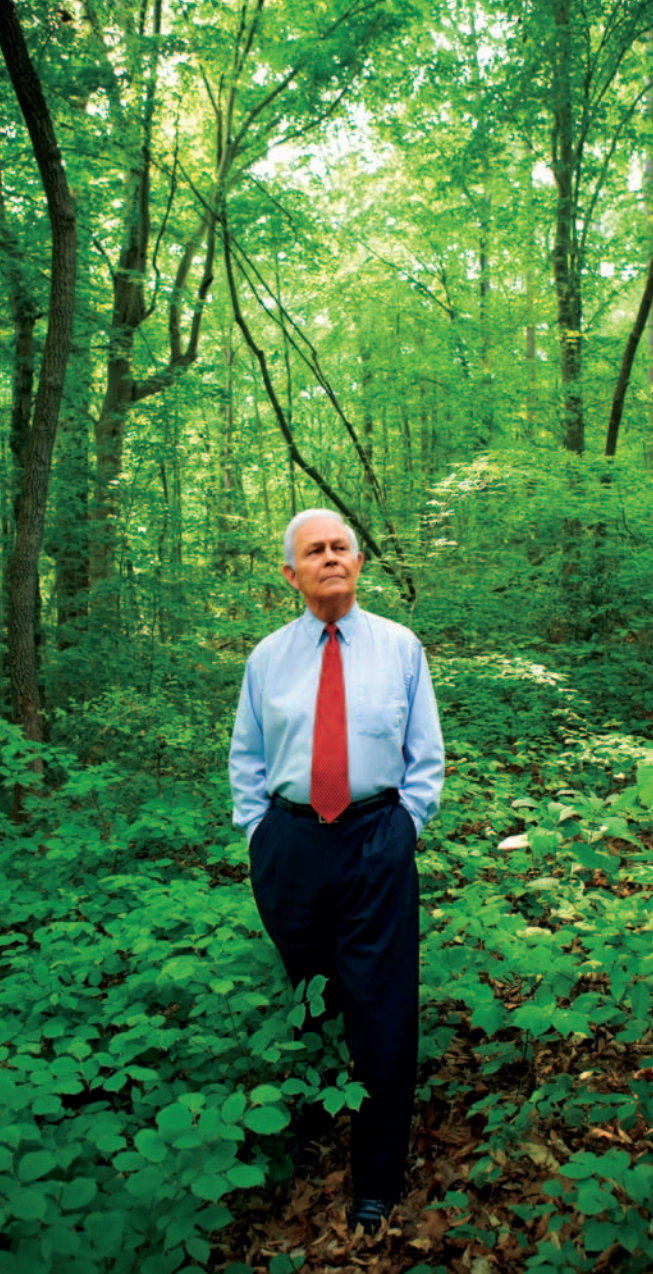


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Nonprofit Observer



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from your mission?**

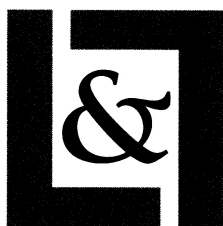
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Have you strayed from your mission?

Time to get back on track

Economic conditions over the past few years have forced nonprofit leaders to make many difficult decisions that affect their organizations' programs. As much as you want to stick to your original purpose, inadequate funding may have diverted attention from your goals and led to program downsizing, or even dramatic changes in direction. Now's a good time to evaluate your current activities and pave the path to the future.

START WITH YOUR STATEMENT

To determine whether you've strayed from your purpose, go back to basics — your mission statement. It should be clear and narrowly focused, yet not so narrow that it provides little room for growth and adaptation. Your mission statement should describe how your nonprofit meets otherwise unmet needs and provide inspiration that galvanizes your nonprofit's stakeholders.

Your organization may have written its mission statement three or 30 years ago, but something likely has changed since then. For example,



you may no longer receive government grants for certain programs. Or you may now be partnering with another charity with a mission similar to yours. Consider whether the decisions you've made in response to these external factors are consistent with your original ideals and whether your nonprofit continues to address critical needs. Also, does your mission still motivate stakeholders? Many organizations become so caught up in their internally generated goals that they neglect what donors and other key constituents want.

Say, for example, your original mission was to provide shelter and adoption services for homeless pets in your community. Since you wrote your mission statement 10 years ago, several new shelters have opened — including one that exclusively houses dogs. You've decided, therefore, to eliminate half of your dog kennels and expand shelter space for cats. In this case, you may have altered some program specifics, but your original mission remains intact.

If, on the other hand, you've decided to build a wild bird sanctuary on recently donated land, you may be getting off course. Nonprofits with the funding and long-term support to expand their mission without harming their original goals can certainly consider new ventures. But if your organization is struggling to keep the promises it's already made, off-track programs need to be re-evaluated.

REAL RISKS

If endangering your primary mission isn't worrisome enough, consider that some activities could threaten your nonprofit's existence. For example, fewer donations and less-generous government support has led some organizations to pursue profit-making ventures — such as museums that regularly operate parking services

for sporting events or community theatres that sell T-shirts and coffee mugs.

Income from ongoing activities that aren't "substantially related" to your nonprofit's mission may be subject to unrelated business income tax (UBIT). And if you appear to devote too many resources to generating unrelated business income, you could lose your exempt status. Before your organization embarks on a money-making sideline, be sure to talk with your accountant about the potential ramifications.

PUBLIC PERCEPTIONS MATTER

What if your nonprofit *has* stuck to its mission, but key stakeholders believe otherwise? You may need to become more donor-centric — an approach similar to for-profit companies' customer-centric philosophies. Thank donors frequently, provide specific details about how their donations are used and instill the message that your nonprofit can't meet its goals in a challenging economic environment without them.

Further, invite key donors to sit on your board and participate in critical decisions such as programming cuts so they understand the fiscal challenges your organization faces. Such interactions give supporters a sense of ownership and tend to inspire greater confidence in your leadership than simple statements of accomplishment do.

If your organization is struggling to keep the promises it's already made, off-track programs need to be re-evaluated.

If misperceptions about your nonprofit and its mission are circulating in your community and the media, you probably need to hone your message. Your local newspaper, for example, might report that you've recently closed several

Fatal mistakes

Although lack of financial resources and support are the primary reasons nonprofits fail, mission-related issues often are at the root of an organization's downward spiral. One California environmental group, for example, expanded rapidly after receiving a large, one-time government grant. It initiated several ambitious — and unrelated — programs at the same time, overworking staff and volunteers and depleting cash. In a rush to get programs up and running quickly, the group paid little attention to quality and outcomes.

When the original grant money ran out, some burned-out staff members quit and key volunteers moved on to other charities. Worse, negative media reports about one of the group's recycling efforts turned away prospective donors. Unable to pay its current bills and maintain its many projects, the charity was forced to go out of business.

child wellness clinics to focus on a single family health center. Even if your press release cites inadequate funding and the need to redeploy limited resources, the public may perceive your decision as a shift in mission.

It's important, therefore, to develop and deliver a message that both communicates the facts and makes an emotional appeal. For example, describe how difficult the decision was for you personally and how much you appreciate the community's continuing support as you struggle to meet numerous community health challenges.

RETRENCH OR CHANGE COURSE?

Until you sit down and consider your nonprofit's past, present and future goals, you may not even realize that it has drifted from its mission. Particularly if money is an issue, you may need to scale back and retrench. On the other hand, you may find that it makes more sense to pursue a new path and revise your original mission. Your financial and legal advisors can help you update your mission statement and other corporate documents. *

Fraud prevention

The buck stops at your board

Most charities are labors of love for their staff and volunteers, so it's safe to assume that occupational fraud is rare among nonprofits, right? Wrong. According to the latest statistics from the Association of Certified Fraud Examiners, approximately 14% of all frauds in the United States occur at nonprofit organizations, for a median loss of \$109,000.

Nonprofits may be vulnerable for many reasons, including their "culture of trust," understaffing issues and reliance on volunteers. In some circumstances, boards are partly responsible. Many board members are volunteers and may have little involvement with the organization's day-to-day activities. Further, they're less likely to understand their role in preventing fraud than their for-profit counterparts.



ASSERTING CONTROLS

Nonprofit board members frequently assume that auditors are responsible for deterring fraud. Auditing standards introduced in the past decade have indeed caused auditors to ramp up their detection roles. Ultimately, however, your

board has a fiduciary obligation to adopt safeguards to prevent fraud and — if your nonprofit is required to file it — attest to good governance measures on IRS Form 990.

Fraud prevention begins with ensuring your organization has proper internal controls in place and that they function as designed. The board should seek feedback from your auditors about the effectiveness of the control environment — which includes asking for written recommendations on improving internal controls.

Often, auditors will suggest additional precautions, such as having checks above a certain dollar amount signed by two people, with one of them being a board member. One charity adopted this procedure after discovering that its executive director was supplementing his salary by writing large checks to himself.

AUDITING THE AUDITORS

Your board or its audit committee also must evaluate auditor performance and make hiring recommendations. It should select an independent expert with knowledge of, and experience in, the nonprofit sector. Independence generally excludes family members or auditors with certain business relationships with board members or key employees. Ideally, your board will meet with auditors at least twice a year: once to discuss the auditors' work plan and again to review postaudit findings. The board should satisfy itself that the annual audit process was sound and that any concerns or material weaknesses identified by auditors are being addressed.

Your board also may be asked to assist auditors by providing insights about fraud loopholes in your organization. Board members,

therefore, need to be familiar with such issues as whether your organization has adequate fidelity insurance coverage and whether it performs background checks on new employees and volunteers who work with the nonprofit's money. Further, they should be familiar with your formal code of conduct, specifically as it relates to directors and officers.

The board should satisfy itself that any concerns or material weaknesses identified by auditors are being addressed.

REVIEWING THE BOOKS

Your board or its finance committee must regularly review financial statements for unusual

activity or patterns. Management should present monthly financial statements to the board that include written explanations of any results that differ significantly from expectations. Boards also should review budgetary, investment and risk management policies to ensure they're applied appropriately.

Finally, your board must oversee your organization's chief executive officer, chief financial officer and other key members of management. An ethical culture starts at the top, and if these leaders fail to consistently apply internal controls, for example, they create an environment in which fraud can flourish.

EDUCATING AGAINST FRAUD

Even if your board's members are unpaid volunteers, they have serious responsibilities. Ensure they understand their role in preventing fraud by providing all new members with a thorough orientation and long-term members with periodic refreshers. *

Don't let a crisis KO your big event

If yours is like most nonprofits, you depend on a big annual event to raise significant funds or attract new members and supporters. Every facet of your event must be *perfect* if you're to reach your goals. But as any experienced event planner can tell you, almost no benefit, gala, meeting or conference goes off without at least a small hitch. And if you're not prepared, the big event could turn into a disaster.

START WITH A PLAN

Anticipating the worst won't always prevent it from happening, but a crisis management plan

can help you cope with issues if they arise. Your plan should address:

Risk exposure. Review all potential exposures for the event, attendees and (if applicable) exhibitors. Plan for a range of occurrences, including severe weather, travel restrictions, natural disasters, fire, theft and terrorist attacks. Even if a possibility is remote, it's still possible.

Go over your insurance policies and determine whether you have adequate coverage for special events. If you'll be auctioning donated items, for example, you may need to cover them against



theft. Also review contracts with vendors, hotels, facilities and performers for possible liabilities and ask vendors to provide proof of insurance with liability coverage amounts.

Travel. If you'll have out-of-town attendees, encourage them to make plans through a preferred travel agency or Web site. Be sure to include emergency contact numbers on all itineraries and confirmations so that delayed individuals can get in touch with you easily.

Special accommodations. Determine whether your attendees have any special needs or vulnerabilities, such as language barriers, physical disabilities or food allergies. You may need to work with your vendors and facilities

to provide special attention, assistance or security for these individuals.

Communications. Ensure you'll be able to contact employees and vendors on short notice by maintaining a list of e-mail addresses and mobile and home phone numbers.

TEAM APPROACH

Depending on the size of your event, you may want to assemble a crisis response team. This group should include key staff, event volunteers, security personnel and a facilities representative.

Anticipating the worst won't always prevent it from happening, but a crisis management plan can help you cope with issues if they arise.

Assign contingency duties to the team members — for example, designate the employee who will secure cash and valuables with the help of a security guard. Assign others to communicate event cancellation or changes to all attendees or to make media statements. Ensure all team members, as well as your attorneys and other risk-management advisors, have a copy of your plan.

GET CREATIVE

Preparation is critical, but no amount of planning can prevent certain catastrophes. With that in mind, consider diversifying your revenue-generating activities. Your charity might, for example, hold two smaller galas instead of one big event. Or you might conduct your fundraising auction or membership drive online over a period of days or weeks. As much as it requires solid, analytical planning, event risk management also benefits from creative solutions. *

SROI: Investing in impact

Most nonprofit leaders are familiar with the concept of return on investment (ROI), a measure of economic output relative to economic input. But although hard dollars will always affect an organization's ability to achieve its goals, many nonprofits are shifting their focus from an economic ROI to a *social* ROI (SROI) model.

A BETTER MEASURE

Nonfinancial results, such as rich and diverse cultural offerings, positive social attitudes, neighborhood stability and individual feelings of well-being, are notoriously difficult to measure. But such results are just what many nonprofits work to achieve.

SROI can be a better measure of a nonprofit's impact than traditional financial metrics because it focuses on how inputs, resources and policies help improve the lives of the individuals or communities the organization serves. Although methods of calculating SROI vary by nonprofit, most formulas try to determine the best use of funds on specific programs given the nonprofit's ability to create social value.

The Centre for Women in Tampa, Fla., for example, created a program to hire low-income women to build home ramps for wheelchair-bound seniors. Instead of measuring success by the number of ramps built, the organization compared their gross profits to the amount of money the government saved on reduced public assistance and nursing home subsidies.

DECISION-MAKING ROLE

SROI can be particularly useful in helping nonprofit leaders make tough programming decisions. Say, for example, your organization builds water wells in Africa. Do you use your funds to build a well in a highly populated village near a river that usually — but not always — provides clean water? Or do you target a less populated village at much greater distance from any water source? Although



personal judgment and experience ultimately will play a role in any decision, SROI can help you examine the factors that go into such a decision.

SROI also can help you with donor — particularly big donor — outreach, because it recognizes that committed social investors sacrifice financial return for a harder-to-quantify social return. In many ways, philanthropy is riskier than investing in stocks or other traditional investments. Social

investing almost always produces lower “returns” and its investments are more likely to go belly-up. But by using an SROI framework, nonprofits can educate donors about risk and how their money's impact can more accurately be measured.

THINKING GOOD

If you don't already think in terms of your nonprofit's impact, rather than its accomplishments, you may need to revise your definition of success. Many donors, particularly those who research charities using watchdog sites such as GuideStar and Charity Navigator, seek nonprofits that seem to do the most “good” for the money. SROI provides you with a way to measure and communicate the good your organization does. *