

# Transparency and Accountability

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# Principals & Practices for Nonprofit Excellence in Colorado, Second Edition

New 2011 Edition Just Released

- Governance & Leadership
- **Transparency and Accountability**
- Financial Management
- Fundraising
- Human Resources
- Planning
- Evaluation
- Advocacy, Public Policy & Civic Engagement
- **Communications (new)**
- **Information Technology (new)**
- Strategic Alliances



**"You'd be surprised. Dysfunctional family foundations are not uncommon."**

# Principals of Transparency and Accountability

- Nonprofits have an **ethical and legal obligation** to their constituents and the public to conduct their activities in a **transparent and accountable manner**.
- Nonprofits should **regularly** and **openly convey information** to the public about their mission, activities, accomplishments, and decision-making processes.
- Information should be **easily accessible** to the community in order to **increase external visibility and public understanding of the organization** in order to **ultimately build trust in the organization**.

# Quotes

## FINANCIAL ACCOUNTABILITY

- “A clear view into where the donations/gifts given to the nonprofit are distributed, as well as the overall costs of running the nonprofit organization.”
- “When working with communities, community donors need to know where their money is going.”
- “A willingness to provide information about the nature and activities of your organization, including, but not limited to, governance, finance, program, outcome measures to your funders and the general public. In addition, you should be willing to answer reasonable questions about the information and be able to explain the material to those who have a need to know.”

# Quotes (cont)

## FINANCIAL ACCOUNTABILITY (cont)

- “Nonprofit transparency means that the organization’s finances, operations and programs are absolutely ethical and open to inspection.”
- “Adherence to federal and state regulations.”
- “Annual financial audits.”
- “Timely submission of reporting documents.”
- “Clear accounting methods and record keeping.”

# Quotes (cont)

## OPENNESS ABOUT MISSION AND PROGRAMS

- “ There is nothing to hide. The mission is clear and organizational activity reflects that.”
- “Nonprofit transparency means that everything we do must be clearly understood and open to review and thoughtful discussion by all stakeholders to gain their complete confidence and respect.”
- “The release of information that is relevant to evaluating those institutions.”
- “Being transparent with relevant information is how nonprofits demonstrate accountability.”

# Quotes (cont)

## A HOLISTIC VIEW

- “ I think of the acronym DWYSYWD (do what you say you will do). Do the actions of the organization reflect the core values and mission it promotes? Is there genuine evidence of the agency’s high regard for integrity across all core aspects of the agency – from program operations and hiring practices, to evaluations and communications as well as the financial practices (where most media attention often gravitates). Examples of evidence may include recognizing and abiding to all applicable state and federal laws, exploring appropriate accreditation opportunities, completing regular annual reports/audits and making that information readily available to funders, using independent researchers to conduct program evaluations, maintaining open lines of communication between donors and the like.”

# Accountability & Transparency

## – What Do They Mean?

- Accountability and Transparency are the key buzzwords for the nonprofit sector in this first decade of the 21<sup>st</sup> Century.
- For better or worse, the government will generally leave you alone if you provide poor service. And donors will usually forgive you for being inefficient. However, they will take you to task if you spend client money inappropriately, pay your officers too much, or forget to pay taxes correctly or on time. Media headlines about financial irregularities, overpaid executives, and outright fraud appear regularly. While in reality a very small percentage of nonprofits suffer from these problems, all pay the price of this type of attention. In the past five years an increased level of scrutiny by government has been applied to the nonprofit sector, creating new regulations and increasing the cost of compliance.

# Who are we accountable to?

- Donors
- Members (if membership organization)
- Board of Directors
- General Public
- Federal, State and Local Governments
- Clients
- Lenders
- Lessors of Leased Property
- Employees
- Other Nonprofits We Partner With
- Professional/Industry Organizations

# Practices of Transparency and Accountability

- Accountability
- Accessibility and Public Information
- Solicitation of Community Input
- Fairness and Equity Practices
- Corporate Documents & Records

# Accountability Practices

- Reporting Requirements - A nonprofit must comply with all legally required reporting procedures.
- Performance Measurements – A nonprofit should share its evaluation methodology and results with the public.
- Industry Standards – Each nonprofit should adhere to the established industry standards for the sector, subsector and particular activity area(s).

# Reporting Requirements

- A nonprofit must comply with all legally required reporting procedures.
- Initially the nonprofit has to form their organization with the state and apply for tax exempt status with the IRS.
- Annually must file Form 990/990EZ/990N(Postcard)
- Unrelated Business Income must file Form 990T annually
- Quarterly must file Federal and State Payroll Reports and Payments
- Certain organization are required to have a Financial Audit performed
- Charitable Solicitors must file each year with the Secretary of State.

# Performance Goals

- A nonprofit should share its evaluation methodology and results with the public.
- Many nonprofits track clients served and other measurable ways to determine their effectiveness. It is important to share this information to the public.
- Form 990 has some place for this information.
- Example from the Western Slope Center for Children.

# Industry Standards

- Each nonprofit should adhere to the established industry standards for the sector, subsector and particular activity area(s).
- A number of charity watchdog groups, nonprofit and foundation associations, professional associations, as well as individual organizations, have developed standards of practice and ethical codes. Some are organized by type of organization or mission served, some are developed for organizations of a particular region, and still others serve individuals in a particular profession. 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 to the general public.

# Industry Standards (cont)

- Independent Sector has compiled nearly 100 such standards, codes and principles into one comprehensive, web-based clearinghouse. Website is [www.independencesector.org](http://www.independencesector.org).
- How the Compendium of Standards, Codes, and Practices Is Organized:
  - I. Public Charities
  - II. Foundations
  - III. Professional Practice: Standards for Individuals
  - IV. Standards for Online Giving
  - V. Standards for Gifts-in-Kind
  - VI. Standards to Guide Marketing/Other Relationships Between Nonprofits and Corporations
  - VII. Samples of a Donor Bill of Rights
  - VIII. International Standards

# Colorado Nonprofit Association

- Part of the National Council of Nonprofits
- The Colorado Nonprofit Association, formerly the Colorado Association of Nonprofit Organizations (CANPO), is a statewide nonprofit membership coalition connecting nonprofits of all sizes, missions and geographic locations.
- We lead the nonprofit sector in influencing public policy and public opinion.
- We serve our members by providing tools for communication, networking and administration.
- We strengthen the nonprofit community through trainings, issue discussions and public advocacy about the importance of the nonprofit sector.

# **WESTERN SLOPE CENTER FOR CHILDREN EARNS ACCREDITATION**

## **FROM NATIONAL CHILDREN'S ALLIANCE**

*National Children's Alliance recognizes Western Slope Center for Children for its delivery of high quality and effective services to child abuse victims through Accreditation.*

**Grand Junction, CO** – Western Slope Center for Children has been awarded accreditation by National Children's Alliance (NCA) following an extensive application and site review process.

As the accrediting agency for Children's Advocacy Centers (CAC) across the country, NCA awards various levels of accreditation and membership to centers responding to allegations of child abuse in ways that are effective and efficient, and put the needs of child victims of abuse first. Accreditation is the highest level of membership with National Children's Alliance and denotes excellence in service provision.

Western Slope Center for Children, a private non-profit organization, utilizes a multidisciplinary team approach to work with child sexual abuse victims. The Center was established in 1997 with the mission of providing collaborative services to child sexual abuse victims and their non-offending family members in a supportive environment that reduces trauma and promotes dignity, justice, and healing. Our values are compassion, integrity and mutual respect. Since opening in 1997, Western Slope Center for Children has served more than 3,700 child victims and twice that number of siblings, parents or other non-offending family members. As an Accredited Member of National Children's Alliance, Western Slope Center for Children is dedicated to providing comprehensive, coordinated and compassionate services to victims of child abuse.

NCA awards Accredited Membership based on a CAC's compliance with 10 national standards of accreditation to ensure effective, efficient and consistent delivery of services to child abuse victims. Accredited Members of NCA must utilize a functioning and effective Multidisciplinary Team approach to work collaboratively in child abuse investigation, prosecution, and treatment. NCA also considers standards regarding a center's cultural competency and diversity, forensic interviews, victim support and advocacy, medical evaluation, therapeutic intervention, and child focused setting.



**"Your assertion that Frank Lloyd Wright once said your land had 'a million-dollar view' really doesn't help us with Form 8283 covering donations of land."**

# Accessibility and Public Information

- Interaction with Constituents – A nonprofit should provide its constituents with ongoing opportunities to interact with the board and management regarding its activities.
- Public Access to Information – A nonprofit organization should make information about its operations, including its governance, finances, programs, and activities, widely available to the community and on the organization's website.
- Annual Reports – A nonprofit should produce an annual report (in print and/or in electronic format) that contains information on its activities, accomplishments, performance and vision for the future.

# What GuideStar Has to Say about Transparency

- [www.guidestar.org](http://www.guidestar.org)
- Founded in 1994
- GuideStar was founded to promote nonprofit transparency, to provide a central repository of nonprofit information that donors could use to guide their giving decisions. Although both our audience and the ways in which we deliver nonprofit information have expanded over the years, our belief in the importance of transparency has never wavered. In fact, transparency holds a key place in our mission statement: "To revolutionize philanthropy and nonprofit practice by providing information that ***advances transparency***, enables users to make better decisions, and encourages charitable giving."

# GuideStar State of Nonprofit Transparency, 2008

First, the good news:

- 93% of nonprofits are embracing the Internet to disclose information about their programs and services.
- Nearly 75% of the organizations provided the names of the people who serve on the governing boards and the key staff who manage their organizations and oversee the delivery of programs and services.

And the rest of the findings:

- 43% of the nonprofits surveyed posted their annual reports on their Websites.
- 15% posted their audited financial statements on their Websites.
- 3% posted their respective IRS letters of determination .

# GuideStar Recommendations

- Nonprofits should regularly update their Websites with current, detailed program and evaluations information.
- In addition to posting board members' and key staff's names and titles, nonprofits should post brief biographic information for these important leaders.
- Every nonprofit that produces an annual report should post the report on its Website.
- Every nonprofit that has an audited financial statement should post it on its Website.
- Every nonprofit that has an IRS letter of determination should post it on its Website.

# Interaction With Constituents

- A nonprofit should provide its constituents with ongoing opportunities to interact with the board and management regarding its activities.
- There are many CRM (Constituent Relationship Management) software available to track and help you with your constituent interactions.

# Public Access to Information

- A nonprofit organization should make information about its operations, including its governance, finances, programs, and activities, widely available to the community and on the organization's website. Full disclosure of executive compensation, including compensation received from subsidiary and related entities of the organization, must be disclosed on the organization's annual information return.
- At a minimum, a nonprofit organization (unless specifically exempted) must make certain data available to the public, including:
  - Form 990/990EZ/990N/990PF for the previous three years
  - Form 990T UBIT for the previous three years
  - Form 1023/1024 Application for Exempt Status, including any papers submitted in support of the Application and any letter or other document issued by the IRS with respect to the Application.



**"Yes, it's true, the IRS has no authority here."**

# Form 990

- Redesigned in 2008, previously had not been significantly revised since 1979 and was universally regarded as needing a major revision.
- The new form's summary page provides a snapshot of key financial, governance and operating information, including a comparison of current year's revenues, expenses, assets, and liabilities with those of the prior year.
- The reordered core form provides a description of the organization's program service accomplishments immediately after the summary page, to provide context before the user proceeds to sections on tax compliance, governance, compensation, and financial statements.

# Form 990 (cont)

- The Checklist of Required Schedules also provides a quick view of whether the filing organization is conducting activities that raise tax compliance concerns, such as lobbying or political campaign activities, transactions with interested persons, and major dispositions of assets, and indicates which schedules the organization is required to file with the form.
- “The new Form 990 is perhaps the best example of our recent work to promote public trust and accountability in the nonprofit area. The new form is beginning to provide the public with richer information about the charities they contribute to or with which they interact” Douglas Shulman, Commissioner IRS, April 2010.

# Form 990 (cont)

- “Now I would like to mention a few areas where I think organizations and their advisors have an opportunity to build on trust. One is through better transparency. A primary tool in that area is the Form 990. The 990 is not just about reporting financial information to the IRS. Because it is publically disclosed, tax exempt organizations should also look at it as a public relations tool. Make sure the form accurately reflects the good work that your organizations are doing. This is your chance to tell your story. Potential donors will look to the form when making their decisions about where to lend their support – and they are not the only ones looking at the form. Reporters and watchdog groups also review and report on the 990’s filed by tax-exempt organizations. You need to make the Form 990 work for you, you don’t want it to be used against you” Lois Lerner, Director EO, IRS April 2009.

# Form 990 Highlights

- Page 1 – Snapshot
- Page 2 – Program Service Disclosures
- Page 5 – IRS Filings and Tax Compliance
- Page 6 – Governance, Management, Policies and Disclosures
- Page 7 – Compensation of Officers, Directors, Key Employees and Highest Compensated Employees
- Page 9 – Revenue Breakdown
- Page 10 – Expense Breakdown
- Page 11 – Balance Sheet
- Page 12 – Financial Statements and Reporting



**“I wonder if he ever finished the annual report?”**

# Annual Reports

- A nonprofit should produce an annual report (in print and/or electronic format) that contains information on its activities, accomplishments, performance and vision for the future. The annual report should include:
  - an explanation of the organization's mission, activities, and impact;
  - an explanation of the organization's outreach efforts and ways in which constituents may access the program(s).
  - overall financial information, including income and expense statements, balance sheet, and functional expense allocation;
  - a list of board members, management staff, and, when appropriate, contributors; and
  - an evaluation detailing extent of accomplishment of stated goals and other notable accomplishments.

# Talking to Ourselves, A Critical Look at Annual Reports in Foundation Communications

- In a digital age where information can be updated from anywhere at anytime, many wonder if the annual report is a thing of the past. The report and companion website, [www.WhyAnnualReports.org](http://www.WhyAnnualReports.org) are designed to get the conversation going about why foundations issue annual reports and whether they are still relevant. Addresses these issues:
  - Limited reach with engaged Americans
  - Limited reach with grantees
  - Little evaluation
  - Lots of objectives, only one vehicle
  - Practitioner criticisms
  - Valuable on the inside
  - Strengthens transparency
  - Budget drain
  - Corporate sector spending less



















# Glasspockets

- Looked at Transparency Practices of the top 900 foundations
- Foundations are using the internet like never before to make their interests and activities accessible to the public. Through their web sites and other online communications vehicles foundations are working to show their “glass pockets”

*“We think that the foundation should have glass pockets.”*

—Russell Leffingwell, Chair, Carnegie Corporation, 1952

# Electronic Alternatives

- Facebook 
- Twitter 
- YouTube 
- Grants Database 
- Blog 
- CEP Study 
- E-Newsletter 
- Flickr 
- iTunes 
- Knowledge Center 
- LinkedIn 
- Multimedia 
- MySpace 
- Podcasts 
- RSS Feed 
- RSS Grants Feed 
- Wiki 
- Other 

## **AnnieECaseyFndn**

RT [@aecfkidscount](#): In '09, 63% of kids lived in houses owned by their parents, down 1.5 mil from 66% in '07. More data: <http://ow.ly/3Har8> [about 13 hours ago](#) via [HootSuite](#)

Utah's Deseret News highlights Casey's 2010 report - Parents play important role in child's reading: <http://ow.ly/3J6wl> [#readingmatters](#) [about 13 hours ago](#) via [HootSuite](#)

Casey aims to turn a 31-acre parking lot into a vibrant southside neighborhood in [#Atlanta](#) <http://ow.ly/3Hqwt> [12:42 PM Jan 20th](#) via [HootSuite](#)

[@AnnieECaseyFndn](#) has named Lisa M. Hamilton, VP of [#PR](#) at UPS, to lead its strategic communications, policy reform and advocacy work. [11:58 AM Jan 20th](#) via [HootSuite](#)

If you're a fan of the Casey Foundation in real life, please visit us on Facebook and tell us what you think! <http://ow.ly/3Den4> [7:51 AM Jan 13th](#) via [HootSuite](#)



**“I never thought it possible – my first texted lead gift”**

# Solicitation of Community Input

- Community Meetings – Nonprofit are encouraged to hold public community meetings to gather and distribute information about their approaches, goals, and effectiveness in carrying out their missions.
- Working with Other Nonprofits – Nonprofit organizations should actively work with other organizations to avoid duplication of services, learn from each other, and share resources when appropriate.

# Community Meetings

- Nonprofits are encouraged to hold public community meetings to gather and distribute information about their approaches, goals, and effectiveness in carrying out their missions. Boards of directors should also provide information to the public that describes their decisions and decision-making processes. Nonprofits should make meeting agendas and descriptions of significant decisions available to those who request them.

# Working with Other Nonprofits

- Nonprofit organizations should actively work with other organizations to avoid duplication of services, learn from each other, and share resources when appropriate.
- Communications is key. Nonprofits doing similar work should talk with each other, collaborate, find out what the other is doing, look for ways to differentiate your work and not just compete for the same scarce dollars.
- As a result of the current economic climate, the rise of collaboration that exists among nonprofits has continued to increase across the country. Nonprofits with similar missions are looking to each other for help to keep organizations alive, even if it means to merge.

# Working with Other Nonprofits (cont)

- There has been a surge of new nonprofit organizations over the past twenty years. This was fueled by increases in the availability of public and private funding. Many new organizations did work similar to existing organizations and in many locales we began to see a duplication of services or a competition to provide services. Now, with less funding available, nonprofits must find the most cost effective way to maintain and deliver services – to see that resources are used in the most beneficial and mission-driven way. Overhead and administrative costs are going to have to be reduced so that more money is available for core services. Mergers are one way of reducing those costs and creating leaner, more effective organizations.

# Working with Other Nonprofits (cont)

- The bottom line is that the important work of nonprofits continue. Mergers are a way for nonprofits to survive. When vulnerable populations of people are the beneficiary of the services and supports, it is the responsibility of the nonprofit to embrace the change to come through a potential merger when the forecast looks glum.



"We were going to approve your grant, but America voted against it."

# Fairness and Equity Practices

- Fees and Services – Information regarding fees and services should be made readily available to the public. When charging for services, nonprofits should price equitably and take into account the consequences of denial of services due to an individual's inability to pay.
- Nondiscriminatory Service and Confidentiality – A nonprofit should ensure nondiscriminatory service to its constituents and confidentiality.
- Code of Ethics – A nonprofit organization should have a formally adopted, written code of ethics with which all of its board, staff, and volunteers adhere to in order to ensure a high level of integrity.

# Fees and Services

- Information regarding fees and services should be made readily available to the public. When charging for services, nonprofits should price equitably and take into account the consequences of denial of services due to an individual's inability to pay.
- Many nonprofits count on fees from services they offer to clients for part of their annual incomes. There are several things to be aware of:
- The activity generating the fee must be associated with your organization's mission. If it is not, you may be subject to the Unrelated Business Income Tax or UBIT.
- The fee generally must be less than a for-profit business would charge for the same or a similar service.

# Fees and Services (cont)

- Rather than charge a fee, some nonprofits have "voluntary" donations. This is when you suggest that a user or client can help you provide services by giving a donation.
- Be careful that you do not coerce or shame anyone into making a donation. It has to be voluntary.
- One way to do this is to post a fee schedule that provides information such as how much your service actually costs to provide, and inviting users to donate an amount of their choosing. Give ranges to make it easier such as \$25-\$50 dollars.
- There is some evidence that people, even when financially challenged, like to donate something rather than to receive just a "handout." Whether you invite donations from clients and users will depend greatly on the nature of your organization and the service you provide.

# Nondiscriminatory Service and Confidentiality

- A nonprofit should ensure nondiscriminatory service to its constituents and confidentiality.
- Written confidentiality and nondiscrimination policies are essential to have.
- Several examples follow, question becomes how inclusive do you make them.

# Nondiscrimination Policy

## Examples

- The Nonprofit Center is committed to equal opportunity for all persons without regard to sex, age, race, color, religion, creed, national origin, marital status, disability or sexual orientation. It is the policy of the Nonprofit Center to comply with all federal, state and local laws and regulations regarding equal opportunity. In keeping with that policy, the Nonprofit Center is committed to maintaining a work environment that is free of unlawful discrimination and harassment. Accordingly, the Nonprofit Center will not tolerate unlawful discrimination against or harassment of any of our employees or others present at our facilities by anyone, including any supervisor, co-worker, vendor, client, or customer of the Nonprofit Center.

# Nondiscrimination Policy

## Examples (cont)

- United Charitable Programs (UCP) is a 501(c)(3) nonprofit organization. UCP is committed to providing an environment that is free from discrimination in employment and opportunity because of race, color, religion, creed, national origin, ancestry, disability, gender, sexual orientation, or age.

# Nondiscrimination Policy

## Examples (cont)

- HeartStrong is committed to fair employment/volunteer recruiting practices and equal employment/volunteer opportunity regardless of race, color, creed, religion, national origin/ancestry, age, sex, disability, marital status, personal appearance, education, political affiliation, gender identity, gender expression or gay, lesbian, bisexual orientation.

# Confidentiality Policy Example

- It is the policy of The Nonprofit Center that trustees and employees of The Nonprofit Center may not disclose, divulge, or make accessible confidential information belonging to, or obtained through their affiliation with The Nonprofit Center to any person, including relatives, friends, and business and professional associates, other than to persons who have a legitimate need for such information and to whom The Nonprofit Center has authorized disclosure. Trustees and employees shall use confidential information solely for the purpose of performing services as a trustee or employee for The Nonprofit Center. This policy is not intended to prevent disclosure where disclosure is required by law.

# Confidentiality Policy Example (cont)

- Trustees, employees, volunteers and contractors must exercise good judgment and care at all times to avoid unauthorized or improper disclosures of confidential information. Conversations in public places, such as restaurants, elevators, and public transportation, should be limited to matters that do not pertain to information of a sensitive or confidential nature. In addition, trustees and employees should be sensitive to the risk of inadvertent disclosure and should for example, refrain from leaving confidential information on desks or otherwise in plain view and refrain from the use of speaker phones to discuss confidential information if the conversation could be heard by unauthorized persons.

# Confidentiality Policy Example (cont)

- At the end of a trustee's term in office or upon the termination of an employee's, volunteer's or contractor's relationship with The Nonprofit Center, employment, he or she shall return, at the request of The Nonprofit Center, all documents, papers, and other materials, regardless of medium, which may contain or be derived from confidential information, in his or her possession.

# Code of Ethics

- A nonprofit organization should have a formally adopted, written code of ethics with which all of its board, staff, and volunteers adhere to in order to ensure a high level of integrity.
- The nonprofit code of conduct is a written policy that sets out the expectations of proper behavior for people affiliated with the nonprofit. The code of conduct should encourage ethical behavior, accountability and transparency while discouraging or prohibiting unethical behavior, discrimination, breaches of confidentiality, and other undesirable, dangerous, or illegal behavior. Each board and staff member should read and sign the code of conduct each year. New staff and volunteers should be asked to read and sign the code of conduct when they begin work and at least once per year after.



**"Hey! This year let's fund a whiney"**

# Corporate Documents & Records

- Document Retention and Destruction Policy – A nonprofit should have a written, mandatory document retention and destruction policy or schedule with guidelines for handling all types of documents, including electronic files and voicemail. The policy should also include backup procedures, archival procedures, and guidelines for regular checkups of the reliability of the system.
  - Retention of documents related to lawsuits is one provision of Sarbanes-Oxley that is applicable to nonprofits.
- Corporate Records – Certain corporate records must be kept by a nonprofit including its articles of incorporation, bylaws, resolutions, board meeting minutes, records of actions taken by the board, accounting records, current list of board members, and current list of members (if applicable).