

# **Sacred Paths Center**

## **Governance & Compliance Audit Report**

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Board Member at Large  
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This document contains confidential and proprietary information. It is intended for the Board of Directors and the Executive Officer of the Sacred Paths Center only.

## **Introduction**

The purpose of this audit is to observe, document, and report the performance of governance and the current reporting and compliance status of the Sacred Paths Center.

## **Audience**

The intended audience of this document is the Board of Directors and Executive Director of the Sacred Paths Center.

## **Contents**

### **Results of the Audit of the Sacred Paths Center**

Findings of the SPCs current reporting and compliance status.

Findings of performance of the SPC Governance.

### **Recommendations as a Result of this Audit**

Recommendations for compliance and controls.

### **Suggestions as a Result of this Audit**

Suggestions for improving performance and ensuring compliance.

## Results of this Audit of the Sacred Paths Center

1. The SPC annual returns and Form 990 are not publically available.
  - 1.1. Nonprofit organizations are required by federal law to make its annual returns for the previous three years available for public inspection during normal business hours (either in physical form at the office or in electronic form on the organization's website). It is also required to provide free copies of its returns to members of the public upon request, though it may charge requestors for postage and photocopying costs.
  - 1.2. Additionally, the public can request any organization's Form 990 information return from the IRS by filing a Form 4506-A. (It is important to note Schedule B, which includes the names and addresses of donors, is not required to be included in the public inspection copy of the Form 990.)
  - 1.3. Historically the SPC has not done this.
2. The SPC has not filed State or Federal income tax returns.
  - 2.1. The SPC has not filed state or federal income tax returns for 2009 or 2010.
3. The SPC has not filed a Form 990.
  - 3.1. Most tax-exempt organizations are required to file an annual Form 990 (or Form 990-EZ) information return with the IRS.
  - 3.2. Although the SPC is has not obtained tax-exempt status, all nonprofit organizations in Minnesota are required to provide a Form 990 information return to the IRS. It is also required to make the contents of that return available to the public.
4. The SPC is not current with Use and Sales Taxes.
  - 4.1. Organizations who sell taxable items (such as publications, jewelry, etc), must additionally collect sales and use tax and file these taxes with the Minnesota Department of Revenue.
  - 4.2. The SPC has not yet completely filed Use and Sales Taxes for 2010.
  - 4.3. As a Best Practice it is recommended that organizations escrow their Use and Sales Taxes. SPC is not escrowing Use and Sales Taxes for 2011.
5. The SPC has not complied with the Supervision of Charitable Trusts and Trustee Acts pursuant to Minnesota statutes 501B.33 to 501B.45.

- 5.1. The Minnesota Attorney General's Office is the state's principal location for oversight and law enforcement in the area of charities' regulation. Minnesota statutes assign the Attorney General's Office the responsibility to register, regulate, enforce and supervise the state's charitable organizations and trusts. The Attorney General's responsibility is to protect Minnesota donors who contribute to charitable organizations intended to benefit the community at large, to ensure that solicitations are legitimate and that funds are expended appropriately.
- 5.2. Minnesota statutes 501B.33 to 501B.45, referred to as the Supervision of Charitable Trusts and Trustee Acts, governs charitable trusts. Specifically, it requires registration of all charitable trusts with gross assets over \$25,000 within 30 days of receipt of the trust property. Similar to the requirements for charitable organizations, charitable trusts require the trustee to submit an Annual Filing to the Attorney General and pay a \$25 annual fee to ensure the property is managed appropriately. These reports are also open to public inspection.
- 5.3. The Sacred Paths Center has not performed an Annual Filing with the Attorney General nor has it registered receipt of its trust properties.
6. The SPC has not contemporaneously documented the meetings held or written actions undertaken during the year by the governing body or each committee with authority to act on behalf of the governing body.
  - 6.1. "Contemporaneous" is defined by Form 990 as the "later of the next meeting of the governing body or committee (such as approving the minutes of the prior meeting), or 60 days after the date of the meeting or written action."
  - 6.2. Accordingly, an organization has this timeline to actually document the meeting. Many organizations accomplish this through the taking of minutes that are later distributed and approved by meeting participants as an accurate representation of dialogue and action taken. Minutes document governance practices and organizational decisions, and once approved become legal documents.
  - 6.3. As important as it is to take minutes, it is also important to store them in a safe and accessible place.
  - 6.4. Except for one instance, the SPC does not have approved minutes for any meetings or written actions taken by the governing body or by its committees empowered to act on behalf of the governing body.

- 6.5. The SPC does not have an alternative procedure it uses to record or track governing body actions and decisions in the absence of minutes.
- 6.6. The SPC does not have a safe and accessible place where such minutes or their alternative recording or tracking method might be stored.
7. The corporation has no process in place to ensure reporting and compliance.
  - 7.1. The specific responsibility for filing and compliance is not specified in the bylaws and the corporation does not have controls or audits in place to ensure that necessary filings have been completed.
8. The board has failed the Duty of Obedience with regard to all of the above.
  - 8.1. The duty of obedience requires a director to ensure that the organization is complying with all applicable laws and regulations. To do this, directors must monitor the activities of the organization and the board to make sure that they are acting in accordance with such laws and documents. Directors must be familiar with the organization's documents and familiar enough with applicable laws and regulations to identify questions and hire legal or other professional counsel when necessary.
  - 8.2. Historically, boards of the SPC have not familiarized themselves with the activities and documents of the organization.
  - 8.3. Historically, boards of the SPC have not ensured that the organization is complying with all applicable laws and regulations.

## Recommendations as a result of this Audit

1. The SPC should file State or Federal income tax returns.
2. The SPC should file a Form 990.
3. The SPC should file Use and Sales Taxes.
4. The SPC should comply with the Supervision of Charitable Trusts and Trustee Acts.
5. The SPC annual returns and Form 990 should be available to the public.
6. The Secretary should contemporaneously document the meetings held and all written actions undertaken during the year by the governing body.
7. Each committee with authority to act on behalf of the governing body should likewise contemporaneously document their meetings held and all written actions undertaken during the year by their committee. These documents should be submitted to the Secretary as a part of each report the committee makes before the board.
8. The Secretary should collect all documentation from committees and submit the minutes for the previous meeting for review, amendment, and approval at the next board meeting.
9. The President should direct the Treasurer to provide annually to the Secretary a list of artifacts and reports to be complied and the deadlines for compliance. This should be presented well before the new fiscal year begins so the Secretary can be well informed ahead of time and prepare to report compliance for the new fiscal year.
10. The board should direct the Secretary to take on these compliance duties, that is, get the list from the Treasurer each year; and observe and report on compliance each year.

## Suggestions

Here are some suggestions that the board could consider to improve the ongoing compliance and performance of the SPC.

1. The Governance of the SPC should consider escrowing Use and Sales taxes for 2011.
2. The SPC should create a handbook for the Board of Directors that clearly defines their roles and duties, and the expectations for the performance of board members.
3. The SPC should provide orientation for new board members including artifacts necessary for them to fulfill their fiduciary duties.
4. The SPC should implement a regular schedule of review and evaluation of Board Members.
5. The SPC should implement a regular schedule of review and evaluation of the Executive Director.
6. The Governance of the SPC should consider adopting the Donor Bill of Rights.
  - 6.1. The Donor Bill of Rights is a voluntary pledge and industry standard developed by various philanthropic and fundraising organizations, and has been adopted by a number of prominent nonprofit organizations.
7. The Governance of the SPC should consider adopting the Minnesota Council of Nonprofits Principles and Practices for Nonprofit Excellence.
8. The Governance of the SPC should implement a regular schedule of audits to ensure that the organization remains compliant and well performing.