

## **ACCOUNTABILITY, TRANSPARENCY & ETHICS: QUIZ FOR NONPROFITS**

UJAA Members:

The following is a modified Quiz for Nonprofits excerpted from a quiz developed by **Zimmerman Lehman**.

Nonprofits enjoy special tax exemptions that promote the idea of a public trust. It helps if board members think of themselves as advocates for the community. The public is entrusting to you the responsibility of running your organization successfully, sensibly and ethically for the benefit of the community. In these days of increasing regulations and financial meltdown, boards and staff must demonstrate that their programs/services are effective at accomplishing their mission and run prudently and honestly.

**Instructions:** See how you measure up. Take the quiz below.

Instructions for scoring are below the quiz.

We will discuss the quiz answers at the end of the Nonprofit Fundamentals LDA Session on June 14<sup>th</sup>, if time permits.

## ACCOUNTABILITY, TRANSPARENCY & ETHICS: QUIZ FOR NONPROFITS

### Mission & Program Evaluation

1. Does your organization periodically evaluate your programs and services to ensure they are aligned with your mission?  Yes  No
2. Does your organization periodically evaluate your programs to ensure they are effective at accomplishing their goals?  Yes  No

### Governance & Financials

3. Does the Board conduct sound budgeting practices and ensure financial controls (such as independent audits) are in place to avoid irregularities?  Yes  No
4. Does the Board review the prudence of overhead expenses (administration and fundraising expenses vis-à-vis program expenses) and fundraising ratios (what it costs to raise a \$1)?  Yes  No
5. Does your organization have a process for determining and reviewing executive spending for reasonableness that is reflected in the board minutes?  Yes  No
6. Is the Board familiar with the organization's Form 990 (the return submitted by nonprofits to the IRS) and does it ensure that the organization's leaders can attest to its accuracy?  Yes  No
7. Does your organization utilize recruitment strategies that create boards with diverse ages and backgrounds, experience, and the organizational and financial skills necessary to advance the organization's mission?  Yes  No
8. Does your organization have a whistleblower protection policy and document destruction policy?  Yes  No

### Ethics and Conflicts

9. Do leaders perform with ethical and trustworthy behavior (i.e., practice what they preach, avoid nepotism and favoritism, promote respectful and professional behavior)?  Yes  No
10. Does your organization have a policy to ensure only reimbursement of reasonable and necessary expenses for board and staff (e.g., travel, meals)?  Yes  No
11. Does the board have policies that ensure the independence of a substantial number of board members (free of conflicts of interest)?  Yes  No
12. Does your organization have a conflict of interest policy for board

members and high-level staff members?  Yes

No 13. Does your organization have a code of ethical conduct that includes a values statement?  Yes  No

### **Transparency**

14. Does your organization share information with the public about its programs/services and their impact?  Yes  No

15. Does your organization share information with the public about its Form 990?  Yes  No

16. Does your organization share information with the public about its audit and financial information?  Yes  No

17. Does your organization share information with the public about the background and demographics of its board members and key staff?  Yes  No

18. Is all (or most of) the above information available on an accessible website?  Yes  No

### **Fundraising**

19. Are your fundraising materials honest and do all funds raised support the programs they were given for?  Yes  No

20. Are donors' wishes for privacy followed and an opt-out option given for mailing lists?  Yes  No

**Scoring: EVALUATE YOUR SCORE BY COUNTING "YES" BOXES - CHECK BELOW TO SEE HOW YOU MEASURE UP AND TO READ MORE ABOUT PARTICULAR AREAS WHERE YOU MIGHT HAVE HAD "NO's."**

- **20 Amazing!** Please share your practices
- **16-19 Great!** Keep up your good practices and share your model policies for others to learn from.
- **10-15 Good.** There is room for improvement.
- **5-9 A Start.** You show some awareness of accountability areas but need to advance beyond the basics.
- **0-4 Need Improvement.** Time to get serious about accountability. Engage your board, staff, and volunteers quickly to help make the needed changes.

***Mission & Program Evaluation***

Accountability starts with aligning your programs with your mission and ensuring they are successful. This item is not always first on these types of checklists but if you are not working to fulfill your purpose your existence is meaningless. You need to demonstrate that you are providing a meaningful and effective benefit to the community you serve. This usually involves periodically (at least every few years) assessing the needs of the community and evaluating your programs to see if they are meeting those needs and are running efficiently and professionally.

**Governance & Financials**

Overhead: While many factors could and should be looked at to ensure prudent financial accountability, charitable oversight organizations and donors often scrutinize nonprofits regarding the ratio of spending on programs compared to spending on administration and fundraising (i.e., overhead). Throughout the nonprofit sector, there are wide discrepancies in how this information is reported. Nonprofits should be honest about what it costs: too little spent on overhead is not prudent management and too much will irritate your supporters.

Finances: Regular audits or financial reviews will help ensure that needed controls are in place and your books are in order. Securing an independent auditing firm has become a very big issue (and an expense) since passage of the Sarbanes-Oxley Act. This is the accounting reform law that primarily focused on for-profit companies whose cozy relationship with auditors led to turning a blind eye to financial irregularities. Sarbanes-Oxley also mandates that nonprofits have whistleblower protection and document retention policies. Examples can be found using a search engine.

Form 990: It is vitally important that board members be informed about the IRS Form 990. This is your organization's annual return. It is akin to a tax return and all organizations need to file it (small organizations can use an e-postcard). It includes, among other things, administrative, fundraising and program costs, and information about your programs. Some nonprofits are ignorant about, say, the difference between a program cost and an administrative cost. Others are aware of the difference but tend to "fudge" in order to keep administrative expenses low. Ignorance is not a good excuse. The 990 asks for information about the governance practices of your organization (e.g., do you have a conflict of interest policy?). Some question the appropriateness of the IRS asking these questions, but it is doubtful they are going away any time soon, and the requirements may get even more cumbersome as time goes on.

Board Recruitment: Board member recruitment strategies need to be based on the needs of the organization, not the friends of the current members. Diversity outreach that goes beyond tokenism is simply de rigueur for any nonprofit that is serious about meeting the community's needs.

### **Ethics and Conflicts**

Conflicts of Interest: The board owes a "duty of loyalty" to represent and act in the organization's best interests. As a board member, you must subordinate your personal interests to the welfare of the organization, which means that you should not compete with the organization or take advantage of privileged information for your own benefit. Understand that not all conflicts are avoidable but being honest and above-board (e.g. - not voting when a conflict arises) should be standard operating procedure and reflected in all minutes. Follow the fish test (if it smells fishy there is at least the appearance of a conflict) and you will meet this standard. A best practice is to have independent board members - those with no obvious conflicts - make up a substantial majority of your board to ensure ethical behavior. Put "nonprofit conflicts of interest policy" in a search engine and many examples show up which your organization can review; you can then discuss what works best for you (even the IRS has one).

Ethics: Codes of conduct that outline your governance policies are becoming both popular and necessary to demonstrate that you have thought about ethical issues and developed your own standards. The Independent Sector has compiled over 100 compendia of standards, codes, and principles for nonprofits. "These guidelines help board members, staff and volunteers

demonstrate their commitment to practice that is responsible, accountable, and ethical, and provide benchmarks to determine how well an organization is fulfilling its responsibility to its contributors and the general public."

Values: Organizations should create value statements (a great staff and board exercise) for the organization; these can be incorporated into your codes of conduct. All organizations should include in their values treating others with respect and honesty; this is a hallmark of any well-run organization. In addition, nepotism and favoritism demonstrated by leaders erode confidence that the organization believes in competency as a high value, which will ultimately erode effectiveness.

### **Transparency**

Our favorite quote about transparency is from Supreme Court Justice Louis Brandeis referring to the benefits of openness and transparency: "Sunlight is the best disinfectant." How much do you tell the public? By this we mean how much are you and your organization telling the outside community (your donors and stakeholders) about your agency? Remember to think: *We don't have anything to hide*. This is an opportunity to shine, so more is better!

Transparency should include (but not be limited to) sharing information about your programs/services and your finances with the public. This is often done in an annual report that can be displayed on your website. You must share with the public (when asked but better to volunteer) the required IRS Federal Form 990. If you do not want to make it available to the public yourself, other organizations such as Guidestar are already doing this.

Try to share biographical and diversity information about your organization's leaders with the public while respecting privacy. This goes a long way toward being accountable as it demonstrates who the decision-makers are and where they come from.

### **Fundraising**

Sometimes things seem obvious when you stop to think, but not everyone does. Being honest about your fundraising, including what you are soliciting funds for, exercising control over fundraising activities (i.e., do not let a consultant or firm make fundraising decisions without agency knowledge or oversight), and respecting donors' wishes and privacy should be no-brainers. Your job is to make sure these happen. Donors should be given the option to have their names removed before any list is shared. Many states now have detailed regulations in this area but again honesty and respect (this time for your donors) are critical.

## **Conclusion**

While it might seem a bit overwhelming when looking at the myriad issues about which nonprofits should be aware, being accountable, ethical and transparent are best practices all organizations should follow - and they also make good common sense.

## **Creating a Culture of Transparency: Establishing and Ensuring Integrity in Your Nonprofit**

Workshop includes:

- Accountability governance standards
- Transparency - what it means today
- What the watchdog groups look for
- Overhead expenses and the new IRS Form 990
- Value statements and codes of ethics
- Nonprofit conflict, whistleblower and document destruction policies.

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