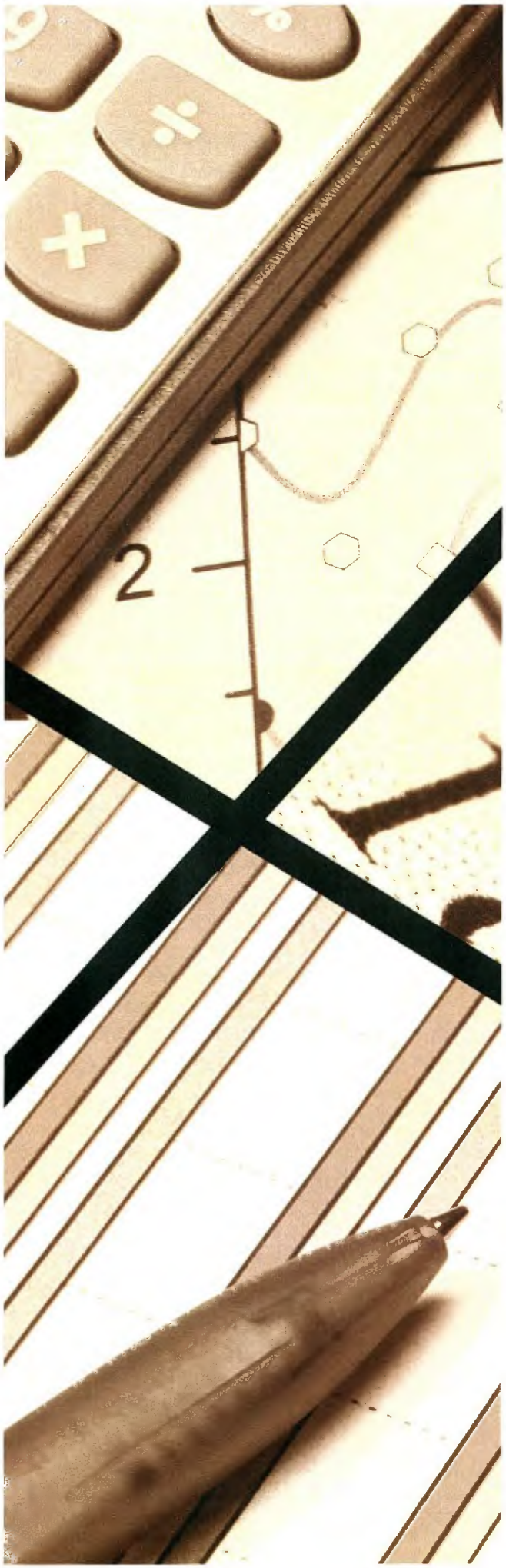


"Controls" for Small Nonprofit Organizations

A Guide for Board Members

11 things even the smallest nonprofits can do to guard against damage to financial health or reputation

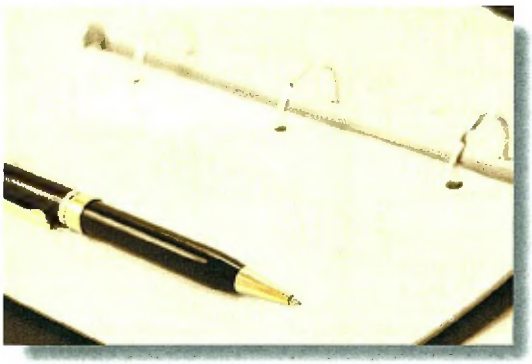
By

Putnam Barber, Senior Researcher
Idealist.org

Robert Fleming, CPA, Shareholder
Clark Nuber PS

idealist

CLARK NUBER
Certified Public Accountants & Consultants



"Controls" is what accountants and others call policies and procedures that are designed to prevent fraud and assure accurate reporting on the affairs of organizations; mostly the financial affairs. An example of a "control" is the familiar requirement that there be two signatures on checks over a certain amount. The idea is that it's more difficult to misuse the checking account when two people have to put their names on the actual checks in order for them to be valid.

This guide for board members on controls is intended for small nonprofit organizations. It was written in the belief that controls are particularly difficult to implement when the organization is small and the people engaged in its work are long-term colleagues who share a vision for service to the community. Paradoxically, but not all that surprisingly, such organizations are (sadly) vulnerable to frauds and (frustratingly) often lack a clear sense of what their efforts have accomplished.

The guide is addressed to board members because they are, and no-one else is, ultimately responsible for assuring that the resources available to the organization are used as effectively as possible to achieve the results it exists to achieve. If someone steals from the organization, those resources are, obviously, not available in support of the mission. And, if the lack of focus results in diffuse efforts or staff members working at cross-purposes, the full potential of the organization is not being realized.

Here are 11 things that any organization, no matter how small, can do to focus on high performance and avoid losses.

Have the bank statements opened and scanned by someone who understands the organization's work but has no role in financial operations. This might be a board member, someone who handles HR but not finances, or a senior department head. The "job description" for the person with this responsibility should include a clear mandate to raise questions about any payment that appears out of the ordinary in any way, including bringing the matter to the attention of the full board of directors in an "executive session" i.e., a meeting from which anyone who might have been involved in the questioned transaction plays no role except to answer questions.

Implement a credible whistleblower program. Over half of all frauds that are discovered are found as a result of a report from someone connected to the organization who observes something that doesn't look right. There are commercial services that will provide confidential monitoring of a toll-free telephone number or internet mailbox. But it is not necessary to use such a service. A former board member or retired and trusted employee can serve as the receiver of any report of suspicious activity and be given full authority to take whatever action seems necessary. A broadly circulated policy can make clear that good-faith reports of possible wrong doing will be respected and the person making the report protected from retaliation

Once the whistleblower program is in place, the information about how to make a report should be routinely provided to employees (perhaps on pay stubs), volunteers, vendors (on payment vouchers), clients, donors and other stakeholders. The more widely this information is circulated, the less likely it is that it will ever be needed by anyone. Many examples of whistleblower policies can be easily found with an internet search.

Conduct internal "mini-audits." On a regular schedule (so there's no implication that the activity stems from suspicions) the board chooses one expense or revenue line item from the financial reports. Two or three members take on the task of sitting with the staff responsible for the related transactions to examine how the figure in the subject report was developed. At the next meeting, they report back what they learned.

Again, having this activity regularly scheduled pretty much guarantees that the methods and the work will be unremarkable. But the project is also pretty much guaranteed to give an interesting view of a specific slice of the organization's work each time.

Insist on an annual inventory of all of the organization's property with a year-to-year comparison, and an explanation of unexpected changes. Loss of valuable items, like cell phones or laptops, should be an immediate cause of concern and lead to careful preventive action for the future. A policy about assigning responsibility for losses should be in place before there are any so there's no suggestion of retribution or favoritism.

Don't have company credit cards. Misuse of organizational credit cards often shows up in reports of problems for businesses, governments and nonprofits. It is best not to have any. That may mean having a way to make cash advances when anticipated expenses are too steep to expect employees to wait for reimbursement after the fact. Or, if you do issue company cards, have a really strict policy about any personal use, no matter how accidental or inadvertent. Something like forfeiting one day's pay for each personal transaction, with no exceptions, will guarantee close attention to the problem.

Schedule a board discussion about the duty of care, loyalty, and obedience every year. One way to organize this might be to invite a different board member to research the topic each time and lead the discussion, with special emphasis on how these core concepts of board responsibility interact with the work done by this particular board. After the discussion of the duty of loyalty, examine the conflict of interest declaration each board member executes to see if it's up to the task and, if need be, assign responsibility for drafting changes. Before the discussion of care, conduct a confidential poll that focuses on board members' attention to the materials provided for their information – and on whether the information the board gets is adequate to support its work on behalf of the organization. When discussing the duty of obedience, confirm that only lawful activities will be undertaken and that the board will seek expert counsel when necessary.

Institute an annual confidential survey of risks, most often referred to as Enterprise Risk Management (or ERM). Everyone – board, staff, volunteers, clients, vendors, consultants, donors, and contractors should be invited to respond, with the responses going to an outsider with some management experience but no ties to the organization (a consultant or a volunteer). Assign responsibility for reviewing the resulting report to a joint board-management committee which, in turn, briefs the board on responses from management and any policy changes or other board actions that could improve the way the organization guards against loss or damage. Areas covered would include external and internal risks associated with physical assets, key employees, revenue sources, data and reputation. Clark Nuber has developed ERM checklists tailored to nonprofits and is available to assist with ERM studies.

Evaluate effectiveness. The most difficult element of the board's stewardship responsibilities is judging whether the organization is as effective as it might be and if not, what to do about the shortfall. Independent Sector, the Council of Better Business Bureau's Wise Giving Alliance, and Guidestar have worked together on a project called "Charting Impact". They recommend that boards ask just five questions, paraphrased here – there's more about this project online[1]:

1. What do you aim to accomplish?
2. What strategies do you use to do that?
3. What capability do you have for the tasks?
4. How do you know you're making progress?
5. What has been, and what hasn't been, accomplished so far?

Questions 4 and 5 deserve careful review and thoughtful discussion every year. Gaps in information will need to be addressed; disappointments in accomplishments are occasions for reflection and new commitment.

[1] *See http://www.independentsector.org/uploads/Charting_Impact/charting_impact_overview.pdf*

Read the (draft) reports. Check for accuracy and candor in the proposed text of the Annual Report, the narrative portions of the Form 990, the updates given to contracting agencies and funders, press releases, and other announcements. If what shows up on paper isn't what people at the organization experience every day, the task of assuring complete commitment to accomplishing the mission will be ever so much more difficult.

Tone at the top. The commitment of the board and senior staff of the organization must be clearly visible. It comes up again and again in reports of organizations in trouble that people in the organization believe that indulgence, prevarication, sloppiness or worse are tolerated among the organization's leaders.

There's no easy route to assuring high standards among leaders. Having a formal commitment to maintaining them is one clear place to start. That commitment can include a clear declaration that the responsibilities of chief volunteer and executive officers include attention to the challenge, responsiveness if there is any suggestion of a lapse, and communicating the commitment broadly.

Several of these suggestions include the idea of regularly scheduled reviews – these activities should be part of the annual work plan for the board of directors and, of course, completed on that schedule. Continuous attention to staying on target and preventing fraud is actually central to the whole idea.

"Controls" might sound like knobs and switches that can be dialed and flipped without much deep thought. This brief guide will have done its job if it convinces its readers of the opposite. A small organization, where everyone knows everyone and everyone has every reason to trust everyone else, requires, in contrast, a generous spirit of cooperation in the development of a culture of commitment to the maximum possible achievement of the mission. These suggestions are a short list of things that any board of directors can do to create an organization in which controls are just a part of everyday life.

The goal is an organization that pays regular attention to focusing all of its energy and resources on achieving its mission and uses "internal controls" to accomplish maximum "external impact." That's the sort of organization everyone can be proud of.

Clark Nuber is a national firm with one location in Bellevue, Washington. As one of the region's most respected service providers, Clark Nuber's Not-for-Profit Services Group knows and understands the issues that face not-for-profit organizations. With one of the largest not-for-profit practices in the Northwest, we have more than 50 dedicated professionals who work hard to stay up-to-date on current and emerging issues that relate to the not-for-profit community. Our quarterly *In the Boardroom* newsletter is of interest for all board members, providing relevant topics and information about governance practices within the not-for-profit sector. Visit our website at www.clarknuber.com/news/publications.php#newsletters to sign up now for the *In the Boardroom* e-newsletter.