advised that the information contained herein was not intended or written to be used and cannot be used by any taxpayer for the purpose of avoiding any Internal Revenue Code penalties that may be imposed on the taxpayer. It was written with the intent of disseminating general information related to the transaction(s) or matter(s) addressed herein.

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INTERNAL REVENUE SERVICE

The IRS is continuing its scrutiny of reporting of compensation paid to both employees and independent contractors by not-for-profit organizations. A number of the changes made to Form 990 were focused on securing more detailed information in this area. Organizations must ensure that amounts reported on payroll tax returns agree with the amounts that are shown on Form 990. Possible excessive compensation and conflicts of interest also remain as items of concern.

Since 2006 is an election year, the IRS expects to react swiftly to any reports of political activity undertaken or financed by charitable or religious organizations. See the related article on the previous page.

Other enforcement efforts are being directed toward specific activities, such as credit counseling, or specific transactions, such as foreign transfers.

ABOUT AHLBECK & COMPANY

We have served the not-for-profit industry for over 40 years and excel at going "beyond the accounting" to assist with issues unique to not-for-profit organizations.

For assistance with any of the items mentioned herein or any other not-for-profit issues, contact a professional at Ahlbeck & Company.

Ahlbeck & Company offers a diverse menu of services. We are more than an accounting firm. We are your business partner, willing to assist in all aspects of your business needs. From governmental filings and tax compliance to operational efficiency, we can meet your needs.

Updates are published periodically by Ahlbeck & Company. Copies are available upon request. Since the information contained herein is of a general and summary nature, no final conclusion should be made without further review. For additional information on the topics discussed, please contact a member of our firm.