

NONPROFITWORLD

The National Nonprofit Leadership and Management Journal Volume 20, Number 4 | July/August 2002

Taming the BEAST

Four Keys to Creating That Special Event

Plus:

How to Have an Audit without Breaking the Bank

Hiring in a Competitive Market

Eight Steps to Managing Conflict

Should You Use Robert's Rules of Order?

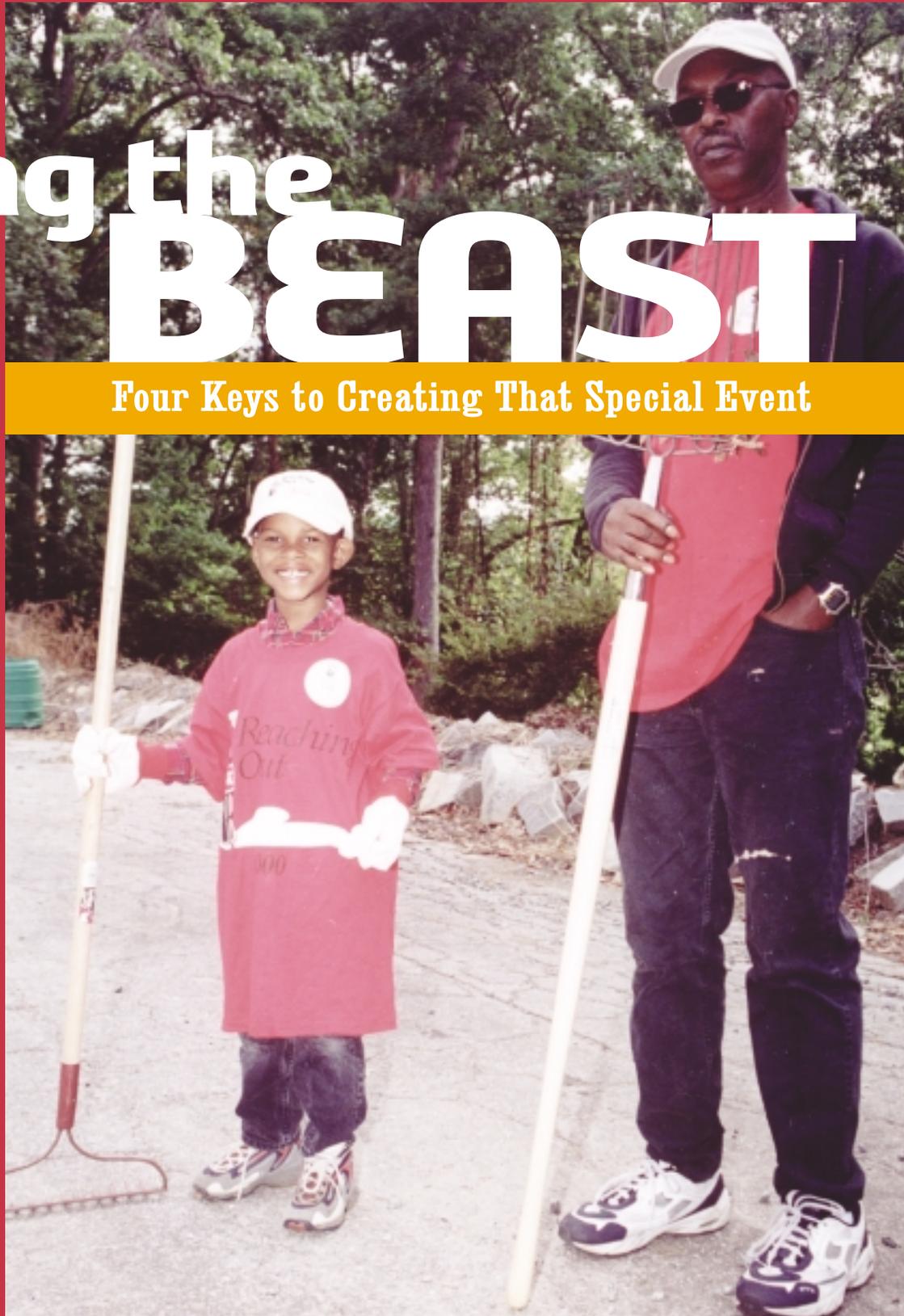
Getting Comfortable with the F Word: Fundraising and the Nonprofit Board Member

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The Society for Nonprofit Organizations

Purpose

The Society for Nonprofit Organizations is a 501 (c) (3) nonprofit organization. Through *Nonprofit World* and other communications with its members, the Society is dedicated to bringing together those who serve the nonprofit world in order to build a strong network of professionals throughout the country.



This logo symbolizes the goal of the Society, which is to unify diverse segments of the nonprofit world, to draw them together, and to create a dynamic whole without losing their individuality.

on the cover

Hands On Atlanta Day is a chance for volunteers of all ages to come together. Over 15,000 volunteers participate in this special event, providing invaluable visibility for Hands On Atlanta and its work. For tips on how to create your own special event, see page 23.



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Unsolicited manuscripts and letters to the editor are welcomed. They should be addressed to Jill Muehrcke, Editor, *Nonprofit World*, P.O. Box 45346, Madison, WI 53744-5346.



The Most Restless People Who Ever Lived

Our restlessness may be the most quintessential part of our national character. In *Restless Nation* (University of Chicago Press), James Jasper notes that Americans move more often—about every five years on average—than anyone else.

Moving creates opportunities, but it also weakens attachments, as Hal Kane points out in *Triumph of the Mundane* (Island Press, Washington,

Harvard professor Robert Putnam has documented (see “Sector Has Key Role in Rebuilding Social Capital” on page 34). Instead of gathering with others, we communicate via answering machine and e-mail.

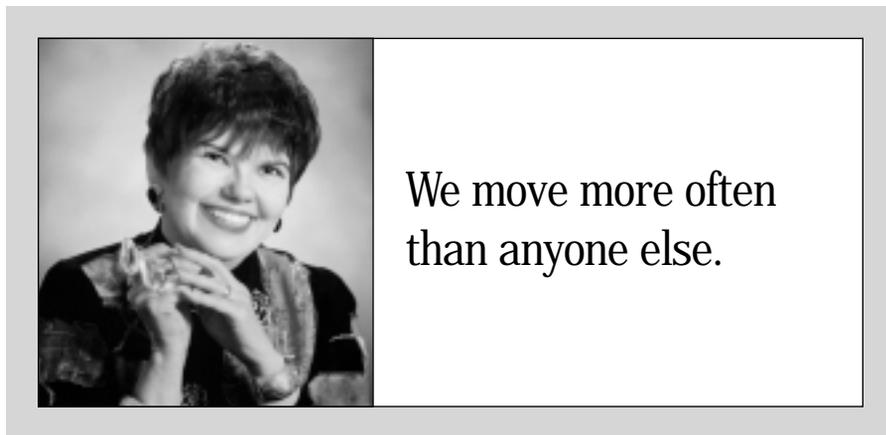
Such emotions as caring are carried out under time pressure. We even relax faster than we once did. Steven Wright boasts of his microwave fireplace: “You can spend an evening in front of it in only eight minutes.”

create connections, and find commonality. “A discussion, in plain language, about our daily lives might actually be a powerful strategy for political change,” he says. Few people “will be able to rebut the statements made by individuals speaking from their hearts about their own lives. So far, Washington, D.C., has heard many statements in public-policy-speak, and remarkably few in plain English.”

Who better to lead such a dialogue than those of us in the nonprofit sector? “Don’t Ask Why, and Other Keys to Communication Success” (page 39) provides a starting point. “Eight Steps to Managing Conflict” (page 29) offers ways to smooth communication and forge connections, while our cover story (page 23) is a vivid example of how nonprofits can unite people and communities. “Take Action for a Change” (page 38) focuses on the antidote to restlessness—the desire to work together to change the world.

Tocqueville once noted that obliging people to turn their attention to other affairs than their own “rubs off that private selfishness which is the rust of society.” If we don’t help people escape that selfishness and find the fulfillment that comes with commitment and caring, who will? Such heartfelt communication is our most crucial role. ■

Jill Muehrcke
Editor, *Nonprofit World*



DC). He sees our eagerness to move on as one of the most powerful drivers of our values. “We are building a country that is built on ephemerality,” he tells us. “Moving away—in all its varieties—is a national behavior, and it is shaping our country.”

Perhaps the most profound effect of our restlessness is that it separates us from other people. We’re less likely to contribute to our community or build relationships if we don’t intend to stay. We’re disengaging from organizations, as

Restless people believe they can move away from their problems, Kane suggests. Their approach to homelessness won’t be to reach the root of the problem but rather to “sweep the homeless away into the next county, or downtown, or into a prison.” They feel “donor fatigue” rather than a responsibility to help others.

One problem, according to James Billington, the librarian of Congress, is that “there’s no common body of knowledge, no common language.” Kane’s solution is to talk to others,

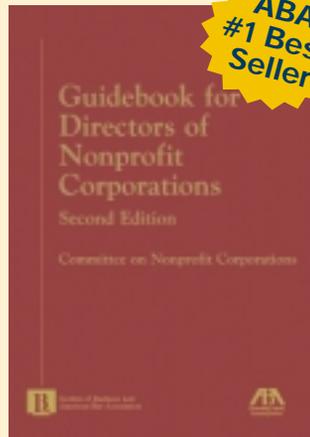
What Every Nonprofit Director and Manager Should Know about Effective Governance for Nonprofits

Nonprofit Governance Library

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Just Published

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This *Library*, including three publications, *Guidebook for the Directors of Nonprofit Corporations, Second Edition*; *Nonprofit Governance and Management*; *Nonprofit Resources: A Companion to Nonprofit Governance*, offers legal guidance on directors' duties, rights, risks and obligations; practical how-to-commentary; sample forms and letters; handy checklists; and pointers for both nonprofit directors and staff. Also, the third title in this *Library* is a reference listing books, handbooks, professional journals, government publications, foundation reports, case and statutory citations, and Internet sites related to nonprofit governance. **The Three publication titles within the *Library* are described as:**

1) Guidebook for Directors of Nonprofit Corporations, Second Edition

By the Committee on Nonprofit Corporations, ABA Section of Business Law
2002 280 pages 7 x 10 Paperback

A new edition of the ABA's most popular title, this accessible guidebook is designed for directors and prospective directors of all types of nonprofit corporations. The Guidebook, written in plain-English commentary, addresses general legal principles and corporate governance issues to provide nonprofit directors with a comprehensive understanding of their roles. The new **Second Edition** adds full-length chapters covering today's changed political and legal environment for nonprofits; tax ramifications of profit and joint ventures; employee relationships, laws, and policies; duties of directors in special circumstances such as change-of-control events and bankruptcy.

2) Nonprofit Governance and Management

Edited by Victor Futter, Judith A. Cion and George V. Overton
2002 744 pages 7 x 10 Paperback

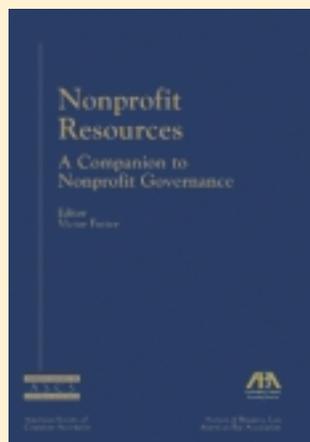
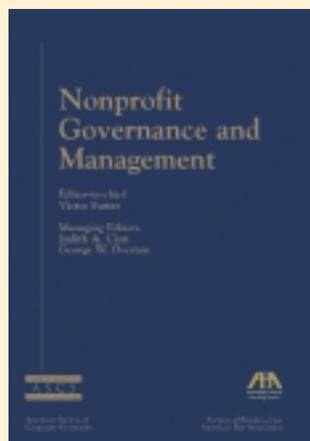
This updated edition of *Nonprofit Governance-The Executive's Guide* expands the scope of its popular predecessor to address issues relevant to both directors and managers of nonprofits. Drawing on the expertise of nonprofit executives, directors, lawyers, and other professionals experienced in organization and management, this new edition offers step-by-step guidelines, sample forms and letters, handy checklists and pointers to additional resources. Topics include accounting, board and committee operations, grant writing, Internet laws, liability, membership, mission statements, state regulations, and much more.

3) Nonprofit Resources: A Companion to Nonprofit Governance

Edited by Victor Futter
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LETTERS *to the editor*

A Wasted Opportunity

The events of September 11 brought nonprofit organizations to the forefront of public consciousness. Unfortunately, many of the organizations that stepped forward served as examples of what's wrong with nonprofit culture.

For-profit institutions have long perceived the nonprofit world as bureaucratic, territorial, and lacking in professionalism. After September 11, many of these perceptions were affirmed. The public witnessed no fewer than 158 nonprofits collect more than \$1.5 billion in donations—a remarkable amount given the timeframe. Yet these organizations' inefficiency overshadowed what should have been a shining moment for the nonprofit sector. Would-be recipients appeared night after night on television with stories of no money received, no effort made by relief organizations to contact them, and endless paperwork—all while they were coming to grips with life-altering events. The result was public scorn—society and donors viewing nonprofits as incompetent at best, greedy at worst.

All of us who work in the nonprofit world should use these events as an opportunity to re-examine how we conduct business. As a marketing professional who has worked in both for-profit and nonprofit organizations, I've witnessed how both

worlds operate. Nonprofits see themselves as culturally different, and many outside the nonprofit world would agree. But while nonprofits see this cultural difference with a certain amount of pride, those outside the nonprofit culture see it as inefficient. And they have a point. How many times have you seen the following:

- people who join a board of directors and take no active role?
- a nonprofit CEO with plenty of experience but no leadership ability?
- mismanaged budgets?
- an incompetent or uncaring worker that people are afraid to fire?
- directors who lack any clear focus?
- managers who let talented individuals leave?
- development professionals who don't utilize sales training?
- a don't-rock-the-boat attitude because "we've always done it that way"?

If you're a nonprofit professional, you've probably experienced at least one of these scenarios. Sadly, they're more common than many would like to admit.

That's why, justifiably, many business leaders don't respect nonprofit professionals. That's why Bill Gates and other entrepreneurs are establishing their own foundations in record numbers—they expect results. And because they do, they apply management techniques that work. They're not afraid to innovate and take risks, subscribing to the credo that not to take a risk is the greatest risk of all.

Nonprofit professionals everywhere should take this opportunity to reflect on their organization's mission and rid themselves of the notion that they are somehow different. We are all accountable and have a duty to carry out our responsibilities as effectively as possible. Good management practices are applicable to all organizations, regardless of tax status. Nonprofits have noble ambitions—the relief of human misery and the expansion of the sphere of human achievement. It's time for nonprofit culture to reflect those high ideals.

*John Schneider
Denver, Colorado*



Six

Six Things to Do Next Monday

Here are a few concrete things you can do right now to begin transforming your organization.

- 1** **Identify a problem** with which you've been struggling, and consider how communication can solve it. See "Don't Ask Why, and Other Keys to Communication Success" (page 39) and "Eight Steps to Managing Conflict" (page 29).
- 2** **If you'd like to raise more money**, turn to your board. See the tips on persuading your board members to raise more funds on page 10.
- 3** **Rethink the way** you conduct board meetings. Make sure the procedures you use are based on legal requirements. See "Should You Use Robert's Rules of Order?" on page 6.
- 4** **Check the ideas for building connections** in "Sector Has Key Role in Rebuilding Social Capital" (page 34). Pick out three of the suggestions, and resolve to follow through on them.
- 5** **Look over the ideas** for preventing theft and fraud in "Protect Your Resources from Insider Theft" (page 35), and decide which ones make sense for your organization. Plan steps to implement those measures and protect your assets.
- 6** **Consider starting a business** to provide a steady income stream for your organization. See "Turn Your Stakeholders into Risk-takers" on page 16. ■



ASK *the experts*

Should You Use Robert's Rules of Order?

What are the rules for nonprofit board meetings?

Q:

Should a nonprofit organization adopt Robert's Rules of Order for its board meetings? Are there alternatives to Robert's Rules? Is there a state law that governs nonprofit board meetings?

A:

Using Robert's Rules of Order for nonprofit board

meetings is an extremely widespread practice. It's also not a good idea! There are serious problems with using Robert's Rules of Order to govern meetings of a nonprofit board:

- They aren't based on the legal requirements established by state law and court decisions. In many instances, they conflict with legal requirements. Following Robert's Rules does not mean a board decision has been reached lawfully. So a board that uses Robert's Rules may see its decisions successfully challenged in court.

- They are highly technical and complex. Many people find them intimidating and are thus reluctant to participate in board meetings.

Fortunately, there are alternatives to Robert's Rules. One particularly helpful guide is *Parliamentary Law and Practice for Nonprofit Organizations*, written by Howard L. Oleck and Cami Green, and published by the American Law Institute-American Bar Association Committee on Continuing Professional Education (ISBN 0-8318-0598-6). Check your local library or bookstore.

Yes, there is a state law that governs board meetings. Each state has a nonprofit corporations law, which addresses many details of board pro-

cedures, including election of board members, quorum requirements, voting methods, notice of meetings, and so on. You should be able to obtain a copy of it from your local library or from your Secretary of State. There may also be state court decisions that affect your board's procedures. If you have specific questions about procedures in your state, consult with an experienced nonprofit attorney in your area. ■

Pamela McAllister
Author, *The Charity's Guide to Charitable Contributions*
Conlee-Gibbs Publishing
P.O. Box 21085
Seattle, Washington 98111



FIRST *alert*

■ **ICANN: Nonprofit Domain Space Expanded**

The Internet Corporation for Assigned Names and Numbers (ICANN), a private-sector nonprofit constituting one of the major international Internet technical standards organizations, recently issued its decision regarding nonprofit Internet domain space.

Internet domain registrar VeriSign has, since 1992, had a nearly exclusive hold on registering domain names that end in .org and .net, which it has agreed to relinquish in order to focus on commercial and individual customers. Under a deal reached with ICANN and the U.S. Department of Commerce, VeriSign can operate the .net registry until June 2005, the .com registry until

2007, and the .org registry until December 2002. VeriSign would then permanently give up its ability to run the .org registry, but could bid again to run the .net registry. In return, VeriSign would set up a \$5 million endowment for a new nonprofit group to run the .org registry, and a \$200 million sum for 10 years worth of research to find ways to improve the efficiency of Internet registries.

ICANN recommends that .org be kept for nonprofit and public interest groups but that it also include “non-commercial expression and information exchange, unincorporated cultural, educational and political organizations, and business partnership with nonprofits and community groups for

social initiatives.” Potential applicants for the .org domain would have to establish and articulate a vision for the .org audience.

Current .org domain name holders would need to have their registrations protected during the transfer from VeriSign. New registrants would be protected from disputes by existing nameholders, but existing ICANN domain name dispute resolution policies would apply.

For more information, contact OMB Watch, 1742 Connecticut Avenue, N.W., Washington, D.C. 20009, ombwatch@ombwatch.org, 202-234-8494. ■

■ **IRS Reports Nonprofit Data**

According to the IRS (www.irs.gov), the number of charities rose to 207,273 in 1998—up 4.2% from the year before (not including more than 600,000 charities earning less than \$25,000 that didn't file returns). Most charities that file with the IRS are small; 73% report expenses less than \$500,000.

Taxpayers claimed \$125.8 billion in charitable deductions in 1999—up 15.2% from the year before. IRS officials credit this increase (the fourth year of rising deductions) to the growing number of non-cash gifts, which rose 30.9% in 1999. ■

■ **IRS Rulings Will Cost More**

It will now cost charities more to obtain IRS rulings on how to handle legal issues. Charities will pay \$2,470 (up from \$2,275) for each private-letter ruling. The fee is \$600 for charities with annual gross receipts of less than \$200,000 (Internal Revenue Bulletin 2002-1, www.irs.gov). ■

■ **Dry But Crucial Reading for Nonprofit Mailers**

Sweeping changes to the Domestic Mail Manual went into effect on June 30, 2002. For details, see “Final Rule, Changes to the Domestic Mail Manual to Implement Docket No. R2001-1” (www.usps.gov). Dry reading though it is, it describes mail preparation changes that may have vast effects on your budget, notes the Alliance of Nonprofit Mailers (www.nonprofitmailers.org).

For example, all presorted letter-size mail sent first-class or standard mail must now meet automation requirements—even if the mailer doesn't claim automation rates—or incur a surcharge of 4 cents per piece (2 cents for nonprofit mailers). A million-piece campaign could thus cost a nonprofit mailer an additional \$20,000!

This nonmachinable surcharge applies to presorted letters, including cards, that weigh less than 3.3 ounces and meet the physical criteria that make a mail piece nonmachinable. Automation requirements include weight limits, shapes, and design of mail pieces and tabbing requirements. The criteria are listed in the Domestic Mail Manual sections C050 and C810. Get ready for some fun reading! ■



■ **What, Me Supervise? Board Tagged with Negligence**

In an example of how board liability is being expanded through aggressive lawsuits, the board of a nonprofit club is being sued by an ex-employee for negligent supervision. She charges that board members knew of conflict between her and the nonprofit's manager but took no action to resolve the problem. A trial court granted summary judgment for the board, but an appeals court reversed the ruling, finding that the board knew of the risk but took no action (*Schraum v. Riviera Community Club*, No. 25003-9II, Wash. Ct. App. Div. Two).

Knowledge imparts duty.

While boards generally don't operate on the front lines of personnel management, knowledge imparts duty. Since they knew about the negligent supervision, the board members had a responsibility to address it.

See "Hiring and Supervision: Managing Employee Liability" (Gammon & Grange Law Offices, 703-761-5000, www.npa@gandglaw.com) and "Expectations for Board Members Are Changing" (*Nonprofit World*, Vol. 19, No. 3, 800-424-7367, www.snpo.org). ■

■ **Value of Volunteer Work Keeps Rising**

The value of volunteer time is now \$16.05 per hour, up from \$15.39 in 2000. This value is based on average wages computed by the U.S. Bureau of Labor Statistics (www.bls.gov). Independent Sector first calculated the value of volunteer time in 1980, when it was \$7.46.

According to Independent Sector (www.independentsector.org), 44% of adults or 83.9 million people volunteered in 2000—the equivalent of over 9 million full-time employees at a value of \$239 billion. They gave over 250 million hours per week. Anyone who volunteers four or more hours a week will reach the President's goal of 4,000 lifetime volunteer hours in less than 20 years. ■

■ **Donor Lists Now Open to Public**

The IRS (www.irs.gov) has announced that it will now release charities' lists of contributors to the public upon request. The lists, which nonprofits attach to their tax forms as Schedule B, had always before been kept confidential. This year, the IRS has decided that public-disclosure laws require open access to the forms.

Although the IRS will remove donors' names and addresses, the lists will still show the dollar amounts for each donation and the type of gift, such as cash or property. Many nonprofits worry that people will be able to identify donors, some of whom have asked to remain anonymous. ■

■ **Nonitemizer Deduction Would Yield Little New Giving**

Several proposals pending in Congress would give people who don't itemize their taxes the right to deduct charitable contributions. Would any of these proposals cause people to donate more to charity?

No, according to a report by the Congressional Research Service (CRS), the research arm of Congress. Based on the economic effect of the deduction, the report concludes that the impact on charitable giving "is likely to be relatively small." CRS offers three ways to improve the proposals pending in Congress:

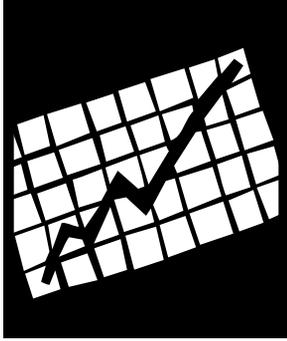
1. If non-itemizers could deduct donations only over a \$500 floor amount (\$1000 for joint filers), and there were no ceiling on the amount that could be deducted, "we estimate that each dollar of revenue loss will induce 64 cents of giving (and 32 cents if religious services were excluded)."

2. Another alternative is to have a floor as a percentage of income. "Initial results suggest that this approach would be considerably more effective per dollar of revenue." For example, for households in the

\$12,000-\$24,000 income range, this approach would result in 81 cents in new giving per dollar of lost revenue, and in the \$24,000-\$36,000 income range the results would be \$1.04 in new giving per dollar of lost revenue.

3. The third option is to "use the revenue that would have been directed at the tax cut to fund spending programs aimed at the same objective, either through direct government program or a grant that might be administered by a private entity."

The full CRS report is available at ombwatch@ombwatch.org. ■



Hiring in a Competitive Market

Follow these steps to recruit fundraising employees for your organization.

BY BILL J. HARRISON, CFRE

Experienced fundraising professionals are in great demand. If your organization hopes to successfully compete for these individuals, you must be prepared internally before you begin your search. The following five suggestions will help as you recruit new fundraising employees:

1. Have a written plan for the search. Whether you're using a search firm or not, you need to decide who is going to be on the search committee.

2. Keep the search committee small to accelerate the recruiting and hiring process. Today, with so many good jobs available, you can't drag out a search for three or four months. The best candidates have other options.

3. Be prepared to bend over backwards to help a spouse or partner find a job. You don't have to guarantee a job, but you can offer to open doors and help with introductions.

4. Think creatively in your methods of compensation. Explore the possibilities of a signing bonus, housing allowance, or a bonus program related to overall performance.

5. Take a long-range look at your organization. Decide on your goals and strategic plans for the next five

CREATIVE FUNDRAISING IDEAS

Use Deadlines as Fundraising Tools

The only sure way to get money when you need it is to create a deadline. Use your deadline as a tool to help your fundraising campaign succeed. Pick a date that relates to your cause, and publicize it along with your fundraising goal. A deadline is the single most valuable key to fundraising success.

to ten years. Is there one or more capital campaigns in your future? If so, you need a seasoned development officer who has taken another organization through a capital campaign and will be there to lead your institution in your next major fundraising effort. ■

Resources

- Alford, Jimmie, *Resource Development Videotape*.
- Muehrcke, Jill, ed., *Fundraising and Resource Development, Leadership Series*.
- Staecker, Del, "How to Attract and Retain the Best Development Staff," *Nonprofit World*, Vol. 6, No. 2.

These publications are available through the Society for Nonprofit Organizations' Resource Center, 800-424-7367, www.snpo.org.

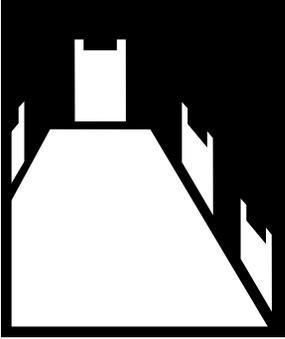
CREATIVE FUNDRAISING IDEAS

Involve Volunteers in Your Mailings

Ask volunteers to fold, stuff, stamp, sign, and hand-address your fundraising letters. If you don't have enough volunteers, make arrangements with local groups such as senior-citizen clubs, youth organizations, and community associations. Hand-addressed mail is much more likely to be opened, read, and answered. See *Volunteer Management, Leadership Series*, www.snpo.org.

Bill J. Harrison, CFRE, is director of fund development for Blood Systems, 6210 E. Oak, Scottsdale, Arizona 85257 (bharrison@bloodsystems.org, www.billjharrison.com). During the past eight years he has established a comprehensive fund development program involving 19 blood centers across the United States and has been instrumental in raising more than \$6 million. He has 27 years of fundraising experience, has published more than 200 articles on fundraising, and is the author of the award-winning book Fundraising: The Good, The Bad, and The Ugly (and how to tell the difference).

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Getting Comfortable with the F Word: Fundraising and the Nonprofit Board Member

Here are some concrete ways to make sure your board raises the funds you need.

BY CAROL WEISMAN

Many of us learned it's not polite to discuss money, that there's something obscene about the topic. The real obscenity is to tolerate poverty, disease, hunger, or a world without the arts. Money can make a big difference in attacking these fronts, which is an excellent reason to talk about it and seek more of it for your nonprofit organization.

While few people join boards because they love to raise money, the sooner they get comfortable with the concept, the better. Here goes.

Should board members donate their own funds?

Fundraising must begin at home. If board members expect the community to support their organization, they must write checks of their own. There are several reasons:

Reason 1. A donation should be viewed as an investment rather than a gift. With an investment, there is an expectation of a future relationship that includes dividends. When you buy stock, you follow the market to chart its progress. An investment in a nonprofit implies the same kind of involvement and vigilance.



Does your board think money grows on trees?



Development staff and boards must work together like truffle hound and master.

Reason 2. Funders expect it. One of the first questions funders ask is whether 100 percent of board members support the organization. Why should they give their dollars if the people closest to the organization don't personally support the cause?

Reason 3. A third reason is to avoid hypocrisy. How can board members ask people to do something they themselves won't do? Granted, all of us can't write a seven-figure check, but all of us can write a check, even if it's only for \$5.

We have a development staff. Why should board members raise funds?

Development staff and boards must work together like truffle hound and master. One has to point out the treasure and the other has to dig it up. The roles may vary, but it has to be a team effort. If you're not going to get involved, don't waste your money hiring someone.

It takes some work for board and staff to work well together. Board members frequently don't understand the development process, and staff members may overlook some complicating factors. One thing staff members overlook is that every time board members ask for a donation, they incur debt. Their contacts will ask them to support their charities in return. There is often a quid pro quo when it comes to giving and friends.

But even if board members don't want to solicit their friends directly,

they can take the truffle-hound role and point out the money. Frank discussions of how board and staff can work together will ensure success.

How do you let board candidates know what you expect?

Board and staff leaders are often shocked that their board members don't know they're supposed to raise funds. But, when pressed, they admit they've never actually told their board that raising funds is their duty.

The truth is, many people are clueless about what board service entails. The franker your pre-membership meetings are, the less the chance that either the organization or the board member will be disappointed.

To prevent misunderstandings, write a letter of commitment, similar to the one in Figure 1. Send two copies of the letter to new board members, asking them to keep one and sign and return the second.

The nominating committee should write the specifics of the board commitment letter and then present it to the entire board for approval. This is an opportunity to get issues in the open for board members who aren't participating fully in the governance process.

The letter should be revised annually, as the needs of the nonprofit vary from year to year. Fundraising expectations will be much higher in the midst of a capital or endowment campaign. Other years, community education may take priority, requiring a different sort of board activity.

How do you change your board's giving philosophy?

Even established boards need to change their philosophy of giving from time to time. For instance, if you've always had United Way support and your community hasn't filled their coffers to the usual level, your board might have to be more aggressive to meet its budget.

What do you do when your board members have never believed that raising funds was their job? You hear "but we have a development person, don't we?" or (hear highly virtuous tone) "I give my time and time is money."

The only way to answer these statements is to come back to the mission. The question for the board is: "Can we serve our clients with the funds we have, or do we have to reduce services as a result of the shortfall?" There are only two options when there isn't enough money: raise more or reduce services. Ask, "If we reduce services, which programs are we going to cut?" In one board room, the conversation went like this:

Executive director: "We didn't receive a large grant we had expected. We either have to raise additional funds with the board's help or reduce services."

Board: Dead silence.

Executive Director: So, I guess we'll have to cut services. Do we drop our group for adolescent rape victims or shorten the hours of our preschool for abused toddlers? (Notice the use of the word "we".)

Board Member: Wait a minute, those are important services. We



Figure 1: Board Commitment Letter

Dear _____:

Thank you for agreeing to serve on the board of _____. As I'm sure you know, our mission is _____. Our vision of our organization's future is _____. We expect the following of our board members:

- Attendance policy: Our meetings are: _____ (list times, date and place).
- We have the following financial expectations of our members: _____.
- We expect your participation in the following events: _____ (list special events and the level of participation expected; for example, bring a foursome to the golf tournament, buy and bring a table to the dinner dance).
- The length of your term is _____.
- We anticipate that you will need to devote at least _____ (hours a week, month or year) to serve on this board.
- All board members are asked to serve on at least one committee. As we discussed, you will be on the _____ committee.
- To help with the orientation process and to welcome you, your board mentor (or sponsor) is _____ (include phone number).

Should you have any questions about being able to fulfill your duties, please call _____ (include phone number).

What can you expect from us? We will not waste your time. We will give you material regarding the programs and financial status of our nonprofit in a timely manner. We will not keep secrets. If there is a problem, we will let you know as soon as possible. We do (or don't) have board insurance. Please call if you would like a copy of the insurance policy.

Please sign the enclosed two copies. Keep one and send the other in.

Welcome aboard. We look forward to working with you to _____ (refer once again to the mission).

Sincerely,

Chair of Nominating Committee

Board President

can't cut those. How soon do we need to raise the money?

Executive Director: By the end of the quarter.

Board Member: Well, I'm willing to help. Am I the only one?

Second Board Member: I'll help too. If we pull together, I'm sure we can raise the money by then.

Rest of Board: Sure, let's get started.

For the first time, the board saw that money was tied to mission and that if they didn't get involved, children would suffer. Till then, ensuring adequate financial resources had always been the responsibility of the executive director and the development staff.

Now the earth moved and the board stepped up to the plate. Once they began to raise funds, attendance at board meetings increased. They

wanted to make sure that the funds they raised were spent wisely.

Boards have three choices: train board members to raise funds, reduce the scope of the organization's services, or get new board members. When board members are unwilling to make the transition and take responsibility for the organization's fiscal health, the board can assess what the board member brings to the table and decide



whether the value of intellectual resources, insights, or contacts makes it worthwhile for the board to keep this member.

Getting rid of board members can be easier than you might think. First of all, you need a solid board rotation system, and you have to have active, enforced bylaws. If board members are uninvolved or and don't come to meetings, maybe they don't have the time or interest to continue to serve. The trick is to have them leave as friends. Always go back to mission, and always look for another opportunity for that board member to serve within your organization.

A conversation might go something like this: "You are up for reelection to the board. We've noticed that you haven't been able to attend many meetings in the last year. We need all the help we can to ____ (state mission). We don't want to lose your expertise. We are hoping that you will agree to serve on the ____ (name committee or advisory board). That way we won't be losing the unique gifts you bring to the table and you won't be burdened by so many meetings." Then write a glowing article in your newsletter about what this person has accomplished while serving on the board and what future activities he or she plans to be involved in.

Do you want a board of all "heavy hitters?"

Sometimes we sit in a boardroom and think, "Wouldn't it be great if we had a roomful of people who could just write checks to get this done?"

Board members of affluence and influence are marvelous, but there is a down side. Without diversity at some level, you might make poor decisions.

One board built a soup kitchen to serve the poor and homeless, but it wasn't on a bus line. No one who

worked directly with clients and knew their needs was involved in the decision making.

If you do decide to have a board of only "movers and shakers," make sure you tap into their minds as well as their wallets. One group with major heavy hitters on the board was asking \$50,000 per board member and getting it. The board held only one meeting a year, which lasted three

hours. When a new development director was hired, he made it a point to get to know the board members and was astounded at the talent on the board. He said that asking only for money was like buying a huge mainframe computer and using it only to play solitaire. The more he got to know them, the easier his job became and the more money they raised.



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Who should ask your board to give?

Asking board members to give is the job of the board—specifically the board president. At the end of the year, a letter from the president should be sent to every board member. There's no reason why staff can't draft this letter. It could read something like the letter in Figure 2.

How else can board members financially support the mission?

There are as many ways to support a mission financially as there are board members. Frequently, members just don't know how many ways they can affect the bottom line. At a board retreat or a long board meeting, try this exercise:

Ask board members to break into groups of three. Take a large piece of paper and have them write the alphabet down one side and then ask what they can do to affect the bottom line, starting with each letter of the alphabet. Sometimes the effect is hilarious, sometimes thought provoking, but it gets the brain thinking.

Members who can't personally write big checks need to understand that they are integral members of the fundraising team. One board member asked his boss to donate his company's old computer system when the company moved. "Old" in corporate terms was two years. His employer donated the system and also asked the hardware company to donate its time to install and network the system at 72 work sites. Later, his employer went to the nonprofit to receive an award and gave even more—a large check and five laptop computers for field staff.

Another board member, who owned an asphalt company, redid a playground at a shelter for battered women. He asked his buddies and their kids to help as a Mother's Day

Figure 2:
Letter Sent to Each Board Member at the End of Each Year

Dear Ralph,

Your help on the strategic plan was invaluable. Your merger experience in the corporate world certainly saved us from some common pitfalls.

You have been generous with your time and knowledge, and now I'm going to once again ask you to be generous with your pocketbook.

As you know, there are x,y, and z things we cannot do without additional revenue. Thanks to your work in the planning process, you of all people know that your gift will be used to get the most mission for the money. Thanks for digging deep.

It is an honor to serve with you.

Sincerely,

Sally
Board President

project to honor everything their moms did for them. The kids got their scouting troops involved and brought new tricycles for the children who lived at the shelter.

Also, never underestimate the power of a board member who can tell a personal story. One of the greatest fundraisers of all time was a battered woman who had overcome many obstacles. She left school in eighth grade and got her G.E.D. at 35. When she went into corporations to tell her story, she always left with a significant check.

Like most board members, she needed some training in public speaking. Groups like Toastmasters and the National Speakers Association can help train your board and staff on how to deliver a powerful message.

(Hint: Never leave a speech without getting the home addresses of those in the audience for your database. Raffles or other giveaways by the host are one way to collect the

information. Or simply ask for the names and addresses of those who would like to receive your newsletter or hear more about volunteer opportunities.)

Board members can also get donations of time from their friends and colleagues. One board member called a friend who was a labor lawyer and asked for a donation of two hours of time. He agreed and eventually grew so interested in the group that he became both a contributor and a board member.

Holidays and special occasions are a great time for board members to solicit their friends and colleagues. When one woman, a breast cancer survivor, threw a bash for her 70th birthday, she asked for donations to a cancer research program. Her guests gladly wrote the checks.

Don't forget Mother's Day and Valentine's Day. For certain causes, the Fourth of July might make sense.

Ask board members to get a list of friends and colleagues and to write



a letter with a stamped envelope enclosed. Figure 3 gives an example from the divorce recovery program at Valentine's Day.

How can board members learn to raise funds?

Many board members don't want to raise money because they don't know how. Counter that reluctance by asking: "Would you be willing to try raising funds after you've had some support and training?" It's amazing how many board members are willing to get involved if assured that they aren't going to be embarrassed.

There are many ways to get fundraising training. Your local chapter of the Association of Fundraising Professionals (AFP) may have training available or the names of experts in your area. To find a chapter near you, you can check their Web site at www.afpnet.org.

If you are in an area without a chapter, you may want to call your United Way or Junior League to ask whether they know someone who could work with your group.

Training should be consistent with your strategic plan. If your strategy for raising funds is a capital campaign, don't hire someone to teach you to put on special events.

When setting up a training program for board members, build in a sense of safety, warmth, and encouragement, especially through those first few fundraising calls. Let them know that rejection is part of the process, that it hurts but is by no means deadly. When Nietzsche said, "That which does not kill you shall make you strong," it is clear he was talking about fundraising. Being prepared for rejection helps tremendously.

Does this sound like sales training? Well, it is. You have to know and understand "the product" you're sell-

Figure 3: Letter for Board Members' Friends on Valentine's Day

My dear friends,

You have helped me through a bad time in my life, and I'm asking for your help once again. As Valentine's Day approaches, think about those who are without someone who loves them and whom they love.

Just as you gave generously to me, with personal support when I needed it, I hope that you will give generously to Second Chapter, a divorce recovery program. This program helped me, as it has many others, complete the healing process.

ing, which in this case is your mission and the programs you have established to meet those ends.

Consider using your board retreat, when people are relaxed and away from their day-to-day grind, as a time for training. Start by establishing why the mission is important. Some groups emphasize this by having the retreat in the venue where they deliver services. If you are a theater company, have your retreat on the stage. If you are a school for special needs children, spend the day in a wheelchair or try to learn Braille. If you are a scouting group, consider a cookout at one of your campgrounds. Don't forget to make the s'mores. They taste as good when you're 60 as they did at 6.

Another way to bring the mission into the retreat is to have clients tell their story. If that's not possible, ask a social worker, teacher, or other line worker to present a case study. Make sure the story is about a person and not about numbers. Experience the mission.

Board members who truly understand the needs of the people they serve will understand the critical need for money to serve them. For those who make the connection, fundraising will become an integral part of their service to the mission they value. ■

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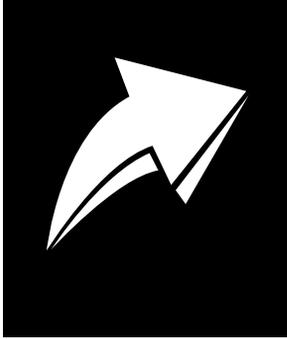
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BY JERR BOSCHEE

“We need to be prepared to eat our mistakes, and most nonprofits are not real good at that.”

—Rick Walker

First came the motel. Then the bookstores...the ice cream store...the function hall...

But before them all came the committee.

“We were heading into uncharted territory,” says Rick Walker, president and founder of Road to Responsibility (RTR), remembering how his nonprofit organization started its first for-profit business. “So we formed a New Ventures Committee.”

The committee consisted of “board members, staff members, the people we served, and their family members. We brought everybody together and talked about doing something that was very, very different from what any of us were used to doing in our job placement program or in our old sheltered workshop model.”

The Move to Business Ventures

The committee smoothed the way for RTR, located in Marshfield, Massachusetts, to move from job-

placement and sheltered-workshop programs into a network of small businesses. Today, RTR operates three bookstores, two motels, an ice cream shop, and a function hall. In every case, the goals are to be self-sufficient and to generate employment opportunities. Walker calls it “real jobs for real people with real needs”: The businesses employ people who are developmentally disabled (and in some cases people who are mentally ill, autistic, or physically disabled). Not incidentally, the businesses are also intended to educate the public about the potential of individuals with disabilities.

Collectively, RTR’s businesses are known as Ocean Village Ventures, and they generated \$553,309 in sales during FY00, with a net profit of \$24,249. Walker plans to open one or two additional businesses each year for the next five years.

Managing Risk

“A lot of people say we have too many businesses,” says Walker, “but the issue for me is risk management.

Collectively, the impact of our businesses is large—but each business is small, so the failure of one wouldn’t be critical to the agency as a whole. The point is...we need to be prepared to eat our mistakes, and most nonprofits are not real good at that.

“For example, each of our little businesses is generating some revenue and creating some jobs, but if the ice cream store continues losing money because we’re not able to solve our location problem, I’ll kill it. We can’t afford those kinds of losses. Or if the whole bookstore business goes completely kablooey and starts doing terribly, I’m not going to let it imperil the agency as a whole. Or somebody could build a giant Motel 6 down the street and be better prepared to respond to the market than we are with our motel. We don’t have pockets deep enough to compete in a situation like that, so it means we’d fold our cards and go off in a new direction.”

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It's also the way Walker helps keep his board and staff comfortable with entrepreneurship. "We all know how tough dollars are in the non-profit world," he says, "so how can we justify losing money in one of our businesses and then tell staff members they aren't allowed to lose money in their programs?"

Walker believes the New Ventures Committee "instilled a sense of risk-taking across the organization" and set the tone that's made it possible for an entire network of businesses to emerge.

Creating a Mission Statement

Once they were accustomed to the idea of risk, the next step for the committee members was to create a mission statement to guide their pursuit of new ventures. Then, Walker says, "we circulated a mailing to everybody we knew that essentially said, 'This is what we want to do... you got any ideas?'"

Although the mailing didn't generate any immediate suggestions, says Walker, "it did something else that's been critical to our success." The mailing made it clear to everyone that RTR was planning to move into entrepreneurial ventures. "To me," he says, "it was *much* more important to establish going in that we were planning to do something than to define what that something was going to be."

Walker had seen other nonprofits flounder when they took a different approach, and he believes the committee and its mission statement helped RTR avoid at least three common pitfalls: tunnel vision, a tug-of-war among staff members, and a disconnect between the staff and the board.

"Too many nonprofits," he says, "spend too much time frozen on one particular idea. They say, 'We want to do a coffee shop'—and meanwhile

three or four great opportunities float by the window. So instead of starting out with a specific idea, we told our stakeholders what we wanted to do and asked them for help. That approach helped us get everybody on the same page and helped them understand we were doing something new and different—so when it actually happened it was much less shocking and dislocating than you might expect."

Forming the committee and creating an entrepreneurial mission statement also solved a problem that has plagued many other nonprofits starting new businesses. "I've seen a great deal of internal friction between traditional program people and the people starting business ventures," Walker says. "But we spent a lot of energy on internal communica-

tions, talking about why we were doing this and why it was important, so it never became the tremendous distraction I've seen elsewhere."

Finally, he says "nonprofits frequently spend a lot of staff time planning something—and then they go to the board and get killed. Or they finally begin to involve people outside the organization and discover the environment isn't ready for them."

The Importance of Sticking Out Your Neck

Others have recognized the willingness of RTR to take risks. In 1991 the organization received a national award from the Giraffe Project (honoring individuals and organizations that "stick out their necks for the common good"), and in 1998 RTR became the first nonprofit to win an





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Entrepreneur of the Year Award in the national competition sponsored by Ernst & Young, the Kauffman Foundation, and NASDAQ.

But reactions from the nonprofit sector still exasperate him. “My god, the resistance!” he says. “To a great extent, nonprofit people are not risk-takers, and their unwillingness to think outside very standard parameters constantly amazes me. I see a few of them trying things, but usually on a very, very limited scale. Quite frankly, we’ve had a lot better luck getting people outside the nonprofit world to understand what we’re doing and feel comfortable with it.”

Critical Success Factors

In addition to **preparing stakeholders in advance** and **reducing risk by spreading it across a network of businesses**, Walker has identified seven other factors that have been critical to the success of his entrepreneurial endeavors:

Develop a mission statement for your entrepreneurial activities. Let that mission guide you as you seek new business ventures. Exactly what type of business you start isn’t as important as your commitment to the idea of enterprise.

Make no excuses. “We will make no compromises on quality just because the work has been done by people with disabilities,” says Walker.

Be willing to fire people who are developmentally disabled. Walker says “you’ve gotta be absolutely ruthless about making changes whenever they’re needed. We fire people if they don’t perform. What we actually do is tell them, ‘This isn’t working out,’ and transfer them back to our supported employment programs. On the flip side, the full-time employees in our bookstores receive the same benefits I get ...and I hope they’ll stay with us until they retire.”

Retain expertise. “You’ve got to figure out just what it is you can do best,” says Walker, “and you don’t want it to be expertise of such a narrow focus and in so few people’s hands that it can walk out the door.”

Acquire capital. “Access to the capital markets is just so difficult,” mourns Walker, “but we’ve done a lot of creative stuff where the sellers financed our purchases—and I’ve used every other method of financing I can think of.”

Capitalize on what nonprofits know how to do. “What kills most small businesses,” says Walker, “are the things that nonprofits are often very, very good at—personnel management, accounting systems, cost management, purchasing systems. For us, it’s a matter of taking those assets and applying them to our small businesses.”

Make a name for yourself. “There are a million nonprofits in this country,” Walker says, “and they’re all competing for the same dollars. Do you have a story to tell? *Everybody* has a good cause, but that’s not enough any more. Doing business ventures is almost a branding strategy, because you’ve got to come up with something to identify your nonprofit as worthy of the public’s attention.” ■

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Jerr Boschee has spent the past 20 years as an advisor to social entrepreneurs in the United States and abroad. During that time, he has also played a leading role in the birth of numerous organizations, including the National Center for Social Entrepreneurs (where he served for nine years as president and CEO), The Affirmative Business Alliance of North America (as the organization’s first president), the National Gathering for Social Entrepreneurs (as one of the six founders), and The Red River Academy for Social Entrepreneurs (as the catalyst for a consortium of six universities in the Mid-South). He is currently the founder and executive director of the Institute for Social Entrepreneurs; is a partner in the Social Enterprise Fund, a subordinated debt mezzanine fund providing long-term working capital and strategic guidance for established social enterprises; and is a member of the adjunct faculty at the School for Social Entrepreneurs in London, England. His e-mail address is jerr@orbis.net, and the Web site address for the Institute for Social Entrepreneurs is www.socialent.org. Articles in this series are excerpted from Mr. Boschee’s most recent book, The Social Enterprise Sourcebook (Minneapolis: Northland Institute, www.northlandinst.org).

More on Social Enterprise

For more on social enterprise, see *The Social Enterprise Sourcebook* by Jerr Boschee. The *Sourcebook* contains stories about 14 nonprofits that have successfully started business ventures, along with fact sheets about each organization and brief profiles of the entrepreneurs. Copies of the book are available for download at no charge from the publisher (www.northlandinst.org), and bound volumes can be ordered either from the publisher or from Amazon.com.

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Taming the BEAST

Four Keys to Creating that Special Event

A large-scale event can boost support for your organization without overworking your staff.

BY MIMI MAJOR

Signature special events are powerful tools for generating support. However, they can sometimes weaken an organization internally, bleeding energy from overworked employees and leaving them to chase neglected goals and projects.

If mention of your special event at staff meetings inspires more groans than cheers, it's time to look at how your organization can "tame the beast"—harness the power of your special event while minimizing its assault on your staff and resources.

Hands On Atlanta provides a good example. It has grown its signature special event, Hands On Atlanta Day, from 200 volunteers in 1990 to over 15,000 volunteers in 2001. Hands On Atlanta Day is the nation's largest day of service, involving thousands of volunteers in hundreds of service projects around metro Atlanta. Volunteers participate in activities such as reading with children, cleaning streams, painting murals, visiting seniors, and planting butterfly gardens. Like many signature events, Hands On Atlanta Day provides invaluable visibility for the organization and its work.



Projects such as constructing garden benches provide opportunities for teamwork.

Recruit volunteers for more than “administrivia.”

As the event has grown in participation and scope, Hands On Atlanta has developed some unique strategies to balance quality and quantity without depleting staff and volunteers of the strength and motivation to continue working toward the organization’s mission throughout the year. Any nonprofit organization can use these methods to guarantee the success of a large-scale special event.

1

Harness Volunteers’ Passions.

Recruit volunteers for more than labeling envelopes, answering phones, and other “administrivia.” Use their leadership talents and skills. Identify potential volunteer leaders, and involve them in planning and organizing your event.

Many volunteer leaders find working on a community event a refreshing change from their day jobs, and they bring fresh perspectives and passion to their roles. For Hands On Atlanta Day, volunteer leaders are organized into task-specific committees such as logistics, recruitment, project development, and food and entertainment. Each volunteer committee is empowered to use members’ talents, networks, and creativity to meet the goals outlined for them. To be sure no tasks are duplicated or forgotten, each volunteer committee has a staff liaison, and all committees report to the event volunteer chair and staff coordinator.

Volunteer leaders also help expand the scope of your event. While most Hands On Atlanta staff members focus on developing service projects, many volunteer leaders turn their attention to organizing the volunteer appreciation party at the conclusion of Hands On Atlanta Day. This party lets participants relax, network, and enjoy the fruits of their labor while savoring great music and food. It’s a valuable tool for recognizing volunteers and corporate supporters while providing the perfect finale to the event. The appreciation party would not be possible were it not for the leadership of volunteers.

2

Use a Team-based Volunteer Model.

Instead of recruiting 10,000 volunteers—an overwhelming if not impossible task for a small staff—Hands On Atlanta recruits 500 team captains. The captains then

recruit their friends, families, and coworkers to form teams of 5 to 500 volunteers. After recruiting volunteers, captains serve as liaisons between their teams and Hands On Atlanta staff, selecting a project and making sure their team members are registered and well-informed.

Team-based recruitment lets Hands On Atlanta meet participation goals with a fraction of the effort. Staff can thus spend more time improving the quality of the event, ensuring that volunteers have a good experience. As with any event, if volunteers have a good experience one year, they’re likely to return the next year with friends in tow.

Volunteering as a team also fosters a sense of camaraderie and esprit de corps among participants, encouraging volunteers to follow through with their commitment and enhancing their enjoyment of the project. Teams inspire healthy competition that spurs creativity and hard work.

Team-based registration can work effectively for most types of special events. Tournaments, competitions, and fill-in-the-blank-a-thons lend themselves easily to the team format. Even for invitation-only events such as banquets and auctions, team captains can increase response rates by adding credibility and prestige to your organization’s invitation and by fostering friendly competition.

When seeking team captains, contact the heads of such community groups as neighborhood associations, faith communities, alumni organizations, professional clubs, families, and corporations. The idea is to decide on the audiences you want to involve, look for groups that exist naturally within that audience, identify the leaders of those groups, and inspire and empower them to lead their groups in your direction.

3

Use Technology to Share Information.

Recruiting volunteer leaders and team captains is just the first step toward planning your event. If these volunteers don’t have access to appropriate tools and information, they may be more a hindrance than a help.

Hands On Atlanta has streamlined registration and information-sharing with its Web site, HandsOnAtlanta.com. The Web site takes volunteers



Hands On Atlanta Day volunteer sorts cans at Atlanta Union Mission.

through the registration process and empowers team captains to manage their teams online. They can send e-mail invitations to potential volunteers, who then confirm their participation with a click of the mouse. Team captains can view project information online and then select a project that works for their team. The Web site also helps team captains send information, such as driving directions and event schedules, to their team members via e-mail.

Because the Web site is a centralized source of event, project, and volunteer information that can be updated instantly by multiple users, it reduces staff and volunteer time previously spent handling forms and phone calls. It also decreases the risk of duplicate entries and lost files and provides an up-to-date account of registration progress.

In addition, the Web site captures volunteer contact information, allowing Hands On Atlanta to communicate with participants regarding event updates and post-event evaluations. After the event, the organization has all the information needed to invite people to take part in opportunities throughout the year.

The more information available on your Web site, the less time your staff and volunteers have to spend on the phone. Marketing and promotional material can direct people to your Web site where they can get information at any time without worrying about making an immediate commitment. Putting information such as important deadlines, maps, directions, event schedules, and FAQs online can improve the consistency of your message and increase the number of people who receive it.

Draw people to your Web site by making it useful, interactive, and exciting. Periodically update the amount

of donations collected and the number still needed to reach the goal. Invite Web site visitors to e-mail a postcard about the event to their friends. Have an event registration form available for downloading to save participants a trip. As people rely more heavily on the Internet for their information needs, it's important for nonprofit organizations to take full advantage of the technology available.

4

Involve Corporate Teams.

The corporate community is frequently asked for donations of money, food, or advertising space and courted with offers of logo placements on T-shirts and invitations to VIP luncheons. Yet corporations are seldom asked to donate their time. You can take great

strides toward your recruitment and fundraising goals by involving corporate teams in your event.

Corporate human resources departments view participation in a quality event as an opportunity for team building and boosting employee morale. Marketing departments understand that greater involvement in an event increases the corporation's visibility in the community, both during the event and through the media coverage surrounding the event. Employees enjoy the opportunity to get to know one another outside the office and to involve their families. Fueled by industry competition and team spirit, corporate groups are often the largest Hands On Atlanta Day teams.

Because corporations feel more connected to your organization's mission after serving in the trenches, they're more likely to support your events and year-round activities with fervor. Inevitably, companies that provide employee teams for Hands On Atlanta Day want to return as high-level sponsors the following year.

Find Your Potential.

Planning a signature special event is always a wild ride. With these proven strategies, you can harness the energy and full potential of your event, each year generating renewed enthusiasm and support both internally and externally for your organization and its mission. ■

Mimi Major is the special events coordinator for Hands On Atlanta, 1605 Peachtree Street, Suite 100, Atlanta, Georgia 30309, mmmajor@handsonatlanta.com, HandsOnAtlanta.com.

How to Have an Audit without Breaking the Bank

No matter how small your organization, you can afford an audit if you follow these steps.

BY MARGARET O'REILLY-ALLEN

If you're one of the many nonprofits required to have a financial audit, don't despair.¹ While the thought of an audit may be overwhelming, you can take steps to ensure that it proceeds smoothly and quickly. And the faster and more trouble-free the audit, the less it will cost.

Find Good Auditors.

If you or someone on your board doesn't know a reliable CPA firm, ask other nonprofits in your area for suggestions. An auditor will do the following:

- Examine and analyze your organization's internal-control structure, accounting records, and related source documents.
- Produce a report containing an opinion on the fairness of the financial statements.
- Plan and perform an examination to detect material fraud in the financial statements.

Meet with Auditors Ahead of Time.

Schedule a planning conference with the auditors at least a month before the audit begins. Discuss the overall audit plan and find answers to such questions as these:

- When will the audit begin and end?
- Where will the audit work be conducted?
- What will the auditors need from you?

Remember, if auditors have to spend time doing bookkeeping duties and locating data that your staff could easily provide, the length and cost of the audit will increase. By preparing as much information as possible in advance, you can reduce the number of billable auditor hours.

Also schedule an exit meeting at the end of the audit process. That will give you a chance to discuss any unresolved issues.

Gather Data.

Ask your auditors to list the information they will need so that your staff can start collecting it. Figure 1 provides a list of information that is likely to be required.

Document Your Internal Controls.

The first thing the auditors will do is assess your organization's internal controls.² This is the most important part of the audit, because the stronger your internal controls, the less time and effort the rest of the audit will require.

The auditors will begin by interviewing key personnel, observing your accounting procedures, and reviewing records and documents. They will examine your organization's internal controls and assess the risk that those controls may pose. For example, certain controls may fail to detect or correct material misstatements that could affect the financial statements.

To prepare for this portion of the audit, review your internal controls, including the handling of cash and deposits. Check the processes in place for spending and disbursements. Address any weaknesses that you know exist. The auditors will be interested in how aware you are of such weaknesses and risks, how you manage them, and how you assess the likelihood of occurrence. Focus on the following five areas, which are the components auditors are required to evaluate:

1. Control Environment

The control environment is the tone set by top management. It is considered the foundation for all other components and includes factors such as your operating style, integrity, and ethics.³ To document your control environment, be sure to do the following:

Prepare an organizational chart. The auditors will need to know who is responsible for various functions within your organization. If you don't already have

Nonprofit World • Volume 20, Number 4 July/August 2002 • Published by the Society for Nonprofit Organizations • 5820 Canton Center Road, Suite 165, Canton, Michigan 48187 800-424-7367 • www.snpo.org

Figure 1

Checklist for Your Financial Audit

By anticipating the auditors' needs, you can speed the process and ease the burdens associated with this fiscal responsibility. Here's a checklist of what to do ahead of time:

- ✓ Prepare information on your accounts receivable. List (by category) the parties who owe you money. Include updated addresses, amounts, and due dates. The auditors will ask you to prepare confirmation letters that will be returned directly to the auditors.
- ✓ Create an inventory statement. If your organization purchases and sells fundraising merchandise, provide a record of purchases and sales for the year. Document that you took a periodic inventory count during the year. Be prepared for the auditors to count the inventory.
- ✓ Provide a statement of property and equipment (fixed assets). List the date acquired, the amount paid, the expected life, annual depreciation, and depreciation to date.
- ✓ Note your account payables. To whom do you owe money? What is the amount and date due? Make a list, and provide copies of invoices and loan agreements.
- ✓ List your deferred revenue. If your organization has deferred any contributions due to donor conditions or restrictions, list this information.
- ✓ Detail your grants, contributions, and gifts. List donor names and addresses, grant period, grant amounts, date received, restrictions, and copies of the grant letters and grant applications.
- ✓ Describe donations. List all donated services and materials. Estimate a dollar value on contributions of services and materials.⁴
- ✓ Provide other information if the auditors ask for it. This information may include the following:
 - annual budget for the fiscal year being examined, including funding sources and costs for all programs, for management, and for fundraisers
 - leases and other contracts
 - monthly bank statements and reconciliation
 - payroll records, including federal and state tax returns related to payroll
 - vacation records
 - records showing types and levels of insurance coverage for the organization, key employees, and board members.

one, prepare an organizational chart that shows the complete management structure, including key volunteer positions. Such information can save valuable time during the audit.

Describe your board. The auditors will need a written document describing the function of the board and listing the members and their qualifications. You should also provide dates and minutes of board meetings. (An effective board should

meet at least quarterly. If your board meets less frequently, be prepared to tell the auditors why.) The board's function should include regular review of your financial statements, placing special emphasis on controls that are in place to track donations and revenue sources. This is a critical internal-control issue for nonprofits. Be sure the board's discussion of these topics is documented in the minutes. If your board hasn't previ-

ously reviewed this information, be prepared to explain why.

Assess your control over compliance issues. List all federal and state guidelines that apply to your organization. Also, provide copies of policies and procedures in place to show compliance with these requirements. Provide evidence of an up-to-date IRS tax-exempt form 990.

2. Risk Assessment

Be prepared to do the following:

Brief the auditors on how you address risks that arise from changes in your operating environment, new personnel, new technology, and new accounting regulations directed at nonprofits. Address risks related to economic, industry, regulatory, and operating conditions, as well as any other risks relevant to achieving financial reporting objectives.

3. Control Activities

Control activities are procedures ensuring that management policies are carried out throughout an organization. To document your control activities:

Provide flowcharts of accounting systems as well as copies of applicable policies and procedure manuals. If you don't have this information available, begin to prepare it now.

Show that there is separation of duties among employees. Separation of duties is considered a critical internal control. For example, the person who collects cash shouldn't be responsible for maintaining bank records. If your organization is small and one person handles all cash functions, this should be documented and described as a weakness. The auditors will then conduct more extensive testing in this area.

The auditors will be interested in how aware you are of weaknesses and risks.

Document controls on information systems, such as who has access and passwords to specific accounting programs. Provide copies of user manuals for accounting software packages.

Verify your payroll controls. Describe how new employees are entered into the system and how they are paid. Explain controls to prevent someone from entering a fictitious employee name and issuing a payroll check.

List your policies for identifying authorized check signers and the number of signatures required on checks that exceed specified dollar amounts.

4. Information and Communication

Provide information on the process used by managers to communicate internal-control responsibilities. Describe the information system that produces reports about operational, financial, and reporting-related data.

5. Monitoring

Detail how management monitors the quality of internal-control processes. Explain how the organization responds to an internal-control weakness once it has been identified. Include procedures for reporting deficiencies to top management and the board of directors.

Prepare Other Audit Evidence.

In addition to evidence about internal controls and other information requested by the auditors, you

will be required to provide a written statement confirming oral statements made during the audit in response to various inquiries. Matters the auditors may inquire about include:

- accounting errors or irregularities involving management or employees
- communications from regulatory agencies concerning deficiencies in compliance
- any current litigation
- circumstances that affect the carrying value of assets
- any material issue that could affect your financial statements.

You can save time and money by having this information readily available in advance of the audit.

Be Ready to Address Deficiencies.

The final phase requires the auditors to prepare a written report accompanied by a letter of reportable conditions. The audit report expresses an opinion on the fairness of financial statements. The letter of reportable conditions addresses significant deficiencies in the design or operation of the organization's internal-control system. (It is possible to have reportable conditions and still receive an unqualified or "clean" opinion.) The auditors will advise you to discuss any reportable conditions with your board and to develop a corrective plan to address such deficiencies in the future. ■

Footnotes

¹Nonprofits expending \$300,000 or more in federal awards for any given year must have a single or program-specific audit completed every year within nine months of year-end.

²See "Setting Up a Control System," "How a Small Organization Can Audit Its Books," "Preparing for Today's Nonprofit Audit," and "Protecting Your Organization's Assets: A Primer on Internal Control" in *Accounting and Financial Management, Leadership Series* (see "References.")

³Consider conducting your own ethics audit before the financial audit takes place. See the sample ethics audit in "Why Ethics Tools Don't Work," *Nonprofit World*, Volume 17, No. 2 (www.snpo.org).

⁴See "Financial Records and the Value of Volunteers" in *Accounting and Financial Management, Leadership Series* (see "References.")

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Eight Steps to Managing Conflict

No organization is free from it. The trick is to catch it early and manage it creatively.

BY MARION PETERS ANGELICA

STEP 1 Identify the Conflict.

There is a great benefit to finding trouble before it finds you. Conflicts identified early are easier to resolve because they haven't escalated to a high level of emotional intensity or complexity. If you, as the board chair or chief executive, note tension or misunderstandings between board or staff members, take the initiative to check it out.

Pay attention to subtle clues of possible conflicts brewing. Doing so is more a matter of focus than of performing a new activity. Because conflict is uncomfortable for most people, you will see them reacting to one another differently when they are in conflict. Here are some cues to look for:

Silence. A drop in the amount of communication can often be a signal that something is going on. Conflict is one possibility.

Body language. Watch how people position their bodies during interactions. Remember that some body language is culturally specific. However, the activity of mirroring positions and movements (matching another person's gestures) is a signal of harmony in almost all cultures.

Change in social patterns. For example, a change in who goes to lunch together or who is included in alliances can indicate conflict.

Style differences. Significant differences among individuals in their work and decision-making styles can be a common sign—of source—of conflict.

Recurring problems. Recurring troubles between specific individuals or groups may indicate system-induced conflicts.

Cross-program tensions. Watch for recurring tensions between programs or administrative parts of the organization. Such tensions may be the result of an outmoded policy or procedure.

STEP 2 Decide Whether to Intervene.

By putting your attention and skills to work, you may have identified a conflict. Now you have to decide what to do about it. Consider the following questions:

What are the likely consequences of *not* resolving this issue now? What will be the best and worst possible outcomes if you don't intervene at this point?

Are you the most appropriate person to help resolve this conflict? The general rule is to handle conflicts as far down on the organizational ladder as possible. However, conflict between managers or between supervisors and their employees may need executive inter-

vention. Unique circumstances may require the board to handle conflicts throughout the organization.

Can you be objective about the people and issues?

Can you make the time to deal with the resolution process? Conflict resolution takes time because it is predominantly a communication process. The time investment for an average conflict is as follows:

Gather information from involved parties: 40-60 minutes for each person

Analyze the conflict and tailor the process: 30-60 minutes

Brief parties about the process: 30-45 minutes each

Conduct conflict resolution meeting(s): 60-120 minutes each

If you don't have the time, skills, or objectivity to manage the conflict, find someone who does. If no one with your organization can facilitate the conflict impartially, you may need to hire an outside mediator.

STEP 3 Identify Parties, Issues, and Emotions.

Once you've decided you will manage the conflict, you need to understand what you're facing. Answer the following questions:

Who has a stake in the conflict? These are the parties.

Do certain groups have the same interests and positions? Think of like-minded groups as one party.

Avoid phrases that sounds interrogating.

How does each person see the issues in the conflict?

What does each party seek as a solution to the conflict?

How emotional are people regarding the conflict?

Make appointments with known parties to collect information about who is involved, the issues, and their feelings about the situation. Help them uncover their own interests by learning *why* they seek a particular solution to the conflict.

The way you get to *why* is important. A direct *why* can make people feel you doubt their reasoning, which can make them defensive. Avoid phrases or tones of voice that sound interrogating. Rather, approach the question in a conversational manner. You can state, as a guess, what you think a party's interest might be and check it out with them. When people hear their interests articulated, they feel understood. It also becomes clear to them what elements a resolution must contain to satisfy them.

Many people have strong feelings when they are engaged in a conflict. Your recognition of their feelings will usually lower the intensity of the emotion, helping them to think more clearly.

STEP 4 Analyze the Conflict.

Your analytic abilities, managerial judgment, and creative thinking are your best tools for analyzing a conflict. Your analysis should answer the following questions:

Can this conflict be handled by this informal process? Some situations require special processes. Such situations include harassment, discrimination, the involvement of children or vulnerable adults, and evidence of illegal behavior.

Who are all the people with stakes in this conflict? Revisit the list you created in Step 3 to be sure

you know the name of every person who is affecting or being affected by the conflict. In addition to the people who are parties to the conflict, list others who may be affected by or concerned about the resolution. Though they probably won't be included in the conflict resolution meeting, you may need to ask for their advice or opinions as options are being devised.

Are these individuals capable of making rational, informed decisions? After you have named all the individuals, you need to decide whether they are competent to participate in a conflict resolution process. For example, a person who seems overwrought with emotion is still capable of participating; a person who seems overwrought and is acting out violently is not.

What are the power relationships among the individuals? Who has what sorts of power, and who accedes (or does not accede) to that power?

What gender or cultural differences must be considered? Might culture, gender, or other communication differences have created misunderstandings?

How does each person describe the conflict? Use this information to assess how the parties place blame or claim responsibility in the conflict.

What is each party's position? What solutions do they seek?

What does each party say—or what can be inferred—about their key needs and concerns? Understanding each party's interests gives you a picture of the conflict and may even show you possibilities for resolution.

What assumptions are people making about one another? Understanding these assumptions will give you important clues about issues that need to be discussed at the conflict resolution meeting. Dispelling inaccurate assumptions is a major contribution to mending relationships.

Is the conflict interpersonal or is it induced by the system—or both? Be alert to system-induced conflicts and open-minded about changing the systems that create them.

Are there known limitations to potential resolutions that you must impose on behalf of the organization? Some solutions may be limited by finances, policies, mission goals, ethical standards, or legal requirements. Be aware of such limitations before a conflict resolution meeting.

STEP 5 Design the Process.

Answering these questions will help you plan the best way to bring the parties together to address the conflict:

What are the goals of the process? If the people involved must work together, an important goal will be to reestablish trust and harmony. If the conflict is between management and employees or board members, the goals might include changing or clarifying processes in the organization. Here procedural interests are foremost, coupled with relationship interests when staff and board will continue to work together.

How much time will the process take? To develop a time estimate, consider the number of

Use deadlines like a spice—just a little,
and at the right moment.

people involved, the complexity of issues, and how damaged relationships are. While people need time to air their side, often a deadline helps them stay focused. Use deadlines like a spice—just a little, and at the right moment. Sometimes having a time limit helps people feel good about resolving an issue sooner than anticipated—it sets everyone up as work-

ing together to beat the clock. Any time you can get people in conflict to work together or agree—even about the weather—you are reinforcing their ability to work through a conflict together.

How will power imbalances be handled? Fear of retribution by a more powerful individual may keep people from dealing with conflict.

You need to deal with this fear up front—*before* people agree to try to resolve the conflict.

How will you handle people's emotions regarding the conflict? Don't underestimate the importance of feelings, even if emotions don't seem strong. Many resolutions hinge on an apology or acknowledgment of someone's misjudgment of people or events.

In what setting will the meetings occur? The physical setting can influence the process more than you might expect. Be sure the setting is private, comfortable, and free from interruptions. Be sure it doesn't "belong" to either party. Seat people at angles to one another so that they can choose when and whether to make eye contact. Round and square tables work best.

How will you protect people's need for privacy and confidentiality? It is usually enough to have people agree orally and in each other's presence that what is said will remain confidential.

Figure 1: Process Steps Checklist

When you meet with each person involved in the conflict, you will need to describe how the conflict resolution process works. Also repeat this explanation at the beginning of the conflict resolution meeting between the parties.

1. The conflict resolution meeting will open with the conflict manager welcoming people.
2. The group will discuss comfort issues and logistics, including location of bathrooms, refreshments, seating, time limitations, and dates for future meetings.
3. The conflict manager will discuss the ground rules:
 - the goal and benefits of the conflict resolution process
 - the conflict manager's role as impartial facilitator and the organization's steward
 - expected decorum
 - confidentiality and concept of good faith
 - alternatives to this process
 - use of caucus
 - how the meeting will proceed
 - the role of outsiders, if any
 - questions about ground rules
 - any additions to ground rules as discussed and agreed to by all parties
4. The parties will make an oral or written agreement to participate in and follow ground rules.
5. The conflict manager will briefly describe the conflict.
6. The parties will voice their understanding of the conflict.
7. The parties and conflict manager will discuss and clarify their understandings of one another's perspectives on the conflict.
8. The parties and conflict manager will identify the key interests and establish an order in which to discuss them.
9. The parties will generate ideas for solutions to key concerns.
10. The parties will evaluate solutions in light of the interests they've identified.
11. The parties will select mutually agreeable solutions.
12. The parties will discuss implementation, monitoring, and follow-up to the solutions.
13. The parties and conflict manager will fine-tune and write up the agreed-upon resolution.
14. The conflict manager will initiate a way to celebrate the resolution.
15. The conflict manager will ensure follow-up.

STEP 6 Educate Parties, and Get Agreement to Participate.

Explain everything that will happen in the conflict resolution process, and ask each person to agree to participate. Figure 1 includes a checklist of steps you will want to cover with the parties. Use this checklist twice—first when you are educating the parties privately and again at the opening of the first conflict management meeting.

STEP 7 Conduct the Process.

Hold a meeting to help the parties find a creative solution to their differences. The basic steps are as follows:

Set up the meeting environment. Have pens, paper, a box of tissues, a flip chart or erasable board, and markers at the ready. Give the participants pens and paper so they can take notes to help them remember points they want to clarify or questions they want to ask. Remind them, though, that you will gather their notes at the end of the meeting to protect confidentiality.

Open the meeting. Welcome everyone, and explain the steps for the meeting, as outlined in Figure 1. Let everyone know the time the meeting will end. Explain that people may ask to take breaks or request caucuses with you at any time. Discuss the basic rules that all conflict resolution meetings follow:

- People must speak respectfully to one another. A common way to ensure respectful dialogue is to have people begin their thoughts with “I.” Using “I” instead of “you,” “he,” or “she” assures they are giving their own perspective rather than blaming or accusing others.

- People are expected to speak and act in good faith—to tell the truth as they know it and to agree only to actions they are willing to do.

- Everyone must keep all information confidential.

Have the parties describe their experiences without interruptions. Have them take turns stating their understanding of the issues and their feelings about the conflict.

Invite questions. After all parties have given their views, give people a chance to ask for clarification.

Discuss and sort issues. Help the parties untangle the web of misunderstanding and break it into distinct issues. Write the issues on the flip chart or erasable board.

Decide which issues to discuss first. It’s wise to start with an issue that’s easy to resolve. Getting even a simple issue tentatively settled creates a feeling of optimism.

Discuss issues, and generate ideas for solution. This is the cre-

ative part of the process. To help parties explore potential solutions, you can reframe issues, ask questions, and politely challenge assumptions. If people get stuck on an issue, put it on hold and move on to the next one. As momentum builds toward resolution, there is a better chance of resolving the sticky point later. There’s no need to finalize solutions in this step.

Review the issues and possible solutions. Have the group review the proposed solutions and how they fit together. Modify them as necessary. Sometimes at this juncture new issues arise. As the integration phase proceeds, people grow more optimistic, creative, and clear about what is important to them—and an undiscovered interest may suddenly surface. Be patient, and work on the newly surfaced interest as you did on earlier issues.

Agree to a resolution. When all the pieces have come together, the parties are ready to agree to a resolution. To be sure everyone has the same understanding of the agreement, you can draft the resolution and have the parties refine it. Reading an agreed-upon resolution can prevent future misunderstandings.

Formalize the agreement. You can get oral agreement, or the parties can finalize it with a handshake or sign a written letter of understanding. Even though the agreement is not a formal document, there are times when people feel more confident when they have an agreement in writing.

STEP 8 Celebrate and Check In.

When people work through a conflict, it’s important to celebrate. This is an easy step to forget. Don’t. View it as an investment in people’s willingness to resolve future conflicts, preferably on their own.

A celebration ends what was likely a difficult set of interactions on

a positive note. Base the celebration on the situation and people. It need be no more elaborate than starting a round of thank-yous or handshakes.

Finally, set a future time—a week, a month, or a few months away—when you will check in with the parties about how their agreement is holding up. This gives you and the parties an opportunity to fine-tune the agreement to stave off future problems and ensure that everyone remains satisfied. ■

Marion Peters Angelica is president and founder of Convergences, Inc., a provider of services in conflict resolution and creative problem solving. She is an assistant professor at the Hamline University Graduate School of Nonprofit Management, adjunct professor at St. Mary’s College Graduate School of Education, and author of Resolving Conflict in Nonprofit Organizations and Keeping the Peace: Resolving Conflict in the Boardroom, from which this article is adapted (published by the Amherst H. Wilder Foundation, www.wilder.org).

Lose the Fightin’ Words

Beware the following phrases—which can increase the possibility of conflict:

Ordering:	“You have to...” “You will...”
Threatening:	“If you don’t...” “You’d better or else...”
Preaching:	“You ought to...” “It’s only right that you should...”
Interfering:	“Here’s what you should do...” “It’d be best if you...”
Accusing:	“You started this mess...” “You won’t listen...”
Categorizing:	“You always...” “You never...”
Diagnosing:	“You’re just trying to get attention...” “What you need is...”

—adapted from *Resolving Conflicts at Work* (Jossey-Bass)



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Sector Has Key Role in Rebuilding Social Capital

The secret is connection.

Nonprofit organizations should encourage closer links between service users and volunteers to reverse the decline of civil engagement, according to U.S. academic Robert Putnam, speaking at London's Third Sector Foresight Conference recently. The Harvard social scientist outlined his research on the demise of social capital in the United States, which shows people are less likely to be active in local groups than they were 25 years ago.

Asked how the voluntary sector could help stem this malaise, Putnam noted the importance of encouraging connections among people. "Volunteers should think of themselves not as merely doing *for* but doing *with*, focusing on the connectedness at least as much as the service being provided," he believes.

Putnam's research is echoed by the European Values Survey recently published by Britain's National Council for Voluntary Organisations (NCVO). This survey noted a dramatic decline in social trust over the past decade, with seven out of 10 British people feeling that they can't trust others compared to almost half trusting others in 1990.

Andrea Passey, head of research at NCVO, says, "We must address how the many types of voluntary

organizations in the U.K. can foster social capital. Even more importantly, will the government recognize their potential to do so and enable them to act accordingly via changes to funding regimes?"

The European Values Survey found that young people and those with lower incomes are the most distrustful while those involved with

clubs, societies, or other nonprofit organizations are more trusting of others. Community groups and large charities enjoy high levels of confidence.

Details of the U.K. study of the European Values Survey are available on request. Contact Andrew Passey at NCVO, andrew.passey@ncvo-vol.org.uk. ■

10 Ways to Build Connections

1. **Create a newsletter, and use it to promote participation** in your organization, your community, and the nonprofit sector.
2. **Foster mentoring and coaching**, pairing new people—members, employees, volunteers, trustees, clients—with more experienced ones.
3. **Collaborate** in small ways. Ask local nonprofits to help you plan a joint meeting, share office space, swap mailing lists, exchange board members for a few months. Not only will you build connections, but you will pave the way for even greater collaborations.
4. **Use surveys and focus groups** to find out what people really want. Use the results to get people involved.
5. **Team up** with other local nonprofits to improve the community. For example, hold a litter clean-up day or renovate an old building.
6. **Never pass up a chance** to recruit supporters for your organization. Talk about your work wherever you go. When you see a spark of interest, ask for some specific commitment, no matter how small. Always ask for names of other people who might be interested.
7. **Listen** 80% of the time, and talk no more than 20% of the time.
8. **Offer creative ways**—flexible work hours, family volunteer days, on-line mentoring, virtual volunteering—for people to get involved.
9. **Use the connecting power of technology** to increase your global reach. You'll find it quicker and more convenient to use e-mail and fax when connecting with people in other countries.
10. **Get to know local reporters**, help them understand the importance of the nonprofit sector, and work with them to promote civic involvement.



Protect Your Resources from Insider Theft

Here's what lack of internal controls can do. Don't let it happen to you.

BY MELANIE L. HERMAN

Frank Fundraiser was a well-respected employee of the Good Deeds Society,¹ an organization providing emergency assistance to financially disadvantaged citizens. Since joining the staff a year ago, Frank has successfully managed the society's annual 10K Run, with proceeds exceeding prior records.

As a member of Good Deeds' management team, Frank has a "company" credit card. When he was issued the card, he signed a statement that he would use the card only for approved business purposes.

In December, Frank, who with payday two weeks away was running short on cash, used the card to purchase \$150 worth of groceries at the supermarket. When Good Deeds paid its December credit card bill in January, Frank was surprised that no one mentioned his personal use of the card. So, when his cash flow situation remained precarious in February, Frank used the company card to pay a long-overdue installment payment at a furniture store. By the time Good Deeds' new CFO realized Frank's theft, this beloved employee had charged more than \$15,000 in personal expenses, all of which had been dutifully paid by Good Deeds.

Theft by insiders is a risk that every nonprofit should understand.

Beatrice Bookkeeper joined the staff of Good Deeds in early 2001. She left shortly before the end of the year, indicating that she found a new position offering "greater opportunity for advancement." In the spring of 2002, the new bookkeeper was asked to catch up on the prior year's backlog of bank reconciliations. She discovered forged checks totaling \$80,000, apparently written by Beatrice during her tenure with Good Deeds. During the criminal investigation of the matter, Good Deeds learned that Beatrice had previously been convicted of embezzlement, spending five years in prison for stealing from another employer.

Victor Volunteer-Director was the most charismatic and popular director of volunteers ever employed by Good Deeds. Since joining the organization, he doubled the

number of volunteers and increased the amount of hours they worked. He also seemed to be making judicious use of outside consultants.

When the new bookkeeper was preparing the annual 1099s, she noted a series of large payments to Super Consultants. The address for the firm looked familiar. When she compared the list to W-2s mailed a week earlier, she discovered that Victor's home address was also the address of Super Consultants.

An investigation determined that Victor had established the phony firm to collect the amount allocated for consultants in the volunteer services budget. By the time his theft was discovered, the entire \$30,000 budget was exhausted.

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Eight Reasons to Have Internal Controls

Thankfully, few nonprofits ever face as much employee fraud as Good Deeds. Yet, theft by insiders is a risk that every nonprofit should understand and guard against.

Whether you're collecting millions in donations or handfuls of change at your bake sale, you don't want a financial loss to compromise your mission. Although internal controls aren't a fail-safe way to catch a thief in the act, they do provide a system which can dissuade would-be thieves or detect fraudulent schemes before your assets are fully eroded. Internal controls will help you do the following:

1. **Meet the demand** for accountability to your stakeholders.
2. **Assure that management** of your organization fits the board's expectations.
3. **Exercise proper care** and oversight of your organization's vital assets.
4. **Guard against loss of funds** caused by carelessness.
5. **Prevent** or detect fraud.
6. **Ensure that your records** match your assets.
7. **Make life for your staff** easier, less stressful, and more efficient.
8. **Spend less time worrying** and more time on mission-critical activities.

Four Types of Internal Controls

Fortunately, establishing good internal controls requires an investment of attention more than money. Thus, small nonprofits—even all-volunteer groups—can create appropriate controls and reap the benefits.

Much of what you're already doing to track and protect your assets likely falls within four categories of internal controls:

1. Authorize and Approve

Activities falling under the first category of internal controls ensure that your organization isn't obligated for expenses or commitments beyond its desires or financial means. Try these strategies:

- **Establish an annual budget**, and give the board enough time to review it. Make certain that budgets are approved before the fiscal year begins.

- **Develop a process that tracks purchases** from the request to the delivery. This system will help avoid surprises when invoices arrive in the mail. It will also help demonstrate that commitments are consistent with an approved budget.

- **Make certain** that employees—paid and volunteer—know who has authority to spend your organization's funds. Provide explicit instructions about purchasing authority. This tactic will help you avoid embarrassing—as well as disastrous—situations.

2. Document

Documenting your financial transactions will help you track resources and use financial information to make good decisions. It will also reduce the time and money you spend on your annual audit. Here are ways to assure that you have the documentation you need:

- **Require vendors and consultants** to submit detailed invoices. An invoice should be self-explanatory: Someone in your organization or an outsider (such as a representative of your audit firm or regulatory agency) should quickly understand the nature of the services or products provided and the time period to which the bill applies.

- **Keep comprehensive** employee files. Include documents such as the employee application, hire letter, Form W-4, disciplinary or commendation letters, and notices of salary or wage changes.

- **Obtain written agreements** with all independent contractors and consultants. Be sure the documents specify all the terms and conditions of the relationship.

3. Adopt Security Measures

An elaborate system of surveillance cameras would be considered an extreme security measure, even for a nonprofit with unlimited resources. Instead, consider these approaches:

- **Keep blank-check stock** locked up, under the control of someone other than the person responsible for cutting checks or signing checks. When blank stock is needed for bill paying, the accounts-payable employee must sign out and log the check numbers.

- **Use passwords to prevent access** to your accounting software by anyone without a need to view these records. Effective passwords are “easy to remember and hard to guess” and should be changed periodically. (Every 60 to 90 days is a good rule of thumb.)

4. Ensure Prompt Detection

No measure can prevent, with absolute certainty, the theft of your assets by a determined embezzler or burglar. However, there are things you can do to ensure the prompt detection of ongoing fraud and minimize the total loss to the organization. Try the following ideas:

- **Be sure the executive director** or other senior manager reviews the monthly bank statement before another staff member performs the bank reconciliation. The person checking the statement should account for all canceled checks.

- **Appoint a senior manager** to complete the monthly bank reconciliation or review the reconciled bank statement for errors or irregularities. This manager should not be the same person who writes checks or controls blank-check stock.



- **Ask back-up staff members** to make bank deposits and perform other essential accounting duties when the regular accountant is out sick or on vacation. Instruct the back-up staff to report any irregularities immediately.

- **Hire a CPA firm** to conduct an annual financial audit. Provide time on the board's agenda for the auditor and board to meet.²

- **Ask a CPA firm to conduct a fraud audit** if you suspect theft. A financial-statement audit (unlike a fraud audit) isn't designed to detect fraud and is unlikely to detect many common types of fraud, such as:

- payment to bogus vendors
- use of the nonprofit's credit card for personal expenses
- theft of cash receipts by a cashier at a special event.

- **Verify credentials** (college degrees, CPA status, etc.) and check references for all incoming employees. Every year, nonprofits waste money on employees who don't have the credentials stated on their resumes or the skills required to do the job, or worse, were fired from previous positions for gross misconduct, such as lying or stealing.

Four Things to Do Next

1. Begin with a positive attitude. Don't begrudge the time you spend setting up controls, as you will enjoy the dividends later. Remember that good internal controls can free up resources needed to achieve your mission.

2. Decide what steps you can take in the four areas described above. Choose those measures that make sense for you, given the nature of your operations and resources available for internal controls.

3. Educate your staff about the importance of adhering to the internal control system.

4. Monitor the effectiveness of your controls, and make adjustments as necessary. ■

Footnotes

¹Although Good Deeds is a hypothetical nonprofit, the losses described in this article are based on actual nonprofit fraud claims.

²See Curry, Dalsimer, O'Neil, and Ross in "Resources."

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These resources are available from the Society for Nonprofit Organizations' Resource Center, www.snpo.org, 800-424-7367.

Melanie Herman is executive director of the Nonprofit Risk Management Center, a resource organization headquartered in Washington, D.C., dedicated to helping nonprofits control risk and focus on their missions. For more information, visit www.nonprofitrisk.org or call 202-785-3891.

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Take Action for a Change

We can solve the most thorny social problems if we work together.

BY TERRENCE FERNSLER

Faith Works: Lessons from the Life of an Activist Preacher

By Jim Wallis. 357 pages. Hardcover. New York: Random House.

Jim Wallis, in addition to spending his life as an activist, knows many other organizers. He knows what's required to make change. Successful organizers have gritty determination and believe that ordinary people can solve problems if they just pull together. "It's not that you can't do it alone but that you shouldn't," he writes.

Wallis' test of social work is: Will what you are doing change your life? He feels many in his generation fail the test. Material wealth is spiritually dangerous, says Wallis, which may be why America is in so much trouble. Many Americans fear economic failure but find economic success meaningless. As they step into leadership positions, they often want to recapture the ideals of their younger days. This renewed spirit of community involvement, linked with a younger generation hungry for service, means that exciting new possibilities for change could emerge.

Wallis wants us to accept that mistakes will be made and to just start doing something. Use the gifts you have to make change, he urges. Only the commitment to move beyond ourselves can bring the fulfillment for which we hunger.

Social movements begin with minorities motivated by what is right. Action changes the debate. It is inclusive, community-building, visionary, because it is based in hope that change can occur and faith that you are doing the right thing.

Wallis advocates for faith-based organizations to take action addressing poverty. He believes such a movement can be built on the common ground faith-based organizations share.

That action will swell into a social movement, much as the civil-rights movement did. Along the way, it will address many other pressing social issues—drug abuse, crime, the decline of the family—as it builds bridges and taps into people's need to make a difference. ■

"It's not
that you can't
do it alone but that
you shouldn't."

Terrence Fernsler is development director of the Resource Conservation and Economic Development District in Aberdeen, Washington, and president of the Development Training Institute, P.O. Box 15, 311 W. Martin, Elma, Washington 98541.

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❑ ***Don't Ask Why, and Other Keys to Communication Success***

As a leader, you are in a position to control the communication process. Your credibility depends on your being seen as clear, credible, and supportive. Here are a few tips for improving communication, especially when trying to initiate change:

1. Take time to address people's resistance—including your own. The best way to deal with resistance is to honor it rather than suppressing, avoiding, or minimizing it. The best way to understand others' resistance is to acknowledge your own.

2. Speak only for yourself. Use "I" statements whenever possible.

3. If you want to know what another person is thinking, ask. Don't hypothesize.

4. State your disagreements clearly. If others can't count on you to say "no" when you mean it, they won't believe you when you say "yes."

5. Don't ask a question if you want to make a statement. "I think" is much stronger and clearer than, "Don't you think that...?"

6. Avoid using words such as "only" and "just" when making a point. They diminish the strength and impact of what you say.

7. Don't say, "Yes, but..." It means, No."

8. Talk about one thing at a time, to one person at a time. Even when addressing a group, make eye contact with people one at a time, and keep the discussion focused.

9. Don't ask, "Why?" One of the quickest ways to derail communication is to ask people why they want what they want. Doing so makes it seem as if you're judging their motives. Simply deal with *what* they want, and assume they have the right to want it.

10. When you've made your point, stop. Less is more. The fewer the words and the shorter the words, the better.

For more, see *The Change Leader* by H.B. Karp (SF: Jossey-Bass Pfeiffer, www.pfeiffer.com). ❑

❑ ***Why Do Rich People Give? Survey Reveals Motives***

A study of very affluent people (more than half of respondents had a net worth between \$3 and \$25 million; the rest had assets over \$25 million) finds that their giving isn't affected much by the economy or tax laws. Key findings of the survey by Citigroup (www.citigroup.com) include:

- **Only 7% of respondents cited the economy** as a determining factor for giving.
- **Over half (59%) said that estate tax changes** wouldn't affect their giving.
- **Over three-quarters (79%) pinpoint an increase in personal wealth** as the main influence on giving.
- **Personal values (76%) and personal interest/passion (67%)** are the factors that determine to whom they give.
- **Half of respondents involve family** in giving. One-third have a family foundation.
- **Most respondents give their time** to charitable causes (47% as volunteers, 38% as board members, and 33% as consultants). ❑



❑ *Coping with Information Overload*

Today, we're overwhelmed with information. Take control with these tips, offered by Jan Jasper, author of *Take Back Your Time: How to Regain Control of Work, Information, & Technology* (St. Martin's Press):

- **Make a regular reading appointment** for yourself, every week. No time? Bump something else from your schedule.
- **Cut back on your purchases** of books, magazines, and newsletter subscriptions. Make conscious decisions about what you will read.
- **Clip and file important magazine articles** by topic so you

can find them later. If you don't file it, you won't be able to find it when you need it. Be very selective about what you save and file. Surveys have found that 80% of files are never looked at again. If you're selective enough, you probably won't need to buy that extra filing cabinet.

- **Scan only what you need** to save. "Putting it in the computer" won't, in itself, solve the filing problem. The more selective you are about what you keep, the better off you'll be—regardless of whether you file the old-fashioned way or electronically. Often, the time needed to file an article outweighs any possible benefit.

- **Think before you acquire.** People often buy books and magazine subscriptions because they're on sale, then never get around to reading them. A bargain price alone shouldn't prompt you to buy anything. If you don't have time to read it and use it, a low price tag doesn't increase an item's value. Buy only what you have a strong interest in—and the time to read. Remember: You can always buy more stuff, but you can't get more time. And a clutter-free environment is priceless.

For more help with information overload, see www.janjasper.com and www.businessknowhow.com. ❑

❑ *Is Online Mentoring Right for Your Organization?*

Online mentoring is one of the most exciting kinds of virtual volunteerism to arise in the past decade. Online programs open the field of mentoring to people who can't meet face to face, and they give young people incentive to practice valuable reading, writing, and computer skills. To decide if such a program is right for your organization, ask these questions:

1. **Does a mentoring program fit** into your organization's mission and goals?
2. **Do your staff members have experience** with volunteers, group facilitation, mentoring, or tutoring?
3. **Are your staff members comfortable** communicating via e-mail?
4. **Does your organization have enough** technological resources and skills?

If you can answer yes to these questions, the next step is to gain staff buy-in and participation. For more information, contact the Virtual Volunteering Project, www.serviceleader.org.vv. ❑

❑ *Create Volunteer-Client Partnerships*

Try these ideas to involve the beneficiaries of volunteer service in thanking volunteers:

- **Interview clients** (by phone if necessary), asking how they've benefitted from volunteer services. Audiotape their comments. Play the tape at your volunteer recognition event, or make a copy of the tape for volunteers. The tape also makes a great accompaniment to your recruitment slide show or volunteer orientation program.
- **Take pictures** of volunteers and clients together (obtaining the necessary permissions, of course!), captioning each picture with a quote from the client. Give these pictures to volunteers as mementos, and use them in your newsletter.
- **Use photos of clients** to help volunteers "see" the end product of their efforts. After a winter coat drive, for example, photograph clients modeling their new clothes. The coat donors will be thrilled to see these photos.

For more volunteer tips, see Energize's Volunteer Management Web Update at <http://www.energize.com>. ❑

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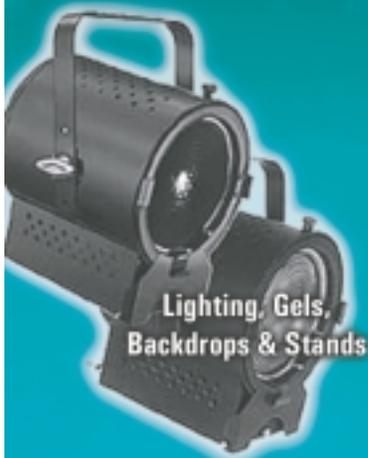
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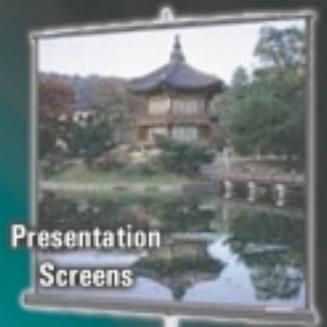
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