



**State Leaders Orientation
Des Plaines, December 9, 2006**

Why Should We Engage a CPA Firm and How Do We Choose One?

✓ **Why does the State Council need a CPA firm?**

Ease the workload of the Treasurer

Continuity

- Assures familiarity with the Council's finances in the face of turnover in the Treasurer position
- Serves as a resource to the Treasurer and Board for financial and reporting issues over time

Professional Expertise

- Has knowledge of statutory and regulatory requirements relating to nonprofits
- Assures all deadlines are met
- Provides accounting services such as bank reconciliations, write-up and compilation including the integration of chapter financial information into State financial statements if chapters are not independent of the State and/or are not separately incorporated.
- Provides auditing services if needed and/or desired
- Prepares and transmits IRS and state filings
- Represents the State Council before IRS and/or state agencies

Fiduciary responsibility

- Assists the Board in carrying out its fiduciary responsibilities by being another set of eyes to allow the Board and Treasurer to 'sleep at night'
- Provides timely financial reporting

✓ **Are all CPA firms the same?**

No

- The most important area to explore is a firm's commitment to nonprofit practice and their experience with nonprofit issues. Just because a firm has tax and accounting experience does not mean that they are competent to assist you.



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✓ *What questions should the Council ask before engaging a firm?*

Question	Purpose of Question
What is your experience serving not-for-profit (NFP) organizations?	NFPs have issues similar to those of other corporations; however, there are significant differences as well. Firms experienced in taxes and accounting may not be as appropriate for your needs as firms who have substantial experience serving NFPs.
How many NFP clients do you currently serve? What size are they?	The firm's current client base is as important as its prior experience. Even if the firm has a history of successfully serving NFPs, it is important to know if they are currently serving smaller NFPs such as your State Council. If they now primarily service large NFPs, you might not get the service you expect.
What is the size of your firm, i.e. how many professionals and support staff do you have?	While it is true that a very small firm may meet your needs, larger firms usually have more resources to devote to staff training. The firm's staff should have opportunities to update their knowledge related to accounting, fundraising, tax and reporting issues related to NFPs.
How many professionals in your firm are devoted to NFPs? How many support staff are devoted to NFPs?	The more professionals and staff within the firm who have NFP experience and who, further, may be entirely devoted to NFP practice is an important indicator of the continuity a firm can offer. It also is an indicator of the importance the firm places on serving NFPs.
Does your firm prepare IRS Forms 990? How many do they prepare in a year? Of the firm's partners, how many do 990 work?	If your State Council routinely has more than \$25,000 in annual gross receipts, it is required to file an IRS Form 990. It is therefore important to assess a firm's expertise in this area.
Do you offer write-up and compilation services?	You may want to engage the firm to perform bank reconciliation services, record your transactions in a general ledger and/or prepare financial statements. These services are commonly referred to as write-up and compilation. As State Council and Chapter operations grow, using these services can be a cost effective way to ease the workload of State and Chapter Treasurers. Outsourcing these services also is a way of assuring another level of internal control for your operations.
What other services do you offer?	You may need other services. For example, it is important that the State Council's corporate status be maintained. Most states have an annual NFP report that a corporation must file in order to remain in good standing. Is the firm familiar with the requirements? Would they be willing to file the reports annually for you? Many State Councils have been surprised to learn they have been legally dissolved by their states due to failure to file the required reports.
Are you willing to work with NFPs with limited budgets? What is your hourly rate?	Some firms are willing to discount their rates for NFPs and/or offer graduated fee schedules depending on the nature of the services rendered. You should know what the rates will be for the work you agree upon.



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✓ **What can the Council expect to pay?**

The major disadvantage to hiring a CPA firm is cost. However, the need to hire accounting/reporting expertise to guide Councils through legal, financial and regulatory minefields is significant. Depending on an overburdened and volunteer Treasurer to cover all bases is not prudent. That being said, we are not recommending that a State Council purchase every service a CPA has to offer.

It is important for the Board to speak with the firms under consideration to

- discuss what the Council can afford;
- establish what reasonably can be expected of the Treasurer; and
- determine what services the Council most needs to meet its unique circumstances.

Remember that the CPA firm is hired by the Board and is responsible to the Board even though its day-to-day operating relationship will be with the Treasurer.

✓ **Is it necessary to put anything in writing?**

It is important that whatever is agreed upon is formalized by the CPA firm in a “Letter of Understanding” or in an even more formal “Engagement Letter.” We recommend this final step because it is important to:

- set out responsibilities and expectations for both the firm and the Council;
- specify the services to be provided; and
- provide the schedule of fees to be charged.