



# The Nonprofit Compliance Action Plan

## Building a sustainable foundation for your mission.

A nonprofit is only as strong as its administrative “guardrails.” Use this three-phase roadmap to audit your organization’s health and ensure your mission is protected from common IRS- and state-level pitfalls.

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## PHASE 1: Identifying Your Risks (Federal Level)

- The IRS expects transparency and consistency. Use this section to check your federal standing.
- The Determination Letter:** Do you have a copy of your official IRS 501(c)(3) determination letter? This is the “birth certificate” of your charity; without it, you cannot open bank accounts or apply for most grants.
- The 3-Year Filing Rule:** Confirm that a Form 990 (N, EZ, or full) has been filed for each of the last three years. If you miss three consecutive years, the IRS automatically revokes your status without warning.
- Change of Control:** If your board president or treasurer has changed recently, have you filed Form 8822-B? The IRS must know who is legally responsible for the organization’s funds.
- Unrelated Business Income (UBI):** Does your nonprofit sell merchandise or services? If the income is not directly related to your mission, you may need to report it and pay a small tax to keep your status in good standing.

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## PHASE 2: Verifying Your Requirements (State & Governance)

- Compliance doesn’t end with the IRS. State laws often have stricter rules for fundraising.
- Charitable Solicitation:** Are you registered to ask for money in your home state? In most states, you must have a solicitation permit before you start your first fundraising campaign.
- The "Donate Now" Trap:** If your website accepts donations from the public, you may be required to register in approximately 40 different states. Check where your donors live to stay compliant.
- Conflict of Interest:** Does every board member sign a disclosure form annually? This demonstrates that the board is making decisions based on the mission, not personal financial gain.

- ❑ **Vital Record Storage:** Are your bylaws and meeting minutes stored in a secure cloud location and a fireproof physical location? These documents are the legal proof of every decision your board makes.

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## PHASE 3: Implementing Solutions (Oversight & Legacy)

- ❑ Protect your funds and reputation by building a system of checks and balances.
- ❑ **Segregation of Duties:** Ensure that no single person handles a transaction from start to finish. One person should approve a bill, another should pay it, and a third should record it in the books.
- ❑ **Monthly Bank Reviews:** Assign a board member (who does not write checks) to receive and review the monthly bank statement unopened. This simple step is one of the most effective ways to prevent fraud.
- ❑ **Data Security (3-2-1 Rule):** Maintain three copies of your data on two different types of media (such as a hard drive and the cloud), with one copy stored off-site to prevent data loss.
- ❑ **Professional Partnership:** Work with a specialized nonprofit accountant (such as Alpha Omega) to perform quarterly “health checks” and identify red flags before they turn into costly penalties.

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## The Bottom Line: Your Documentation is Your Legacy

If your systems exist only in one person’s head, your entire mission is at risk. By documenting your processes today, you ensure that your organization can thrive long after current leadership moves on. **Need help setting up your systems? We’re here to help.**



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